

LEBANON THIS WEEK

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Banking sector assets reach \$220bn at end-2017, equivalent to 413% of GDP

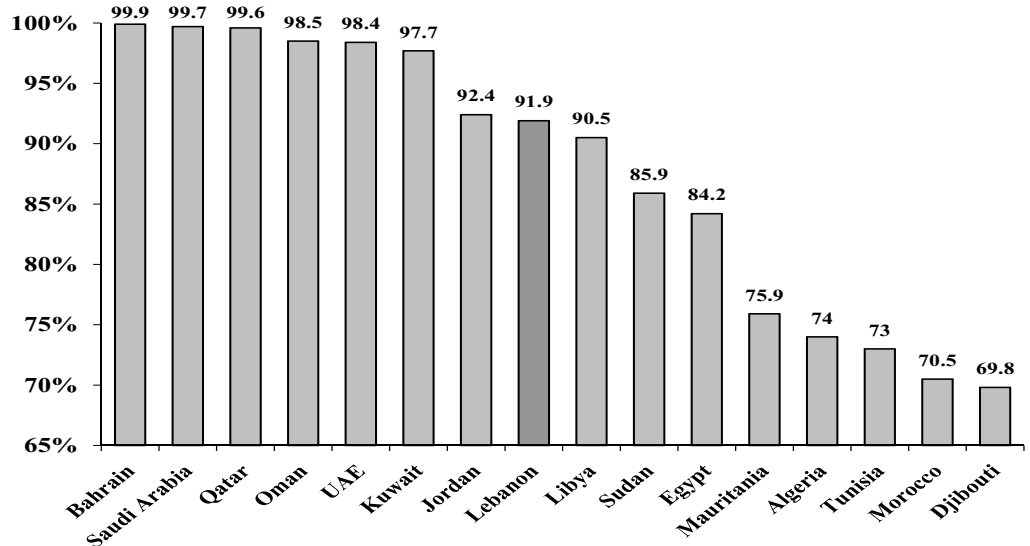
Second-hand cars listed for sale up four times to 476,615 cars in 2017

Net profits of health insurance branch up 15% to \$21.3m in 2016, claims up 7.3% to \$335.3m

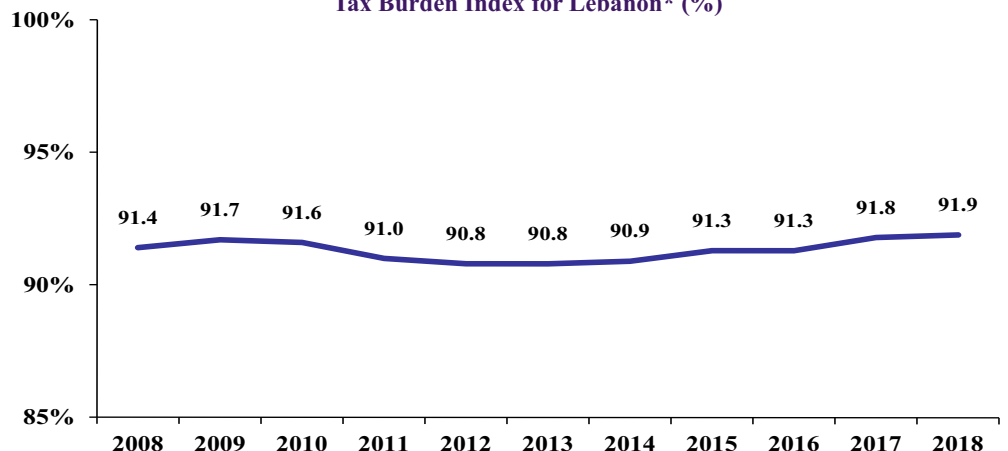
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Charts of the Week

Tax Burden Index for Arab Countries for 2018* (%)



Tax Burden Index for Lebanon* (%)



*A higher score reflects a lower tax burden

Source: Heritage Foundation 2018 Index of Economic Freedom, Byblos Bank

Quote to Note

“If the parliamentary elections translate into a credible government that undertakes serious efforts to tackle the fiscal deficit and addresses imbalances in the energy sector, this will improve both fundamentals and sentiment towards Lebanon and would bolster inflows.”

Citigroup, on Lebanon's economic and financial prospects

Number of the Week

1.04%:

Percentage of Lebanese who consider that the environmental situation in Lebanon has improved in the past 10 years, according to a survey conducted by the Arab Forum for Environment and Development

Lebanon in the News

\$m (unless otherwise mentioned)	2016	Oct 2016	Jul 2017	Aug 2017	Sep 2017	Oct 2017	% Change*
Exports	2,977	257	217	251	210	251	(2.02)
Imports	18,705	1,479	1,619	1,594	1,297	1,690	14.26
Trade Balance	(15,728)	(1,222)	(1,402)	(1,343)	(1,087)	(1,439)	17.68
Balance of Payments	1,238	(680)	100	368	457	(888)	30.52
Checks Cleared in LBP	19,892	1,780	1,845	1,869	1,475	1,993	12.00
Checks Cleared in FC	48,160	4,216	4,310	4,100	3,010	4,147	(1.64)
Total Checks Cleared	68,052	5,996	6,155	5,969	4,485	6,140	2.41
Budget Deficit/Surplus	(3,667.15)	(163.91)	31.76	(513.46)	(651.25)	(273.18)	66.67
Primary Balance	1,297.65	281.60	300.34	(192.77)	(145.72)	166.63	(40.83)
Airport Passengers***	7,610,231	554,122	975,003	1,067,441	861,828	616,742	11.30

\$bn (unless otherwise mentioned)	2016	Oct 2016	Jul 2017	Aug 2017	Sep 2017	Oct 2017	% Change*
BdL FX Reserves	34.03	34.74	33.04	34.03	35.06	36.77	5.83
In months of Imports	21.83	23.49	20.41	21.35	27.03	21.76	(7.38)
Public Debt	74.89	74.52	76.89	77.27	78.15	78.47	5.31
Bank Assets	204.31	199.67	208.48	209.39	213.42	215.79	8.07
Bank Deposits (Private Sector)	162.50	157.70	168.39	169.16	169.09	169.40	7.42
Bank Loans to Private Sector	57.18	56.69	58.61	58.67	58.93	59.13	4.31
Money Supply M2	54.68	53.83	55.02	55.59	55.50	55.07	2.30
Money Supply M3	132.80	128.74	138.01	138.92	138.87	138.68	7.72
LBP Lending Rate (%)****	8.23	8.35	8.33	8.10	8.31	8.24	(11bps)
LBP Deposit Rate (%)	5.56	5.53	5.56	5.55	5.53	5.56	3bps
USD Lending Rate (%)	7.35	7.06	7.25	7.29	7.53	7.39	33bps
USD Deposit Rate (%)	3.52	3.43	3.64	3.63	3.65	3.72	29bps
Consumer Price Index**	(0.80)	9.60	3.10	5.10	4.10	4.60	(500bps)

* 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	Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
HOLCIM	14.57	(5.88)	1,112,993	2.43%	Nov 2018	5.15	99.88	5.31
Solidere "B"	8.32	(1.54)	342,316	4.63%	May 2019	6.00	100.38	5.68
Solidere "A"	8.45	(0.59)	338,440	7.23%	Mar 2020	6.38	100.88	5.92
Audi GDR	5.80	(1.69)	168,164	5.95%	Oct 2022	6.10	99.50	6.22
BLOM Listed	12.00	0.00	19,000	22.06%	Jun 2025	6.25	96.50	6.86
BLOM GDR	12.65	(0.78)	15,900	7.99%	Nov 2026	6.60	97.50	6.98
Byblos Common	1.62	1.25	10,500	7.84%	Feb 2030	6.65	93.50	7.48
Audi Listed	5.90	0.00	160	20.17%	Apr 2031	7.00	95.50	7.54
Byblos Pref. 09	103.00	0.00	-	1.76%	Nov 2035	7.05	94.25	7.65
Byblos Pref. 08	102.10	0.00	-	1.75%	Mar 2037	7.25	95.63	7.69

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

Source: Byblos Bank Capital Markets

	Feb 5-8	Jan 29-Feb 2	% Change	January 2018	January 2017	% Change
Total shares traded	2,098,627	2,941,217	(28.6)	5,509,441	7,195,986	(23.4)
Total value traded	\$26,710,651	\$28,473,581	(6.2)	\$45,845,113	\$46,829,082	(2.1)
Market capitalization	\$11.69bn	\$11.73bn	(0.32)	\$11.77bn	\$12.21bn	(3.6)

Source: Beirut Stock Exchange (BSE)



Consumer confidence improved in fourth quarter of 2017

The results of the Byblos Bank/AUB Consumer Confidence Index for the fourth quarter of 2017 show that the Index increased by 3.2% in October from the preceding month, improved by 10.9% in November and declined by 3.1% in December 2017. The Index averaged 61.8 in the fourth quarter of the year compared to an average of 58.4 in the third quarter of 2017. In addition, the Byblos Bank/AUB Present Situation Index averaged 60 in the fourth quarter of 2017 and grew by 6.2% from the preceding quarter, while the Byblos Bank/AUB Expectations Index averaged 63.1 and improved by 5.7% from the third quarter of 2017. But the average monthly score of the Index in the fourth quarter of 2017 was 41.6% lower than the quarterly peak score of 105.8 registered in the fourth quarter of 2008, and remained 36% below the annual peak score of 96.7 reached in full year 2009.

Household sentiment in the fourth quarter of 2017 was influenced by the sudden resignation of Prime Minister Saad Hariri in early November. The shock resignation triggered a political crisis that reverberated across Lebanon, as the massive flow of rumors about the circumstances and consequences of the resignation weighed on consumer sentiment in the first three weeks of the month and risked a significant slide in the Index.

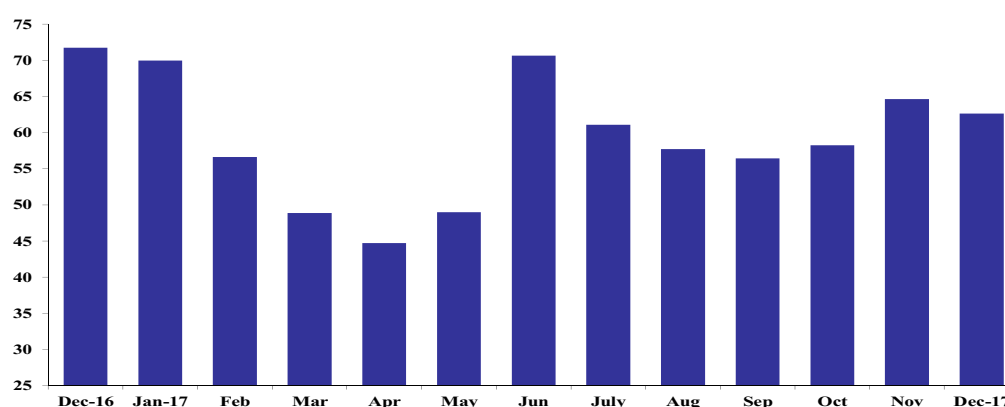
But the resolution of the crisis towards the end of November 2017, as well as Lebanon's renewed commitment to the "dissociation policy" from regional conflicts, eased the political crisis and economic uncertainties that prevailed during the month. Further, the November 2017 results captured the sentiment registered during the resolution of the crisis, rather than at the height of the rumors and uncertainties, given that the Byblos Bank/AUB Consumer Confidence Index's survey takes place at the end of each month. As such, the withdrawal of Prime Minister Hariri's resignation and the resumption of the proper functioning of the government were the key factors that supported household sentiment during the fourth quarter of 2017.

However, the results of the Index's survey continue to reflect the prevailing skepticism of Lebanese households, as only 11.1% of the Lebanese polled in the fourth quarter of 2017 expected their financial condition to improve in the coming six months, while 62.9% of respondents believed that their financial situation will deteriorate and 23.1% forecast their financial condition to remain the same over the covered period. Moreover, 9% of the Lebanese surveyed in December 2017 expected business conditions in Lebanon to improve in the coming six months, while 67.3% anticipated them to deteriorate.

The results of the Byblos Bank/AUB Consumer Confidence Index for the fourth quarter of 2017 show that male consumers had a higher level of confidence than their female counterparts, and consumers in the 40 to 49 year-old bracket posted the highest confidence level relative to citizens in other age brackets during the covered quarter. Households with an income of \$2,500 or more per month continued to be more confident than those earning less. Moreover, public sector employees were more optimistic than the self-employed, students, private sector employees, housewives and the unemployed in the fourth quarter of 2017. In addition, consumers in Mount Lebanon posted the highest confidence level across administrative districts, or mohafaza, followed by consumers in the North, Beirut, the South and the Bekaa. Further, Druze consumers had a higher level of confidence than their counterparts among other religious affiliations during the covered quarter, followed by Christian, Sunni and Shiite consumers.

The Byblos Bank/AUB Consumer Confidence Index is a measure of the sentiment and expectations of Lebanese consumers toward the economy and their own financial situation. The index is compiled, implemented and analyzed in line with international best practices and according to criteria from leading consumer confidence indices worldwide. It is composed of two sub-indices, the Byblos Bank/AUB Present Situation Index and the Byblos Bank/AUB Expectations Index. The Byblos Bank Economic Research & Analysis Department has been calculating the index on a monthly basis since July 2007, with January 2009 as its base month. The index is based on a face-to-face monthly survey of a nationally representative sample of 1,200 males and females living throughout Lebanon. The monthly field survey is conducted by Statistics Lebanon Ltd, a market research and opinion-polling firm.

Byblos Bank/AUB Consumer Confidence Index*



* Monthly score

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

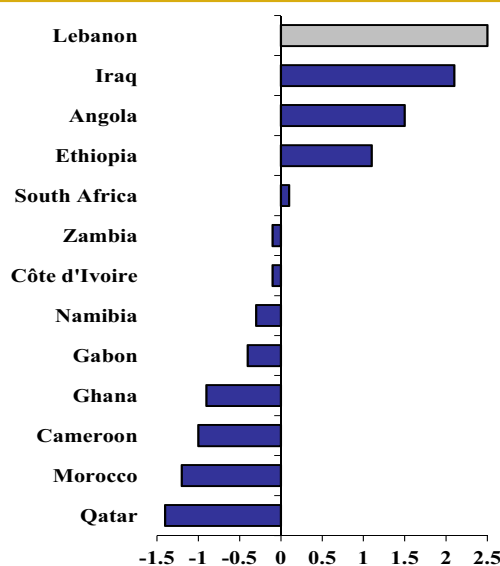
External sovereign bonds post highest return in emerging markets in January 2018

Figures issued by Citi Research indicate that Lebanon's external sovereign debt posted a return of 2.5% in January 2018, constituting the highest return among 35 emerging markets included in the Citi EM Sovereign Bond Index. Also, Lebanon's external sovereign debt posted the highest return among 13 countries in the Middle East & Africa (ME&A) region in the covered month. Lebanon outperformed the overall emerging markets' return of -0.3%, as well as the 'B'-rated sovereigns' return and the speculative grade sovereigns' return of 0.1% each in January 2018.

In comparison, Lebanon's external sovereign debt posted a return of 3.2% in December 2017, constituting the sixth highest return among 36 emerging markets and 13 countries in the ME&A region during the covered month. Lebanon outperformed the emerging markets' return of 0.5% and the 'B'-rated sovereigns' return of 0.8% in December 2017.

Lebanon's external sovereign debt posted a return of 5.8% in 2017, constituting the fifth lowest return among 36 emerging markets and the second lowest return among 13 countries in the ME&A region last year. Lebanon underperformed the overall emerging markets' return of 9.7%, as well as the speculative grade sovereigns' return of 10.2% in 2017.

External Sovereign Debt Performance in Middle East & Africa in January 2018 (%)



Source: Citi Research, Byblos Research

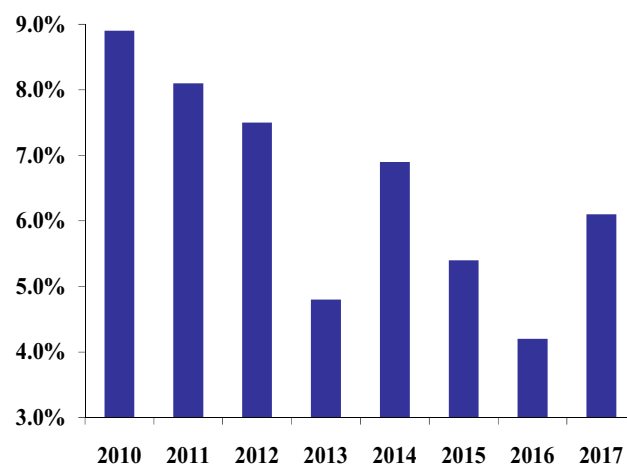
Number of new construction permits down 9%, surface area down 4% in 2017

The Orders of Engineers & Architects of Beirut and of Tripoli issued 15,758 new construction permits in 2017, constituting a decrease of 8.9% from 17,295 permits in 2016, relative to an increase of 14.5% in 2016. Mount Lebanon accounted for 37% of newly-issued construction permits in 2017, followed by the South with 18.7%, Nabatieh with 13.8%, the North with 13.2%, the Bekaa with 9.5% and Beirut with 4.8%. The remaining 3% are permits issued by the Order of Engineers & Architects of Tripoli for regions located outside northern Lebanon. The number of new construction permits issued for Beirut rose by 11.2% year-on-year in 2017. In contrast, the number of new construction permits issued for the North dropped by 23.7% in 2017, followed by permits for the South (-8.9%), Nabatieh (-8.2%), Mount Lebanon (-6.4%) and the Bekaa (-3%), while permits issued for regions located outside northern Lebanon declined by 8.4% year-on-year.

Further, the surface area of granted construction permits reached 11.73 million square meters (sqm) in 2017, representing a decline of 4% from 12.23 million sqm in 2016. In comparison, the surface area of granted construction permits regressed by 0.9% in 2016. Mount Lebanon accounted for 4.7 million sqm, or 40% of the total, in 2017. The North followed with 2 million sqm (17%), then the South with 1.6 million sqm (13.6%), the Bekaa with 1.1 million sqm (9.6%), Nabatieh with one million sqm (8.7%), and Beirut with 712,257 sqm (6.1%). The remaining 580,677 sqm, or 5% of the total, represent the surface area of permits that were issued by the Order of Engineers & Architects of Tripoli for regions located outside northern Lebanon.

The surface area of new construction permits issued for Beirut grew by 38.6% in 2017 and the surface area of permits issued for the North increased by 5.6%. In contrast, the surface area of new construction permits issued for Nabatieh decreased by 12.4%, followed by that for permits issued for Mount Lebanon (-9%), the South (-8.7%) and the Bekaa (-7.8%). Also, the surface area of granted construction permits for regions located outside northern Lebanon increased by 8.3% in 2017. In parallel, cement deliveries totaled 4.7 million tons in the first 11 months of 2017, constituting a decrease of 4.6% from 5 million tons in the same period of 2016, relative to a rise of 7.7% in the first 11 months of 2016.

Surface Area of new Construction Permits in Beirut (% of total)



Source: Orders of Engineers & Architects of Beirut and Tripoli

Lebanon among 'Nascent Countries' in terms of readiness for the future of production

The World Economic Forum (WEF) placed Lebanon, along with 57 other countries out of 100 countries worldwide, in the “nascent countries” category on its Readiness for the Future of Production Assessment for 2018. Lebanon came in this category along with 20 other upper middle-income countries (UMICs) and nine other countries from the Middle East & North Africa (MENA) region. The WEF defines a “nascent country” as a country with a limited production base that displays a low level of readiness for the future of production.

The Readiness for the Future of Production measures a country's ability to capitalize on future production opportunities, to mitigate risks and challenges, as well as its resilience in responding to unknown future shocks. The assessment is based on 59 variables divided into two indicators that are the Structure of Production, or a country's current production, and the Drivers of Production, or the key enablers that position a country to capitalize on the Fourth Industrial Revolution to transform production systems. According to the WEF, the Fourth Industrial Revolution is the set of emerging technologies, such as the Internet of Things, Artificial Intelligence, robotics and additive manufacturing, that are supporting the development of new production techniques and business models that will fundamentally transform production. The WEF scores countries on a scale from zero to 10 on each indicator, with 10 representing the best performance.

Lebanon came in 68th place among 100 countries worldwide, in 18th place among 28 UMICs and in seventh place among 13 MENA economies on the Structure of Production indicator. The latter reflects the complexity and scale of a country's current production base. Countries that currently have a large and more complex structure of production are more ready for the future because they already have a production base to develop. Globally, Lebanon ranked ahead of Jordan, Oman and the Dominican Republic, while it came behind Armenia, Sri Lanka and Guatemala. It ranked ahead of the Dominican Republic, Mauritius and Panama, and came behind Bosnia & Herzegovina, Colombia and Kazakhstan among UMICs; while it ranked ahead of Jordan, Oman, Qatar, Morocco, Kuwait and Algeria regionally. Lebanon received a score of 4.02 points on this indicator, lower than the global average score of 5 points, the UMICs' average score of 4.75 points and the MENA economies' average score of 4.32 points.

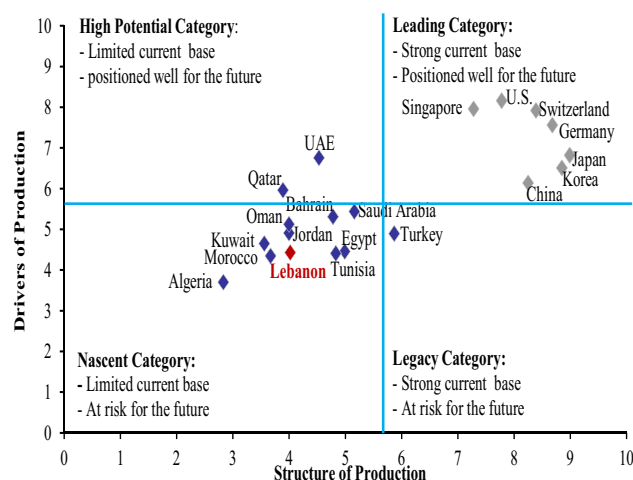
In parallel, Lebanon ranked in 71st place worldwide, in 20th place among UMICs and in 10th place among MENA countries on the Drivers of Production indicator. This indicator is based on six drivers, which are technology & innovation, human capital, global trade & investment, institutional framework, sustainable resources and demand environment. Countries that perform well across the six drivers are considered to be more ready to capitalize on emerging technologies and opportunities in the future of production, because the six drivers will facilitate the transformation of the production systems. Globally, Lebanon ranked ahead of Tunisia, Morocco and Sri Lanka, and came behind Egypt, Botswana and Armenia. It ranked ahead of Argentina, Peru and Albania, and came behind Serbia, Colombia and Botswana among UMICs; while it ranked ahead of only Tunisia, Morocco and Algeria regionally. Lebanon received a score of 4.43 points on this indicator, lower than the global average score of 5.23 points, the UMICs' average score of 4.74 points and the MENA economies' average score of 4.95 points.

Airport passengers up 11% in January 2018

Figures released by the Beirut-Rafic Hariri International Airport show that 597,768 passengers utilized the airport (arrivals, departures and transit) in January 2018, constituting an increase of 10.9% from 539,089 passengers in the same month of 2017. The number of arriving passengers grew by 10.8% year-on-year to 273,128 in January 2018, compared to an increase of 1.4% in the same month of 2017 and to a rise of 7.8% in January 2016. Also, the number of departing passengers grew by 11% year-on-year to 324,372 in the covered month, relative to a decrease of 2.1% in January 2017 and to a rise of 8.4% in the same month of 2016.

In parallel, the airport's aircraft activity grew by 0.7% year-on-year to 5,360 take-offs and landings in January 2018, compared to a decline of 7.1% in the same month of 2017 and to a growth of 12.2% in January 2016. In addition, the HIA processed 6,984 metric tons of freight in January 2018 that consisted of 4,552 tons of import freight and 2,432 tons of export freight. Middle East Airlines had 1,965 flights in January 2018 and accounted for 36.7% of HIA's total aircraft activity.

Readiness for the Future of Production Assessment



Source: World Economic Forum, Byblos Research

Fiscal deficit narrows by 25% to \$2.5bn in first 10 months of 2017, equivalent to 21% of expenditures

Figures released by the Finance Ministry show that the fiscal deficit reached \$2.5bn in the first 10 months of 2017 and narrowed by 25% from \$3.33bn in the same period of 2016. The deficit was equivalent to 20.6% of total budget and Treasury expenditures compared to 28.2% of total spending in the first 10 months of 2016. Government expenditures reached \$12.1bn and increased by 2.8% year-on-year, while revenues grew by 13.7% annually to \$9.6bn in the first 10 months of 2017. As such, the narrowing of the deficit reflects a rise of \$1.16bn in total revenues, which was partly offset by an increase of \$330.5m in overall expenditures during the covered period. The growth in revenues is mainly due to an increase of \$632.2m in receipts from the tax on profits, as banks paid a one-off tax on the revenues that they generated from the swap operations that they conducted with Banque du Liban in 2016.

On the revenues side, tax receipts grew by 17.8% to \$7.3bn in the first 10 months of 2017, of which 28.4%, or \$2.1bn, were in VAT receipts that increased by 7.4% year-on-year. Tax receipts accounted for 81.1% of budgetary revenues and for 75.5% of total Treasury and budgetary receipts in the covered period. The distribution of other tax revenues shows that receipts from taxes on income, profits & capital gains jumped by 40.8% year-on-year to \$2.6bn in the first 10 months of 2017; receipts from customs increased by 2.2% to \$1.2bn; revenues from property taxes improved by 17.4% to \$772.6m; receipts from taxes on goods & services grew by 12.2% to \$344.3m, and revenues from stamp fees increased by 8.2% to \$287.1m.

The distribution of income tax receipts shows that the tax on profits accounted for 52.3% of income tax revenues in the first 10 months of 2017, followed by the tax on interest deposits with 19.2%, taxes on wages & salaries with 19% and the capital gains tax with 8%. Revenues from taxes on profits jumped by 86.4% in the covered period, those from the capital gains tax grew by 24.1%, receipts from the tax on interest deposits improved by 8.9% and receipts from taxes on wages & salaries increased by 8.3%. Also, the distribution of property taxes shows that revenues from real estate registration fees increased by 23.3% to \$517.8m in the first 10 months of the year and receipts from the built property tax improved by 11.5% to \$165.4m, while revenues from the inheritance tax declined by 0.4% to \$89.4m. Further, non-tax budgetary receipts decreased by 4.3% year-on-year to \$1.7bn in the first 10 months of 2017. They mainly included \$1.04bn in revenues generated from government properties that regressed by 14.8% year-on-year, as well as \$463.3m in receipts generated from administrative fees and charges that rose by 12% year-on-year. Receipts from telecommunications services decreased by 27.7% to \$713.8m, due to delays in transfers to the Treasury from the Telecommunications Ministry. They accounted for 68.6% of income from government properties and for 42.3% of non-tax budgetary revenues.

On the expenditures side, budgetary spending, which includes general expenditures and debt servicing, grew by 6.3% annually to \$11bn in the first 10 months of 2017. General budgetary spending increased by 7.5% to \$7bn, and included \$1.1m in transfers to Electricité du Liban that jumped by 51.5% year-on-year, as well as \$780.2m in outlays from previous years that regressed by 13.4%, among others. Further, debt servicing totaled \$4.1bn in the first 10 months of 2017 and grew by 4.5% year-on-year. Debt servicing accounted for 33.6% of total expenditures and for 36.9% of budgetary spending, while it absorbed 42.3% of overall revenues and 45.5% of budgetary receipts in the covered period. Interest payments on Lebanese pound-denominated debt grew by 4.4% year-on-year to \$2.6bn in the first 10 months of the year and debt servicing on foreign currency debt increased by 5.4% to \$1.3bn. The primary budget balance posted a surplus of \$2bn, or 18% of budgetary expenditures, in the first 10 months of 2017, while the overall primary balance posted a surplus of \$1.6bn or 13% of spending.

Fiscal Results in First 10 Months of each Year			
	2016 (US\$m)	2017 (US\$m)	Change (%)
Budget Revenues	7,933	8,953	12.9%
Tax Revenues	6,169	7,264	17.8%
Non-Tax Revenues	1,764	1,688	(4.3%)
<i>of which Telecom revenues</i>	988	714	(27.7%)
Budget Expenditures	10,380	11,038	6.3%
Budget Surplus/Deficit	(2,448)	(2,085)	(14.8%)
<i>In % of budget expenditures</i>	(23.6%)	(18.9%)	
Budget Primary Surplus	1,450	1,987	37.0%
<i>In % of budget expenditures</i>	14.0%	18.0%	
Treasury Receipts	526	667	26.9%
Treasury Expenditures	1,404	1,077	(23.3%)
Total Revenues	8,458	9,619	13.7%
Total Expenditures	11,785	12,115	2.8%
Total Deficit	(3,327)	(2,496)	(25%)
<i>In % of total expenditures</i>	(28.2%)	(20.6%)	
Total Primary Surplus/Deficit	571.0	1,576.3	176.1%
<i>In % of total expenditures</i>	4.8%	13.0%	

Source: Ministry of Finance, Byblos Research



Ministry of Energy & Water signs power purchase agreements with three companies for construction of wind farms

The Ministry of Energy & Water announced that it signed a Power Purchase Agreements (PPA) with Lebanon Wind Power, Hawa Akkar and Sustainable Akkar, for the construction of three wind farms in Akkar in the North. The wind farms will have an aggregate capacity of 200 megawatts (MW). The three companies have 18 months to complete the Environmental Impact Assessment and other safety checks. They have agreed to sell the produced electricity for \$0.1 per kilowatt hour to Electricité du Liban (EdL).

The construction of the wind farms, which is expected to start by 2020, is part of Lebanon's National Energy Efficiency Action Plan (NEEAP) for 2016-20. The national strategy aims to produce about 767 kilotons of oil equivalent, or 12% of the projected electricity and thermal supply in Lebanon by 2020. It builds on the 14 energy efficiency initiatives proposed in the NEEAP 2011-2015. The initiatives consist of promoting electricity generation from solar and wind power, the use of solar water heaters, the adoption of the energy conservation law, the banning of the import of incandescent lamps to Lebanon and spreading the use of compact fluorescent lamps, along with developing an energy efficient code for new buildings, among others.

In parallel, the Ministry of Energy & Water called on the private sector to submit expression of interests (EOIs) for the construction of four wind energy farms with an aggregate capacity of between 200 and 400 megawatts (MW) in various sites in Lebanon. Each wind farm will have a power capacity of between 50 MW and 100 MW. Companies have until April 12, 2018 to submit the EOI. The ministry would then send to the companies who have submitted an EOI an official Request for Proposal (RFP) document, which specifies the criteria that they have to meet about their past performance, technical capacity and financial eligibility, as well as the overall process and timeframe of building the wind farms.

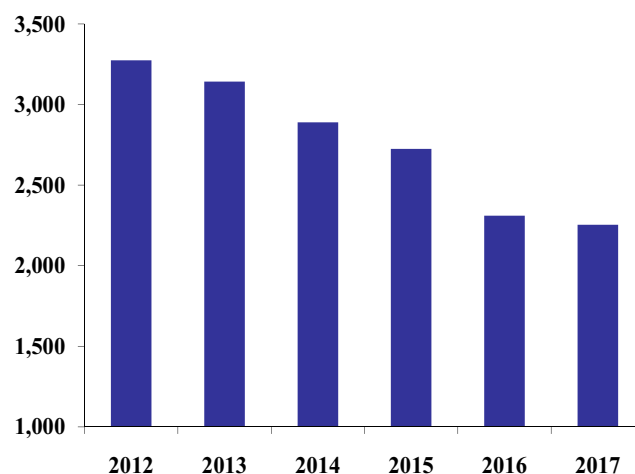
Based on the results of the RFP documents, the ministry will select the companies that submitted the lowest bids and provided sound administrative, technical and environmental proposals. The selected companies would then sign the Power Purchase Agreement (PPA), which includes information on the starting date of the project, a timetable for the delivery of electricity, penalties for under-delivery, as well as payment and termination terms. The selected companies are expected to receive licenses to operate in 2019. EdL, with the approval of the Ministry of Energy & Water, will contractually purchase the electricity produced by the four wind farms for a period of 20 years, subject to terms and conditions defined in the PPA agreement. The project aims to increase the share of renewable energy in electricity production in Lebanon in the 2021-25 period.

Industrial exports down 2% to \$2.25bn in first 11 months of 2017

Figures released by the Ministry of Industry show that industrial exports totaled \$2.25bn in the first 11 months of 2017, constituting a decrease of 2.4% from \$2.31bn in the same period of 2016. Industrial exports reached \$205.1m in November 2017, down by 9.5% from \$226.7m in the preceding month, but up by 5.9% from \$193.7m in November 2016. Exports of machinery & mechanical appliances totaled \$442.6m and accounted for 19.6% of aggregate industrial exports in the first 11 months of 2017, followed by prepared foodstuffs & tobacco with \$429.7m (19.1%), chemical products with \$366.5m (16.3%), base metals with \$305.7m (13.6%), plastics & rubber with \$141.9m (6.3%), paper & paperboard with \$131.3m (5.8%), and pearls & precious or semi-precious stones & metals with \$128.8m (5.7%). Arab countries were the destination of 55.5% of Lebanese industrial exports in the first 11 months of 2017, followed by European economies with 14.5%, Asian countries with 12.1%, African economies with 11%, countries in the Americas with 5.1% and markets in Oceania with 0.6%. On a country basis, Saudi Arabia was the main destination of Lebanese industrial exports and accounted for 10% of the total in the first 11 months of 2017, followed by the UAE with 9.9%, Iraq with 9%, Syria with 8.5%, Turkey with 4.5% and Jordan with 3.6%. In November 2017, 14 Arab states, nine European economies, eight African countries, three Asian economies, two countries in the Americas and one country in Oceania imported \$1m or more each in Lebanese industrial products.

In parallel, imports of industrial equipment and machinery reached \$234.2m in the first 11 months of 2017, up by 7.6% from \$217.6m in the same period of 2016. China was the main source of such imports and accounted for 22% of the total in the first 11 months of 2017, followed by Italy with 20.1% and Germany with 13.7%. Further, imports of industrial equipment and machinery amounted to \$17.6m in November 2017, down by 11.6% from \$20m in the same month of 2016. Italy was the main source of such imports with \$5m and accounted for 28.4% of the total in the covered month, followed by China with \$3.1m (17.8%) and Germany with \$2.8m (15.8%).

Lebanese Industrial Exports*
(US\$m)



*in first 11 months of each year

Source: Ministry of Industry, Byblos Research

Lebanon ranks 142nd globally, seventh among Arab countries on electoral freedom

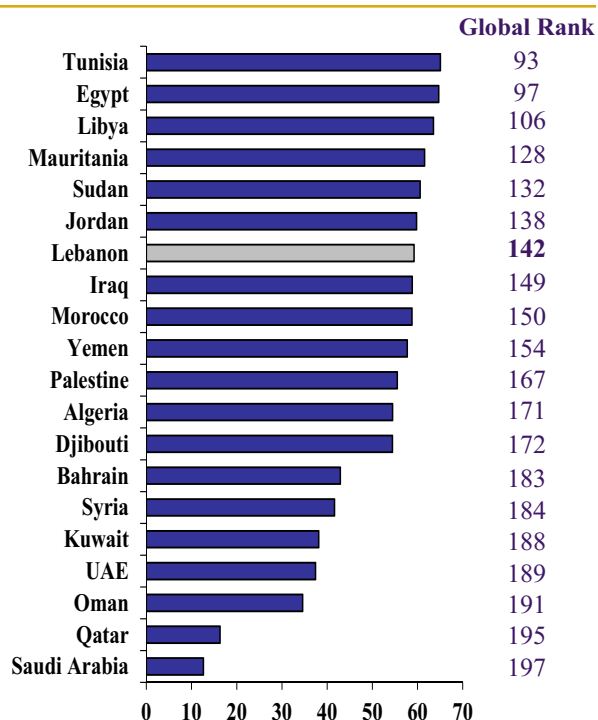
The World Electoral Freedom Index for 2018, a broad indicator of the electoral freedom available to citizens and to registered political parties, ranked Lebanon in 142nd place among 198 countries globally and in seventh place among 20 Arab countries. Also, Lebanon came in 39th place among 55 upper middle-income countries (UMICs) included in the survey.

The index, published by the Madrid-based Foundation for the Advancement of Liberty, evaluates countries on the basis of 55 indicators that are grouped into four sub-indices, that are Political Development with a weight of 10%, Active Suffrage with a weight of 30%, Passive Suffrage with a weight of 30% and Elector Empowerment with a weight of 30%. A country's score ranges between zero and 100, with 100 reflecting the highest electoral freedom.

The Political Development Sub-Index measures the preconditions of electoral freedom, such as the political and legal indicators, the indicators of overall freedom in other aspects of society, and the indicators of economic development. In addition, the Active Suffrage Sub-Index assesses the universality of the right to vote and its restrictions, the characteristics of the voter's rights, the electoral register, as well as the election and counting procedures. Also, the Passive Suffrage Sub-Index measures the restrictions on the right of citizens to run for office and requirements to exercise this right, barriers to entry, the characteristics of the election campaign, the election process, as well as the extent of the distortion of the election's results. Further, the Elector Empowerment Sub-Index assesses the effectiveness of an election, the direct decision-making procedures by the voting public, political pluralism, the real power of the representatives and the capacity of the electorate to overthrow them, as well as the integrity of the political process.

Globally, Lebanon has a higher level of electoral freedom than Tajikistan, Afghanistan and Mozambique, and a lower level than Jordan, Côte d'Ivoire and Zambia. It also has a higher level of electoral freedom than Iraq, Turkmenistan and Gabon, and a lower level than Malaysia, Russia and Turkey among UMICs. Lebanon's score of 59.2 points is lower than the global average score of 62.1 points and the UMICs' average of 61.9 points, but it is higher than the Arab average of 49.9 points. Also, Lebanon's score is higher than the Gulf Cooperation Council (GCC) countries' average score of 30.3 points and that of non-GCC Arab countries of 58.3 points.

**World Electoral Freedom Index for 2018
Arab Countries Scores & Rankings**



Source: Foundation for the Advancement of Liberty, Byblos Research

Components of the 2018 World Electoral Freedom Index

Factors	Global Rank	Arab Rank	UMICs Rank	Lebanon Score	Global Average Score	Arab Average Score	UMICs Average Score
Political Development	109	5	37	52.08	54.52	44.10	53.64
Active Suffrage	171	13	48	56.85	65.73	56.91	64.91
Passive Suffrage	130	8	38	65.83	66.39	54.43	67.59
Elector Empowerment	137	8	35	52.18	55.66	40.50	55.81

Source: Foundation for the Advancement of Liberty, Byblos Research

Balance sheet of financial institutions up 8% in 2017

Figures released by Banque du Liban show that the consolidated balance sheet of financial institutions in Lebanon reached LBP2,302bn, or \$1.53bn at the end of 2017, constituting an increase of 8.3% from LBP2,125bn, or \$1.4bn at end-2016 and compared to a decrease of 18.1% in 2016. On the assets side, financial institutions' cash and bank deposits totaled \$500.6m at the end of 2017, down by 12.7% from end-2016 and relative to a drop of 9.7% in 2016. Claims on the private sector reached \$762.5m at end-2017, reflecting an increase of 5% from the end of 2016. Also, claims on the public sector totaled \$112.7m at end-2017, constituting a decline of 17.6% from a year earlier and relative to a drop of 7.8% in 2016.

In parallel, liabilities to the private sector totaled \$181m at the end of 2017, constituting a decline of 17.7% from end-2016 and compared to a drop of 49.4% in 2016; while liabilities to the financial sector reached \$537.1m at the end of 2017, representing a decrease of 6.8% from end-2016 and relative to a drop of 18% in 2016. Further, the aggregate capital accounts of financial institutions amounted to \$475.8m at the end of 2017, constituting an increase of 1.6% from end-2016. There were 51 financial institutions with a total of 76 branches operating in Lebanon at the end of September 2017.



Banking sector assets reach \$220bn at end-2017, equivalent to 413% of GDP

The consolidated balance sheet of commercial banks operating in Lebanon shows that total assets stood at \$219.9bn at end-2017, constituting a rise of 7.6% from the end of 2016. The banking sector's assets were equivalent to 412.5% of GDP in 2017 relative to 408.6% in 2016. Loans extended to the private sector reached \$60.3bn at the end of 2017, reflecting an increase of 5.5% from a year earlier. Lending to the private sector was equivalent to 113.2% of GDP in 2017 relative to 114.4% of GDP in 2016. Loans to the resident private sector totaled \$54.2bn, up by 6.1% from the end of 2016, and were equivalent to 101.6% of GDP last year compared to 102.1% of GDP in 2016. Also, credit to the non-resident private sector totaled \$6.15bn at end-2017, nearly unchanged from a year earlier. In nominal terms, credit to the private sector grew by \$3.14bn in 2017 relative to an increase of \$2.96bn in 2016. Lending to the resident private sector expanded by \$3.13bn in 2017 relative to a growth of \$3bn in 2016, while credit to the non-resident private sector increased by \$4.6m in 2017 compared to a decrease of \$40m in 2016. The dollarization rate in private sector lending regressed to 71% at the end of 2017 from 72.6% a year earlier.

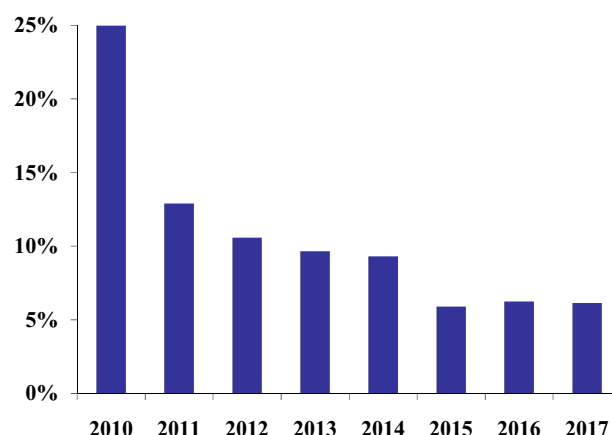
In addition, claims on non-resident banks reached \$11.83bn at end-2017, up by 5.3% from \$11.24bn at the end of 2016, while claims on the public sector stood at \$31.95bn at the end of 2017, down by 8% from end-2016. The average lending rate in Lebanese pounds was 8.09% in December 2017, while the same rate in US dollars stood at 7.67%. Further, the deposits of commercial banks at Banque du Liban totaled \$103.4bn at the end of 2017, constituting an increase of 15.8% from a year earlier.

In parallel, private sector deposits of the non-financial sector totaled \$168.7bn at the end of 2017, constituting an increase of 3.8% from end-2016. Private sector deposits were equivalent to 316.4% of GDP last year relative to 325% of GDP in 2016. Deposits in Lebanese pounds reached \$52.8bn at end-2017, down by 5% year-on-year; while deposits in foreign currencies stood at \$115.9bn and grew by 8.4% from the end of 2016. Aggregate non-resident deposits reached \$35.2bn at the end of 2017, up by 3.5% from end-2016. 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, by \$309.5m in October and by \$1.86bn in December; while they regressed by \$63.7m in September and by \$2.6bn in November 2017. As such, total private sector deposits grew by \$6.17bn in 2017 compared to an increase of \$10.9bn in 2016. Resident private sector deposits grew by \$5bn in 2017 relative to a rise of \$8.8bn in 2016, while non-resident deposits increased by \$1.2bn in 2017 compared to a growth of \$2.1bn in 2016. Further, foreign-currency deposits grew by \$9bn in 2017 relative to an increase of \$8.6bn in 2016.

In parallel, deposits of non-resident banks reached \$7.48bn at the end of 2017 and increased by 19.1% from end-2016. The dollarization rate of deposits was 68.7% at the end of 2017 relative to 65.8% a year earlier. Further, the average deposit rate in Lebanese pounds was 6.41% in December 2017 compared to 5.56% a year earlier, while the same rate in US dollars was 3.89% relative to 3.52% in December 2016.

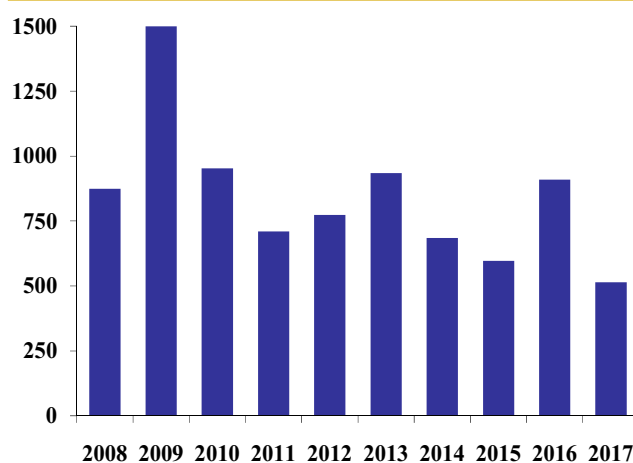
The ratio of private sector loans-to-deposits in foreign currency stood at 36.9%, well below Banque du Liban's limit of 70% and compared to 38.8% a year earlier. The same ratio in Lebanese pounds was 33.2% at end-2017 relative to 28.2% at the end of 2016. As such, the ratio of total private sector loans-to-deposits reached 35.8%, up from 35.2% at end-2016. The banks' aggregate capital base stood at \$19.13bn at the end of 2017, up by 4.9% from \$18.24bn at end-2016.

Resident Private Sector Lending Growth (% Change)



Source: Association of Banks in Lebanon, Byblos Research

Average Monthly Growth of Private Sector Deposits (US\$m)



Source: Association of Banks in Lebanon, Byblos Research

Second-hand cars listed for sale up four times to 476,615 cars in 2017

OLX Lebanon indicated that the number of listed second-hand cars for sale on its online trading platform grew by four times to 476,615 vehicles in 2017, with automobiles manufactured in 2007 and 2009 representing the models that were the most listed last year. It also noted that the aggregate value of second-hand cars listed for sale on the trading platform totaled \$2.5bn in 2017, which constitutes an increase of 2.6 times from \$966.6m in 2016. Further, it said that a second-hand car was listed for sale every 52 seconds on average in 2017, while each second-hand car listed on the platform received an average of 11 inquiries from potential buyers last year.

OLX pointed out that there were 132,000 second-hand car listings in the Beirut Governorate, followed by Mount Lebanon (111,000), the North (84,000), the South (53,000), the Bekaa (49,000) and Nabatieh (47,000). Further, it noted that BMW was the most listed brand on the platform last year with 57,000 listings, followed by Mercedes Benz (46,000), Honda (22,400), Toyota (15,200), Nissan (15,000), Volkswagen (12,000), Renault (11,000), Jeep (9,000), Kia (8,000) and Hyundai (6,300).

In parallel, OLX noted that German, Japanese and American vehicles were the most searched cars on the platform. It added that the Mercedes C Series received 13,000 searches and was the most searched car model on the platform, followed by the Honda CRV (10,000), the BMW X5 (9,500), the Kia Picanto (7,000) and the Jeep Wrangler (4,000).

The OLX group operates a network of online trading platforms in over 40 countries worldwide and hosts 300 million users on a monthly basis. It allows the purchase and sale of household goods, phones, cars and houses, among other items. OLX Arabia operates in Bahrain, Egypt, Kuwait, Lebanon, Oman, Qatar and Saudi Arabia.

Net profits of health insurance branch up 15% to \$21.3m in 2016, claims up 7.3% to \$335.3m

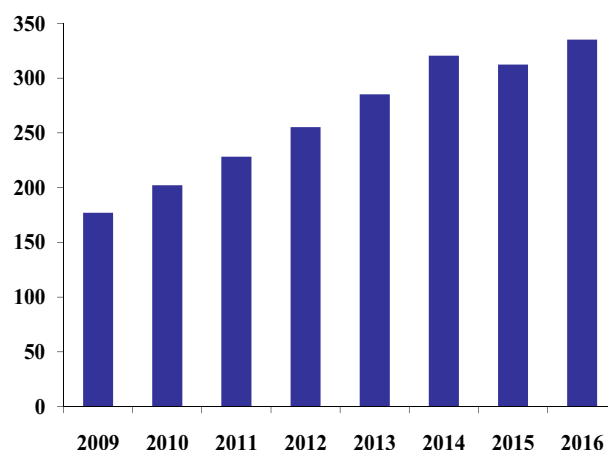
Figures released by the Insurance Control Commission (ICC) show that the aggregate net profits of insurance companies active in the health insurance segment in Lebanon reached \$21.3m in 2016, constituting an increase of 14.7% from \$18.6m in 2015. The medical insurance segment posted a net profit margin of 4.6% in 2016 compared to a ratio of 4.2% in 2015 and relative to a profit margin of 8.9% for the insurance sector. Health insurance was the largest segment of the non-life branches in 2016, with 808,984 people covered by the various medical plans that were offered through 40 health insurers in the market.

Further, gross written premiums from the health insurance category grew by 3.2% to \$459.2m in 2016 and accounted for 29.2% of the sector's aggregate premiums. The 'group' health segment's written premiums reached \$257.5m and accounted for 56.1% the medical branch's aggregate premiums, while those of the 'individual' health segment totaled \$201.8m and accounted for 43.9% of the total. The medical insurance market is heavily concentrated, as the top five companies underwrote 53.3% of health premiums for individuals and 63.4% for groups in 2016. MEDGULF led all insurers in the health insurance branch with premiums of \$73.7m in 2016 and accounted for 16% of the branch's aggregate premiums, followed by Bankers with \$51m (11.1%), Continental Trust with \$42.9m (9.3%), AXA Middle East with \$40.8m (8.9%) and Allianz SNA with \$36.3m (7.9%).

In parallel, paid claims totaled \$335.3m in 2016, constituting an increase of 7.3% from \$312.5m in 2015. Gross claims paid from the 'group' segment reached \$222.7m and accounted for 66.4% of aggregate health claims in 2016, while those of the 'individual' segment totaled \$112.6m and represented 33.6% of the total in the same year. The sector paid 1,115,093 claims in 2016, constituting an increase of 0.9% from 1,105,451 claims in 2015.

In parallel, the loss ratio, or the ratio of claims incurred to earned gross premiums, of the 'individual' health segment was 59.2% in 2016; the commission ratio, or the ratio of acquisition cost to earned gross premiums, reached 18.6%; the expense ratio, or the ratio of other general expenses to earned gross premiums, was 12.9%; and the reinsurance ratio, or the ratio of net reinsurance income to earned gross premiums, reached -0.1% in 2016. As such, the average technical combined loss ratio, which is the aggregate ratio of the above four ratios, reached 90.5% in 2016. Further, the loss ratio of the 'group' medical insurance segment was 88.5% in 2016, the commission ratio reached 5.7%, the expense ratio was 9.4%, and the reinsurance ratio reached -0.7% in 2016. As such, the average combined loss ratio reached 102.9% in 2016.

Paid Health Insurance Claims (US\$m)



Source: Insurance Control Commission, Byblos Research

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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