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BYBLOS BANK SAL
Economic Research & Analysis Department

LEBANON THIS WEEK

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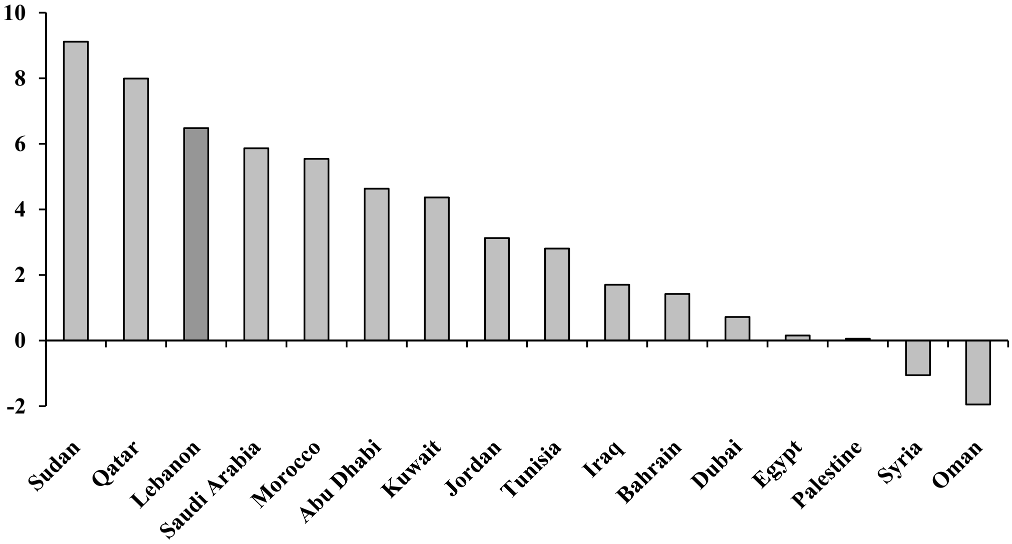
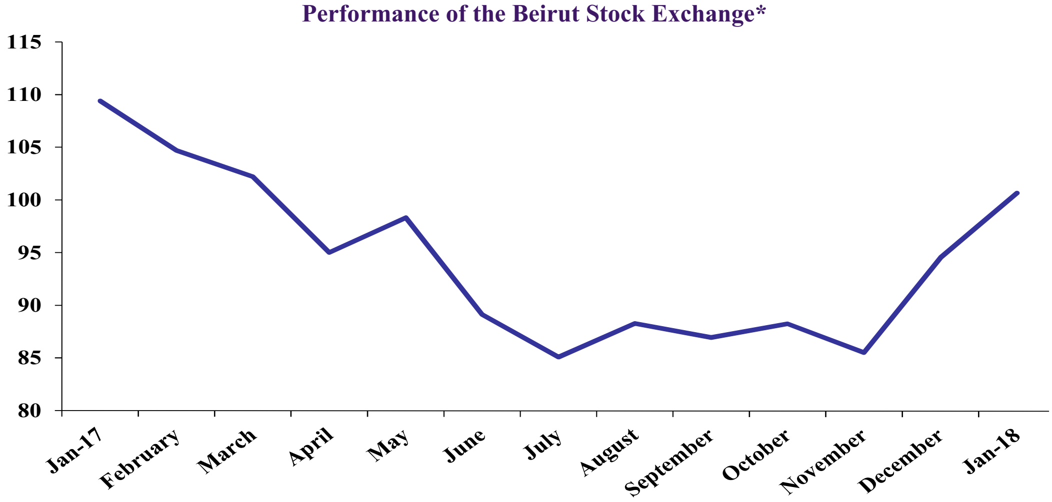


Performance of the Beirut Stock Exchange*



**Capital Markets Authority Value Weighted Index end of month values*

Source: Local Stock Markets, Capital Markets Authority, Byblos Bank

Quote to Note

"The power sector in Lebanon is regarded as the main source of air pollution in nearby areas, where levels of particules and oxides of sulfur were found to be several times higher than international standards."

The Arab Forum for Environment and Development, on the need to restructure the electricity sector in Lebanon

Number of the Week

34.7%: The Lebanese government's wage bill as a share of total public spending during the 2000-16 period, according to the International Monetary Fund

Lebanon in the News

$m (unless otherwise mentioned)	2016	Sep 2016	Jun 2017	Jul 2017	Aug 2017	Sep 2017	% Change*
Exports	2,977	254	214	217	251	210	(17.58)
Imports	18,705	1,448	1,454	1,619	1,594	1,297	(10.44)
Trade Balance	(15,728)	(1,194)	(1,240)	(1,402)	(1,343)	(1,087)	(8.91)
Balance of Payments	1,238	189	(758)	100	368	457	142.29
Checks Cleared in LBP	19,892	1,722	1,681	1,845	1,869	1,475	(14.33)
Checks Cleared in FC	48,160	4,054	3,882	4,310	4,100	3,010	(25.75)
Total Checks Cleared	68,052	5,776	5,563	6,155	5,969	4,485	(22.35)
Budget Deficit/Surplus	(3,667.15)	(548)	(496.83)	31.76	(513.46)	(651.25)	18.84
Primary Balance	1,297.65	(29.21)	(71.52)	300.34	(192.77)	(145.72)	398.87
Airport Passengers***	7,610,231	819,886	652,852	975,003	1,067,441	861,828	5.12

$bn (unless otherwise mentioned)	2016	Sep 2016	Jun 2017	Jul 2017	Aug 2017	Sep 2017	% Change*
BdL FX Reserves	34.03	34.17	33.89	33.04	34.03	35.06	2.60
In months of Imports	21.83	23.60	23.31	20.41	21.35	27.03	14.55
Public Debt	74.89	74.73	76.45	76.89	77.27	78.15	4.57
Bank Assets	204.31	198.10	208.16	208.48	209.39	213.42	7.74
Bank Deposits (Private Sector)	162.50	158.50	167.73	168.39	169.16	169.09	6.68
Bank Loans to Private Sector	57.18	56.65	58.42	58.61	58.67	58.93	4.02
Money Supply M2	54.68	54.68	55.12	55.02	55.59	55.50	1.50
Money Supply M3	132.80	129.12	137.51	138.01	138.92	138.87	7.56
LBP Lending Rate (%)****	8.23	8.44	8.39	8.33	8.10	8.31	(13bps)
LBP Deposit Rate (%)	5.56	5.58	5.51	5.56	5.55	5.53	(5bps)
USD Lending Rate (%)	7.35	7.20	7.27	7.25	7.29	7.53	33bps
USD Deposit Rate (%)	3.52	3.43	3.58	3.64	3.63	3.65	22bps
Consumer Price Index**	(0.80)	1.0	3.50	3.10	5.10	4.10	310bps

** Year-on-Year ** Year-on-Year percentage change ***includes arrivals, departures, transit*
***** Starting January 2016, lending rates in Lebanese pounds are reported before any subsidy or facility from reserve requirements according to Intermediate Circular No 389, and as such they are not comparable year-on-year*
Note: bps i.e. basis points
Source: Association of Banks in Lebanon, Banque du Liban, Ministry of Finance, Central Administration of Statistics, Byblos Research

Capital Markets

Most Traded Stocks on BSE	Last Price ($)	% Change*	Total Volume	Weight in Market Capitalization
Solidere "A"	8.50	3.41	1,338,820	7.25%
Solidere "B"	8.45	3.68	1,308,549	4.68%
BLOM Listed	12.00	4.35	195,450	21.99%
BLOM GDR	12.75	(1.16)	63,883	8.03%
Audi Listed	5.90	(1.50)	16,000	20.11%
Audi GDR	5.90	0.68	7,030	6.03%
Byblos Common	1.60	(1.23)	3,400	7.71%
Byblos Pref. 09	103.00	0.29	1,390	1.76%
HOLCIM	15.48	0.00	200	2.58%
Byblos Pref. 08	102.10	0.00	-	1.74%

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

Sovereign Eurobonds	Coupon %	Mid Price $	Mid Yield %
Nov 2018	5.15	100.00	5.14
May 2019	6.00	100.50	5.59
Mar 2020	6.38	101.00	5.86
Oct 2022	6.10	100.13	6.07
Jun 2025	6.25	97.13	6.75
Nov 2026	6.60	98.13	6.89
Feb 2030	6.65	94.63	7.33
Apr 2031	7.00	96.63	7.40
Nov 2035	7.05	95.63	7.50
Mar 2037	7.25	96.50	7.60

Source: Byblos Bank Capital Markets

	Jan 29-Feb 2	Jan 22-26	% Change	January 2018	January 2017	% Change
Total shares traded	2,941,217	1,122,437	162	5,509,441	7,195,986	(23.4)
Total value traded	$28,473,581	$4,992,373	470.3	$45,845,113	$46,829,082	(2.1)
Market capitalization	$11.73bn	$11.63bn	0.9	$11.77bn	$12.21bn	(3.6)

Source: Beirut Stock Exchange (BSE)

Lebanon ranks 140th globally, 12th among Arab countries on economic freedom, economy remains "mostly unfree"

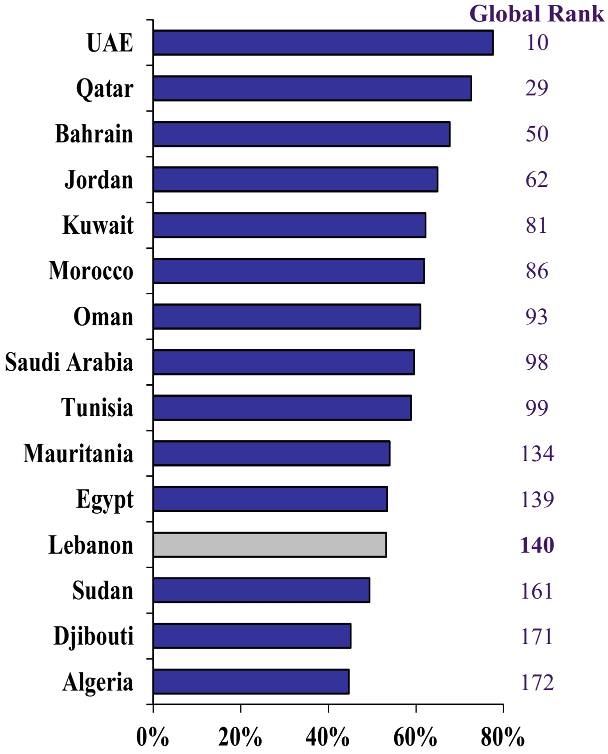
The Heritage Foundation/*Wall Street Journal* Index of Economic Freedom for 2018, a broad indicator of economic freedom in 180 countries, ranked Lebanon in 140th place worldwide and in 12th place among 15 Arab countries that have a full dataset. Lebanon came in 38th place among 49 upper middle-income countries (UMICs) included in the survey. In parallel, Lebanon ranked in 137th place globally and in 11th place among Arab countries in 2017, while it ranked in 98th place globally and in ninth place in the Arab world on the 2016 index.

The index evaluates individual economies on the basis of 12 equally-weighted broad factors of economic freedom divided into four pillars that are the rule of law, government size, regulatory efficiency and market openness. A country's score ranges between zero and 100, with 100 reflecting the most free economy.

Globally, Lebanon has a higher level of economic freedom than Vietnam, Ethiopia and Argentina, and a lower level than Myanmar, Laos and Egypt among economies with a GDP of $10bn or more. It also has a higher level of economic freedom than Argentina, Brazil and Iran, and a lower level than Belarus, Gabon and China among UMICs.

Lebanon's level of economic freedom reached 53.2% in the 2018 survey relative to 53.3% in 2017 and 59.5% in the 2016 survey. Lebanon's 2018 score was below the global level of economic freedom of 61.1%, the UMICs' level of 60% and the Arab level of economic freedom of 59.1%. The survey maintained Lebanon's economic freedom status in the "mostly unfree" category for the sixth consecutive year. Lebanon was downgraded in the 2013 survey from the "moderately free" category.

Index of Economic Freedom for 2018
Arab Countries Scores & Rankings



Source: Heritage Foundation 2018, Byblos Research

Lebanon ranked ahead of Madagascar and behind Bosnia & Herzegovina globally, while it came last regionally on the Business Freedom Sub-Index, which reflects the ability to create, operate and close an enterprise without undue interference from the state. This category also measures the extent that the regulatory and infrastructure environments constrain the efficient operation of businesses. Also, Lebanon came ahead of Portugal and behind France globally, while it came ahead of only Morocco regionally on the Labor Freedom Sub-Index, which assesses the legal and regulatory framework of a country's labor market. Further, Lebanon ranked ahead of Angola and behind Yemen, while it came last among Arab countries on the Government Integrity Sub-Index. This category assesses the extent of government intervention in economic activity and the degree of corruption that follows.

Economic Freedom in Lebanon by Category

	Arab Rank	Global Rank	Lebanon Score	Change in Score*	Long-Term Trend**	Arab Avge	Global Avge
Property Rights	10	123	39.7%	↓	-10.3	47.0%	52.2%
Judicial Effectiveness	12	132	33.6%	↑	n/a	45.8%	47.7%
Government Integrity	15	174	20.2%	↓	10.2	41.9%	42.6%
Tax Burden	8	19	91.9%	↑	-6.1	87.4%	76.6%
Government Spending	1	56	78.2%	↑	-1.7	59.7%	63.9%
Fiscal Health	15	175	0.0%	↔	n/a	45.7%	67.5%
Business Freedom	15	161	48.8%	↓	-21.2	67.0%	64.9%
Labor Freedom	14	151	44.2%	↓	-15	58.2%	58.9%
Monetary Freedom	4	60	81.9%	↑	15.5	76.4%	76.3%
Trade Freedom	2	58	84.5%	↑	9.5	75.3%	75.9%
Investment Freedom	4	71	65.0%	↔	15	53.3%	57.8%
Financial Freedom	8	72	50.0%	↔	-20	51.3%	48.6%

**year-on-year; ** Change in score from 1996 in percentage points;*
Source: Heritage Foundation 2018, Byblos Research

Lebanon in the News

Fitch Ratings affirms Lebanon's sovereign ratings at 'B-', outlook 'stable'

Fitch Ratings affirmed at 'B-' Lebanon's long-term foreign and local currency Issuer Default Ratings (IDRs) and maintained the 'stable' outlook on the ratings. It also affirmed at 'B-' the ratings on Lebanon's senior unsecured foreign currency bonds and Country Ceiling, while it kept at 'B' the short-term foreign and local currency IDRs.

The agency indicated that the ratings are supported by Lebanon's strong external liquidity, resilient banking sector, perfect track record of public debt repayments, as well as by other structural strengths, such as a high GDP per capita and broader human development indicators that are well above similarly-rated peers and that are more in line with the median of 'BBB'-rated sovereigns. In contrast, it said that the ratings are constrained by the country's weak public finances, heightened political and security risks, and subdued economic activity.

Fitch indicated that Lebanon's public finances are weaker than similarly-rated peers. It estimated the public debt level at 149.2% of GDP in 2017, the fourth highest among Fitch-rated sovereigns, with an elevated debt servicing cost that absorbed 48% of government revenues in 2016. It estimated the fiscal deficit to have narrowed from 9.8% of GDP in 2016 to 7.7% of GDP in 2017, mainly due to one-off revenues. It forecast the deficit to widen to 8.2% of GDP in 2018, as the impact of the increase in the corporate tax rate from 15% to 17% would only materialize in 2019, and because the one-off revenues will not be repeated. It noted that the outlook for fiscal consolidation is unclear, given the uncertain net fiscal impact of the tax measures that aim to cover the increase in the wages and salaries of public sector employees. It added that details and forecasts about the tax receipts that are supposed to be generated from the recent tax measures are not yet available, and that the wage increase could exceed its estimated cost.

In parallel, the agency said that the government continues to meet its high financing needs, which are projected at about 30% of GDP in 2018, but that funding costs could rise. It cautioned that Lebanon's debt sustainability could come under pressure in case of a slowdown in deposit growth as a result of renewed political paralysis, or a shock that will trigger large capital outflows.

Further, the agency noted that the November 2017 political crisis caused some deposit outflows, the conversions of Lebanese pound-denominated deposits to foreign currency, and a decline in foreign currency reserves. It added that private sector deposits at commercial banks regressed by $2.6bn or by 1.5% month-on-month in November 2017, the fastest monthly decline since 2006; while Banque du Liban's (BdL) foreign currency reserves decreased by $1.1bn from a month earlier. However, it noted that BdL's gross foreign currency reserves remain sufficient at $35.7bn at end-November 2017, which continues to support confidence in the currency peg to the US dollar. It said that BdL has supported the economy and financial system since 2011 through several unconventional financial operations and stimulus packages. It pointed out that Lebanon's growth prospects continue to be modest in the absence of a stronger reform program or an improvement in the external environment.

Banque du Liban launches $1bn stimulus package for 2018

Banque du Liban (BdL) issued Intermediate Circular 485 on February 1, 2018 that amends Basic Circular 23 issued on March 7, 1996 about the facilities that BdL can provide to commercial banks and financial institutions. The circular stipulates that banks operating in Lebanon can benefit from a total of LBP850bn and $460m in financial facilities from BdL. The new economic stimulus package represents the BdL's seventh consecutive package since 2013, and the second one since the $1bn in October 2017.

The circular allocated up to LBP750bn to housing loans in Lebanese pound, up to LBP30bn to small businesses, up to LBP22bn to higher education and up to LBP8bn to productive sectors. It also allocated the $460m to housing loans for expatriates, and to loans for research & development ventures, innovative projects and renewable energy projects, among others. In addition, the circular stipulates that loans under the new stimulus have to finance new projects or to fund the development of existing ones, and cannot be used to refinance existing projects, to repay loans, or to buy shares or participations.

BdL will extend the loans to domestic banks in Lebanese pound at a rate equivalent to the difference between the interest rates and commission they charge and the average interest rate that they receive from their placements at BdL in local currency plus one percent. For most loans in foreign currency, banks will pay a rate equivalent to the difference between the interest rates and commission they charge and the average interest rate that they receive from their placements at BdL in US dollars plus 0.5%. According to the BdL, the average interest rate on placements at BdL is 8.5% in LBP and 6.5% in US dollars. This constitutes an increase in the cost of funds from previous stimulus packages. Previously, the BdL extended the loans to domestic banks at an interest rate of 1% per year for Lebanese pound-denominated loans, and at an interest rate equivalent to the upper limit of the U.S. Federal Funds Rate for dollar-denominated loans.

The increase in the cost of funds was reflected in the maximum rates that banks are allowed to charge. For instance, the interest rate for the incentive housing loan increased from 4.24% to 4.75%, while that for housing loans through the Public Housing Corporation slightly rose from 3.74% to 3.78%. Also, the interest rate on housing loans under different protocols signed with banks increased by 0.5 percentage points to 2.628%, while the interest rates on housing loans extended by Banque de l'Habitat increased by 75 basis points to 3.75%. In addition, the interest rate on housing loans extended to expatriates in US dollars reached 3%, while the rate on non-housing loans extended to expatriates in US dollars stood at 4%.

Lebanon ranks 104th globally, sixth in Arab world in budget transparency

The International Budget Partnership's Open Budget Index for 2017 ranked Lebanon in 104th place among 115 countries globally and in sixth place among 11 Arab countries included in the survey. Lebanon ranked in 99th place among 102 countries globally and in ninth place among 11 Arab countries in the 2015 survey. Lebanon also ranked in 29th place among 32 upper middle-income countries (UMICs) included in the current survey.

Arab Countries' Scores & Rankings

	Score (%)	Arab Rank	Global Rank
Jordan	63	1	24
Morocco	45	2	58
Egypt	41	3	65
Tunisia	39	4	71
Algeria	3	5	103
Lebanon	**3**	**6**	**104**
Iraq	3	6	104
Sudan	2	8	108
Saudi Arabia	1	9	109
Qatar	0	10	112
Yemen	0	10	112

Source: International Budget Partnership, Byblos Research

The Open Budget Index score reflects the timeliness and comprehensiveness of publicly-available budget information in eight key budget documents that countries should make available to the public. The documents are the Pre-Budget Statement, the Executive's Budget Proposal, the Enacted Budget, the Citizens' Budget, In-Year Reports, a Mid-Year Review, a Year-End Report and an Audit Report. Also, the index scores countries on a scale from zero to 100, with zero representing the lowest level of transparency. The score is based on the simple average of the numerical value of responses to 109 questions that assess the public availability of budget information. Accordingly, the index classifies countries based on their provision of 'extensive' information, 'substantial' information, 'limited', 'minimal', or 'scant or no' information. The 2017 index assesses events, activities or developments that occurred between September 2016 and the end of December 2016.

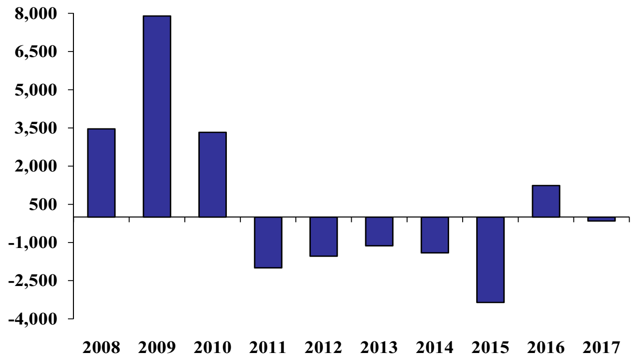
Globally, Lebanon has a similar level of budget transparency to Iraq, while it is more transparent than only Swaziland, Sudan, Chad, Saudi Arabia, Niger, Venezuela, Equatorial Guinea, Lesotho, Qatar and Yemen. Lebanon's level of budget transparency reached 3% compared to 2% in 2015 and 33% in 2012. Lebanon's score places it in the category of governments that provide 'scant or no' budgetary information, along with 27 countries worldwide that include six Arab countries. Lebanon's level of budget transparency came significantly below the global average of 41.9%, the UMICs' average of 44.8% and the Arab region's average of 18.2%.

The International Budget Partnership indicated that the availability of budget information in Lebanon regressed between 2012 and 2016. It said that the government failed to issue the Executive's Budget Proposal to the public, while it did not publish the In-Year Reports in a timely manner. In addition, it pointed out that the government has not produced an Enacted Budget, a Citizens' Budget, a Mid-Year Review and an Audit Report. Further, it said that Lebanon has produced the Pre-Budget Statement, but it did not publicly disclose it. It also noted that only the Year-End Report is available to the public in Lebanon, but with minimal information.

Balance of payments posts deficit of $156m in 2017

Figures issued by Banque du Liban (BdL) show that Lebanon's balance of payments posted a deficit of $155.7m in 2017 compared to a surplus of $1.2bn in 2016. The balance of payments posted a surplus of $853.8m in December 2017 compared to surpluses of $68.2m in November 2017 and of $909.8m in December 2016. The December 2017 surplus was caused by increases of $748m in the net foreign assets of banks and financial institutions and of $105.8m in those of the BdL. The cumulative deficit in 2017 was caused by a decline of $1.77bn in the net foreign assets of banks and financial institutions, which was partly offset by a rise of $1.61bn in those of 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.

Balance of Payments (US$m)



Source: Banque du Liban

The balance of payments' deficit was equivalent to 0.3% of GDP in 2017, relative to a surplus of 2.5% of GDP in 2016 and deficits of 7% of GDP in 2015 and 3% of GDP in 2014.

Cost of living in Beirut is eighth highest in the world, highest in the Middle East in 2017

EuroCost International's 2017 cost-of-living survey for expatriates ranked Beirut in eighth place globally, compared to ninth place in 2016 and 11th place in 2015. Beirut had the 19th highest cost of living in 2009, the 13th highest in 2010, the 22nd highest in 2011 and the 14th highest cost of living in each of 2012, 2013 and 2014. Beirut continued to have the highest cost of living for expatriates in the Middle East since the 2010 survey. The survey attributed the elevated cost of living in Beirut to the high rental rates in the capital. The survey compares the cost of living for expatriates in major locations worldwide. It includes rental costs, but it excludes healthcare and education costs. The rankings are based on prices collected in June 2017 and were updated based on the exchange rates during the month of August.

The survey shows that the cost of living in Beirut is higher than in New York City, Lausanne and Shanghai, and lower than in Singapore, Seoul and Zurich. Beirut is the only Middle Eastern city among the 15 most expensive cities globally for expatriates. Four new cities, which are Bangui, the capital city of the Central African Republic (23rd place), Oslo (24th place), Taipei (25th place) and Amsterdam (30th place), joined the top 30 list last year. Overall, the rankings of 16 cities increased, reflecting a rise in their cost of living, while the rankings of nine cities declined and those of five cities were unchanged among the 30 most expensive cities in the world. EuroCost International attributed the significant changes in the rankings to exchange rate fluctuations. Luanda, the capital city of Angola, came in first place and replaced Tokyo as the most expensive city in the world for expatriates in 2017. In fact, the devaluation of the yen reduced the cost of living in Tokyo, which led its rank to regress to third place in 2017. EuroCost International specializes in cost of living services for expatriates in over 270 locations worldwide.

Most Expensive Cities in the World

	2017	2016
Luanda	1	3
Hong Kong	2	2
Tokyo	3	1
Geneva	4	4
Singapore	5	5
Seoul	6	7
Zurich	7	10
Beirut	**8**	**9**
New York City	9	11
Lausanne	10	15
Shanghai	11	6
Beijing	12	8
San Francisco	13	13
Moscow	14	23
London	15	12
Honolulu	16	17
Sydney	17	21
Copenhagen	18	26
Tel Aviv	19	24
Mumbai	20	18

Source: EuroCost, Byblos Research

Arab participation is key for success of Paris conference

Citi indicated that it is too early to assess the financial impact on Lebanon of the Paris conference that is scheduled for April 2018. It noted that Lebanon aims to raise $16bn in funding at the conference for its 10-year capital investment program. It considered that Lebanon will likely miss its targeted amount by a large margin, in case the participation of Arab countries in the conference is low. It added that Arab countries contributed about one-third of the $7.6bn that were pledged during the Paris III conference in 2007. Further, it pointed out that, based on historical trends, the disbursed funds tend to be significantly lower than the amount of pledged funds. Also, it noted that the disbursed funds would be contingent on the government's ability to continue to meet the conditions associated with the pledged funds.

In parallel, Citi considered that Lebanon's volatile politics constitute the main risk for its near-term economic prospects. It noted that the impact of the unexpected resignation of Prime Minister Saad Hariri in November 2017 has receded. But it claimed that the reasons that prompted the resignation persist, as Lebanon's political class remains deeply divided. In addition, it did not expect the Syrian conflict to be resolved in the near term, which would further weigh on Lebanon's trade activity. Also, it anticipated Lebanon to be adversely affected in case Iran's nuclear deal is revoked.

Further, Citi considered that the successful holding of parliamentary elections in May 2018 would support policy-making in the country. It said that the formation of a credible government after the elections that implements fiscal and structural reforms would help address the structural problems of the Lebanese economy, improve sentiment and increase capital inflows. However, Citi indicated that, based on past experience, it remains highly cautious about such an optimistic outcome.

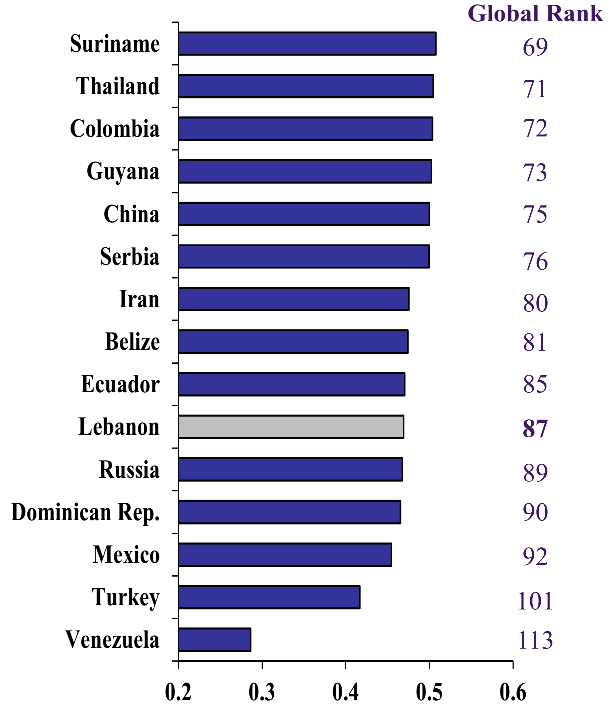
Lebanon ranks in 87th place globally, second to last in MENA region on Rule of Law Index

The World Justice Project's Rule of Law Index for 2017-18 ranked Lebanon in 87th place among 113 countries around the world and in sixth place among seven countries in the Middle East & North Africa (MENA) region. Lebanon also came in 31st place among 36 upper middle-income countries (UMICs) included in the survey. Lebanon's global rank improved by two spots from 89th place in the 2016 survey, while its ranks among UMICs improved by one spot. Also, Lebanon's regional rank was unchanged among MENA countries year-on-year.

The index measures the implementation of the rule of law by aggregating 44 sub-factors into eight factors that are Constraints on Government Powers, Absence of Corruption, Open Government, Fundamental Rights, Order & Security, Regulatory Enforcement, Civil Justice and Criminal Justice. The scores and rankings of each factor and sub-factor are based on the results of an opinion poll of the general public and of a survey of legal professionals in each country. The scores range from zero to one point, with a score of one reflecting the strongest adherence to the rule of law. The general population poll covers only the three major urban areas in each country. The Lebanon survey covered 1,000 participants in Beirut, Sidon and Tripoli.

Globally, the implementation of the rule of law in Lebanon is better than in the Philippines, Russia and the Dominican Republic, and is weaker than in Côte d'Ivoire, Ecuador and Tanzania among economies with a GDP of $10bn or more. Also, the rule of law in Lebanon is more effective than only in Egypt in the MENA region. Lebanon received a score of 0.47 points in the 2017-18 survey, up by 2.2% from 0.46 points in the 2016 survey. Lebanon's score was lower than the global average score of 0.57 points, the UMICs' score of 0.53 points and the MENA region's average score of 0.51 points.

Rule of Law Index for 2017-18*



**bottom 15 upper middle-income countries*

Source: World Justice Project, Byblos Research

Lebanon came in the second-tier of countries on the Constraints on Government Powers factor, while it came in the third-tier of countries on the Absence of Corruption, Open Government, Fundamental Rights, Order & Security, Regulatory Enforcement, Civil Justice and Criminal Justice factors.

Components of the 2017-18 Rule of Law Index for Lebanon

Factors	Global Rank	MENA Rank	UMICs Rank	Lebanon Score	Global Average Score	MENA Average Score	UMICs Average Score
Constraints on Government Powers	72	5	18	0.49	0.57	0.51	0.51
Absence of Corruption	87	7	31	0.39	0.53	0.53	0.49
Open Government	89	4	29	0.44	0.54	0.40	0.51
Fundamental Rights	81	3	27	0.49	0.59	0.44	0.56
Order & Security	82	6	22	0.66	0.72	0.71	0.69
Regulatory Enforcement	86	6	31	0.44	0.54	0.51	0.49
Civil Justice	79	6	28	0.47	0.56	0.53	0.53
Criminal Justice	86	7	27	0.37	0.49	0.48	0.44

Source: World Justice Project, Byblos Research

Trade deficit widens by 29% to $20bn in 2017, equivalent to 38% of GDP

The total value of imports reached $23.1bn in 2017, constituting an increase of 23.7% from $18.7bn in 2016; while the aggregate value of exports declined by 4.5% to $2.8bn last year. As such, the trade deficit widened by 29% to $20.3bn in 2017 due to a year-on-year increase of $4.4bn in imports and a decrease of $133.1m in exports. The trade deficit was equivalent to 38% of GDP in 2017 relative to 31.5% of GDP in 2016 and 30.6% of GDP in 2015.

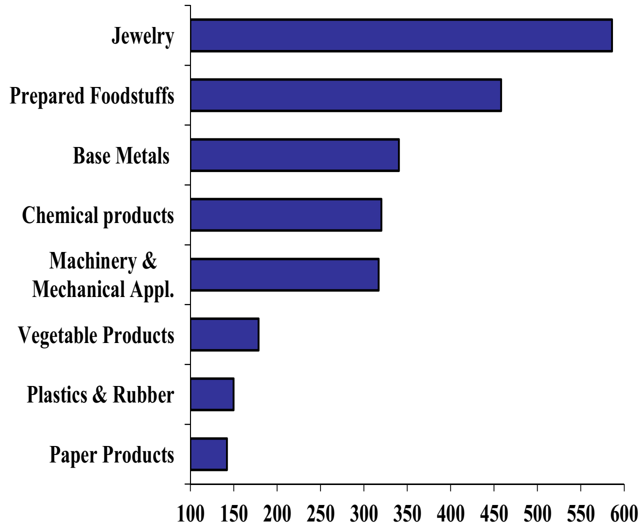
The value of imported oil & mineral fuels reached $7.8bn in 2017 and accounted for 34% of total imports last year, compared to a share of 20% in 2016. In volume terms, imports of oil & mineral fuels surged by 99% to 17.4 million tons in 2017. The significant increase in the imports of oil & mineral fuels was mainly due to the discrepancy in the data reported by Electricité du Liban (EdL), as EdL's imports' schedule varies from year to year.

In addition, the drop in exports in 2017 mainly reflects a decline of $242.3m, or 29.3%, in the value of exported jewelry, which was partly offset by a rise of $87.1m, or 34.4%, in the value of exported base metals, and an increase of $28.9m, or 2.5 times, in the value of exported mineral products. The coverage ratio was 12.3% in 2017 compared to 15.9% in 2016.

In parallel, exports to Turkey grew by 67.2% in 2017, those to Switzerland expanded by 42%, exports to Syria rose by 23.8%, those to the UAE increased by 11.3% and exports to Iraq grew by 6.4%, while exports to South Africa decreased by 49.8% and those to Saudi Arabia declined by 8.8%. Re-exports totaled $741.5m in 2017 compared to $532.7m in 2016. Also, the Port of Beirut was the exit point for 51% of Lebanon's total exports in 2017, followed by the Hariri International Airport (31.6%), the Port of Tripoli (7.8%), the Masnaa crossing point (4.5%) and the Arida crossing point (3.5%).

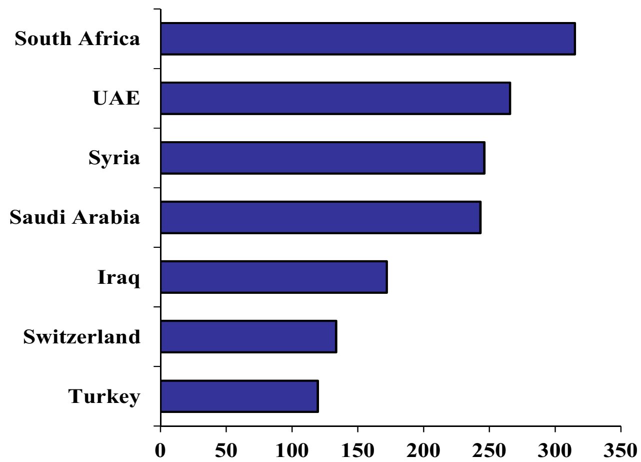
Lebanon's main non-hydrocarbon imports were chemical products that reached $2.1bn in 2017 and increased by 5.2% from 2016. Imports of machinery & mechanical appliances followed at $1.9bn (+2.9%), then vehicles, aircraft & vessels at $1.88bn (+6.2%), prepared foodstuff at $1.4bn (-2.3%), base metals at $1.3bn (+8.7%), jewelry at $996.1m (-20.6%) and vegetable products at $979.7m (+12.7%). The Port of Beirut was the entry point for 76.6% of Lebanon's merchandise imports in 2017, followed by the Hariri International Airport (15.6%) and the Port of Tripoli (5.5%).

Main Lebanese Exports in 2017 ($m)



Source: Lebanese Customs Administration, Byblos Research

Main Destinations of Lebanese Exports in 2017 ($m)



Source: Lebanese Customs Administration, Byblos Research

The United States was the main source of imports with $4bn, or 17.3% of the total, in 2017, followed by China with $1.9bn (8.1%), Italy with $1.8bn (7.7%), Greece with $1.4bn (5.9%), Germany with $1.2bn (5.3%) and France with $946bn (4.1%). Imported goods from the United States grew by 3.4 times in 2017, those from France rose by 32.2%, imports from Greece increased by 27.8%, those from Italy improved by 25.7% and imported goods from Germany increased by 5.8%, while imports from China decreased by 10.3% in 2017.

Oil companies sign exploration and production agreements

The Ministry of Energy & Water received the two signed Exploration and Production Agreements (EPA) from the consortium of three companies that was awarded exclusive rights to explore, develop and produce oil and gas in each of Block 4 and 9 of Lebanon's territorial waters. It added that the consortium, which consists of France's Total, Italy's Eni International BV and Russian firm JSC Novatek, has submitted guarantees, which will be claimed by the government if the companies fail to meet the contract's requirements. The EPA is an agreement between the government and pre-qualified oil companies that provides the petroleum right holders with exclusive rights to explore, develop and produce oil & gas in Lebanon's offshore Exclusive Economic Zone.

The consortium will start in 2019 the five-year exploration phase, with a first phase of three years followed by a timeframe of two years. The exploration phase could be extended to up to 10 years contingent on the approval of the Cabinet.

A total of 53 oil and gas companies pre-qualified by April 2017 to submit their bids for the first licensing round for offshore oil and gas exploration and production. However, Lebanon received by the October deadline two bids submitted by one consortium for Block 4 in the center of Lebanon's territorial waters and for Block 9 in the south of Lebanon's territorial waters. In December 2017, the Council of Ministers approved the bid submitted by the consortium for offshore oil & gas exploration and production in Lebanon.

The bidding process was delayed from 2013 to 2017 due to the political paralysis that prevailed in the country at the time. Lebanon's petroleum law mandates that firms must form consortiums of at least three companies to be able to place bids, which constituted an obstacle for the pre-qualified firms to participate in the bidding process. Five blocks were open for bidding, which consisted of three blocks in the south of Lebanon's territorial waters, one in the center and another in the north.

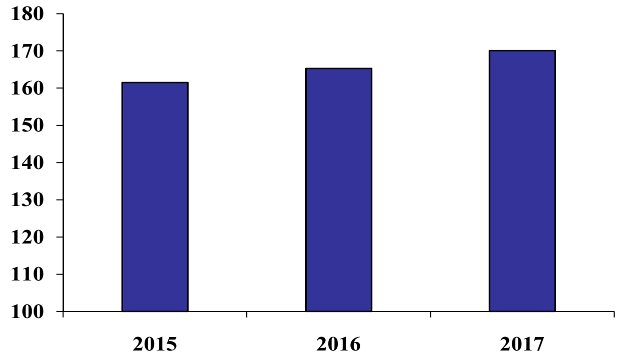
Treasury transfers to Electricité du Liban up 42% to $895m in first nine months of 2017

Figures released by the Finance Ministry show that Treasury transfers to Electricité du Liban (EdL) totaled $895.3m in the first nine months of 2017, constituting an increase of 41.7% from $631.6m 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 $867.8m, or 97% of transfers, in the covered period. It added that transfers to Electricity Syria stood at $18m, or 2% of total transfers, while EdL's debt servicing represented the balance of $9.5m, or 1.1% of the total. It attributed the rise in transfers mainly to an increase of $249.4m, or 40.3%, in payments to KPC and Sonatrach in the first nine months of 2017. Also, in September 2017, Lebanon started paying for its electricity imports from Syria. In contrast, debt servicing decreased by $3.7m or 28.1%, in the first nine months of 2017.

The ministry said that the rise in payments to KPC and Sonatrach reflects a 22.4% year-on-year increase in oil prices at the time the oil contracts were executed, and a rise of 8.2% in quantity of imported fuel oil, which were partly offset by a decrease of 10.5% in the quantity of imported gas. Also, it pointed out that EdL contributed 2% of the repayments to the two oil suppliers in the first nine months of 2017, down from 7.4% in the same period of 2016. EdL transfers accounted for 13.2% of primary expenditures in the first nine months of 2017, compared to 8.7% 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.

Byblos Bank's net profits at $170m in 2017

Net Profits (US$m)



Source: Byblos Bank

Byblos Bank sal declared unaudited net profits of $170.1m in 2017, constituting an increase of 2.9% from $165.3m in 2016. The Bank attributed the increase in profits to its lower risk appetite and to its objective to preserve the quality of its loan portfolio amid a persistently difficult operating environment. Byblos Bank reiterated its commitment to its conservative strategy that focuses on maintaining asset quality and preserving capital levels, among other objectives, rather than on engaging in unnecessary risks and maximizing returns over the short term.

The Bank's net interest income reached $306.2m in 2017, up by 8.6% from $281.9m in 2016; while net fees & commissions income stood at $89.6m relative to $80.6m in 2016. Also, its net interest margin stood at 1.44% in 2017, nearly unchanged from the previous year, supported by the Bank's proactive and effective management of its holdings of sovereign debt, as well as by its high local-currency and foreign-currency liquidity levels. The Bank's net interest income accounted for about 67% of total operating income, which reflects its aim to continuously grow and diversify its loan portfolio for individuals and businesses. Overall, the Bank's net operating income totaled $441.1m last year relative to $650.4m in 2016.

In parallel, Byblos Bank's operating expenditures amounted to $230m in 2017, down by 2.2% from $235.2m in 2016, with personnel expenditures accounting for 59.3% of the total. Operating expenses in 2017 were equivalent to 1.06% of average total assets, reflecting the Bank's ability to maintain cost under strict control; while the cost-to-income ratio was stable at 51% as a result of the Bank's cost optimization measures. The Bank's return on average assets stood at 0.78% in 2017, and its return on average common equity was at 9.35%.

Also, the Bank's aggregate assets reached $22.7bn at the end of 2017 and grew by 9.1% from $20.8bn at end-2016. Net loans & advances to customers totaled $5.43bn at the end of 2017 and expanded by 5.2% from end-2016, while net loans & advances to related parties reached $14.6m. The Bank's total customer deposits amounted to $17.7bn at the end of 2017 and rose by 5.3% from end-2016, and deposits from related parties stood at $252.6m. In parallel, equity stood at $ 2.2bn at the end of 2017.

Byblos Bank maintained strong financial buffers to mitigate unexpected risks and to counter economic volatility. The Bank's Basel III capital adequacy ratio was at 17.78% at the end of September 2017, which significantly exceeds Banque du Liban's regulatory requirement of 15% for end-2018, and is one of the highest such ratios in the Lebanese banking sector. The Bank also maintained a high level of immediate foreign-currency liquidity, equivalent to 16% of deposits in foreign currency at the end of 2017, in the form of short-term placements with investment- and above investment-grade institutions, and at levels exceeding the local and international benchmarks.

Stock market index up by 6.5% in January 2018

Figures released by the Beirut Stock Exchange (BSE) indicate that trading volume reached 5,509,441 shares in January 2018, constituting a decrease of 23.4% from 7,195,986 shares traded in the same month of 2017; while aggregate turnover amounted to $45.8m, down by 2.1% from a turnover of $46.8m in January 2017. Market capitalization regressed by 3.6% from the end of January 2017 to $11.8bn, with banking stocks accounting for 84.9% of the total, followed by real estate shares (12.1%), industrial firms (2.8%) and trading stocks (0.3%). The market liquidity ratio was 0.4% in the covered month, unchanged from January 2017.

Real estate equities accounted for 65.7% of the aggregate trading volume in January 2018, followed by banking stocks with 33.7% and industrial shares with 0.6%. Also, real estate equities represented 70.1% of the aggregate value of shares traded, followed by banking stocks with 29% and industrial stocks with 0.9%. The average daily traded volume for January 2018 was 250,429 shares for an average daily value of $2.1m. The figures reflect year-on-year decreases of 30.4% and 11% in volume and in value, respectively. In parallel, the Capital Markets Authority's Market Value-Weighted Index for stocks traded on the BSE grew by 6.5% in January 2018, while the CMA's Banks Market Value-Weighted Index increased by 2.2% in the covered month.

Lebanon launches private equity association

Eleven Lebanese investment funds and financial institutions launched the Lebanese Venture Capital and Private Equity Association (LVCPEA). The LVCPEA's founding members are Berytech Fund II, Azure Fund, Berytech Fund Management, Broadgate Y Venture Partners, Cedar Mundi, Flat6labs Beirut, Insure & Match Capital, Leap Management, MEVP Lebanon, Phoenician Funds Holding and Kafalat Corporation. Members of the LVCPEA have $360m in funds under management. The LVCPEA aims to act as an advocate for venture capital and private equity in Lebanon. The entity seeks to develop digital entrepreneurship in the country by providing a platform that facilitates the exchange of ideas and the development of policies. Also, it intends to set frameworks for co-investments and for the resolution of investment disputes, as well as to adopt best practices based on international standards. In addition, the LVCPEA seeks to maintain a favorable environment for information and communication technology (ICT) startups in Lebanon.

Corporate Highlights

Aggregate net profits of listed banks at $1.4bn in 2017

Financial results issued by the six banks listed on the Beirut Stock Exchange show that their aggregate net profits reached $1.39bn in 2017, constituting a decrease of 9.7% from net earnings of $1.54bn in 2016. The decline in the listed banks' income is due mainly to a drop in Bank Audi's profits in 2017. However, after the bank "normalized" its figures to account for non-recurring income and expenditures in 2016, its net income becomes $412.1m in 2016 and its net profits would increase by 12.6% to reach $463.8m in 2017. The non-recurring flows include exceptional net fees & commissions, the write-off of investments, the impairment of goodwill and investments, and the booking of collective provisions in 2016. When accounting for Bank Audi's normalized results in 2016, the aggregate net income of the listed banks would increase by 6.5% in 2017. Also, the aggregate net profits of listed banks exclude the earnings from discontinued operations of BLC Bank and Bank Audi.

Further, the banks' aggregate pre-tax profits decreased by 15.2% year-on-year to $1.73bn in 2017. The aggregate net interest income of the six banks, including net interest on financial instruments, totaled $2.66bn last year, up by 7.4% from $2.47bn in 2016; while their receipts from net fees & commissions declined by 52.2% year-on-year to $583.4m. Also, the total operating income of the listed banks reached $3.63bn in 2017 and decreased by 26.4% from $4.9bn in the previous year. Further, the banks' collective cost-to-income ratio increased from 38.5% in 2016 to 47.2% in 2017.

In parallel, the aggregate assets of the publicly-listed banks increased by 4.8% from end-2016 to $125bn at the end of 2017; while their total loans, including those to related parties, grew by 2.2% to $37.3bn. Also, total deposits, including those from related parties, increased by 0.8% from end-2016 to $96.7bn at the end of 2017. Further, the banks' aggregate shareholders' equity, including subordinated notes, increased by 7.2% from end-2016 to $13.3bn at the end of 2017. The six banks' aggregate loans-to-deposits ratio stood at 38.6% at the end of 2017 compared to 38.1% at end-2016. BLOM Bank had the lowest loans-to-deposits ratio at 28.3% relative to 28.9% at end-2016; followed by Byblos Bank with a ratio of 30.3% at the end of 2017, unchanged from end-2016; BLC Bank with 40.8% compared to 37.2% at end-2016; Bank of Beirut with 42.7% at the end of 2017 relative to 38%; Bank Audi with 48.7% at end-2017 up from 47.9%; and Banque BEMO with 55.2% at the end of 2017 relative to 47.5% at end-2016.

Results of Listed Banks in 2017

	Audi	BLOM	Byblos	BoB	BLC	BEMO
Net Profits ($m)	463.8	484.7	170.1	204.4	46.2	18.4
% Change*	-28.2%	4.7%	2.9%	1.5%	2.7%	16.7%
Total Assets ($bn)	43.8	32.5	22.7	18.4	5.9	1.8
% Change*	-1.2%	10.2%	9.1%	6.8%	2.2%	0.6%
Loans ($bn)	16.3	7.5	5.4	5.7	1.6	0.8
% Change*	-5.4%	5.2%	5.2%	19.2%	6.3%	10.5%
Deposits ($bn)	33.5	26.6	18	13.3	3.9	1.4
% Change*	-7%	7.4%	5.3%	6.3%	-3.3%	-4.9%

** year-on-year*
Source: Banks' financial statements, Byblos Research

Top five freight forwarders' import activity nearly unchanged in first 11 months of 2017, export activity down 3%

Figures released by the Port of Beirut show that overall import shipping operations by the top five freight forwarders through the port reached 328,216 20-foot equivalent units (TEUs) in the first 11 months of 2017, nearly unchanged from 327,412 TEUs in the same period of 2016. The five freight forwarders accounted for 83.4% of imports to the Lebanese market and for 56.3% of the total import freight forwarding market in the covered period. Mediterranean Shipping Company (MSC) handled 108,056 TEUs in imports in the first 11 months of 2017, equivalent to an 18.5% share of the total freight forwarding import market. Merit Shipping followed with 63,794 TEUs (10.9%), then Sealine Group with 59,384 TEUs (10.2%), Metz Group with 54,784 TEUs (9.4%) and Gezairy Transport with 42,198 TEUs (7.2%). Further, MSC registered a year-on-year increase of 6.3% in import shipping, the highest growth rate among the top five freight forwarders, while Metz Group posted the only decline at 15.1% in the first 11 months of 2017.

In parallel, export shipping operations by the top five freight forwarders through the Port of Beirut reached 79,356 TEUs in the first 11 months of 2017, constituting a decrease of 2.9% from 81,722 TEUs in the same period of 2016. The five freight forwarders accounted for 86% of exported Lebanese cargo and for 13.8% of the total export freight forwarding market in the covered period. Merit Shipping handled 37,620 TEUs of freight in the first 11 months of 2017, equivalent to 40.8% of the Lebanese cargo export market. Metz Group followed with 18,024 TEUs (19.5%), then Sealine Group with 14,790 TEUs (16%), MSC with 4,787 TEUs (5.2%) and Gezairy Transport with 4,135 TEUs (4.5%). Further, MSC posted a year-on-year increase of 16% in export shipping, the highest growth rate among the top five freight forwarders, while Sealine Group posted a decrease of 6.3%, the steepest decline in the covered period.

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	May 2016	Apr 2017	May 2017	Change**	Risk Level
Political Risk Rating	55.5	56.0	55.5	⧓	High
Financial Risk Rating	36.5	33.0	33.0	▲	Moderate
Economic Risk Rating	30.5	27.5	27.5	▲	High
Composite Risk Rating	61.25	58.25	58.0	▲	High

MENA Average*	May 2016	Apr 2017	May 2017	Change**	Risk Level
Political Risk Rating	57.6	57.9	58.0	▼	High
Financial Risk Rating	39.4	38.2	39.0	▲	Low
Economic Risk Rating	30.5	29.7	30.5	⧓	Moderate
Composite Risk Rating	63.7	62.9	63.8	▼	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	Stable	B3		Stable
Fitch Ratings	B-	B	Stable	B-		Stable
Standard & Poor's	B-	B	Stable	B-	B	Stable
Capital Intelligence	B	B	Stable	B	B	Stable

Source: Rating agencies

Banking Ratings	Banks' Financial Strength	Banking Sector Risk	Outlook
Moody's	E+		Negative

Source: Moody's Investors Services

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