

LEBANON THIS WEEK

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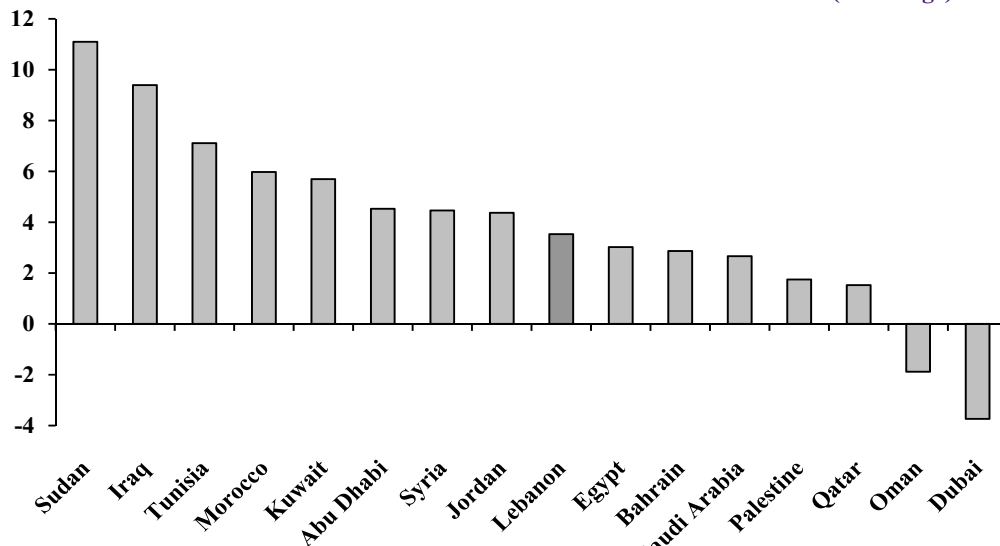
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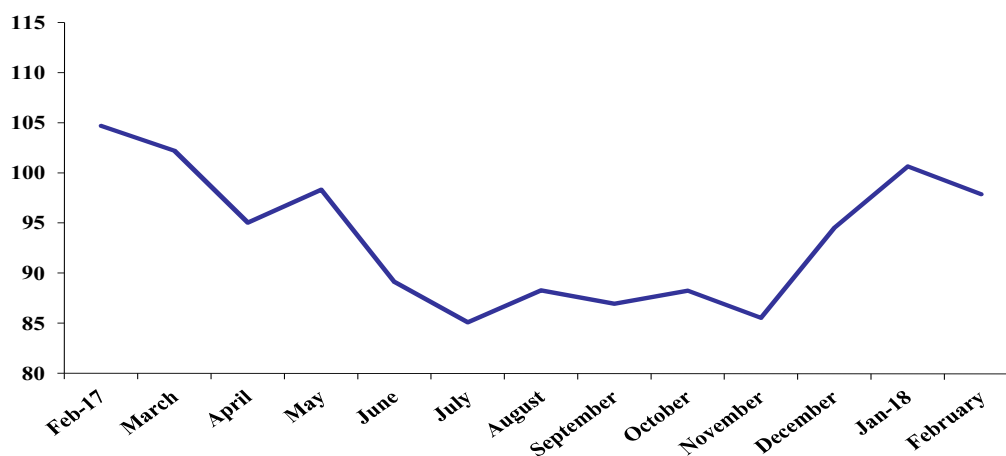
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Charts of the Week

Performance of Arab Stock Markets in the First Two Months of 2018 (% change)



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 confidence in the Lebanese pound will remain strong and the peg to the dollar will be maintained, supported by ample international reserves.”

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

Number of the Week

91: Lebanon's rank out of 119 countries in terms of the country's ability to retain talent, according to INSEAD's Global Talent Competitiveness Index for 2018

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
Byblos Common	1.62	0.00	1,995,512	7.85%
Solidere "A"	8.29	(2.13)	135,625	7.10%
Solidere "B"	8.25	(1.79)	86,479	4.59%
Audi Listed	6.00	0.00	34,000	20.54%
BLOM GDR	12.42	(0.72)	10,750	7.86%
BLOM Listed	11.90	(0.83)	5,100	21.91%
HOLCIM	14.75	0.00	2,000	2.47%
Byblos Pref. 09	102.6	(0.39)	600	1.76%
Audi GDR	5.80	0.00	-	5.96%
Byblos Pref. 08	102.1	0.00	-	1.75%

Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
Nov 2018	5.15	99.50	5.89
May 2019	6.00	99.50	6.43
Mar 2020	6.38	99.25	6.78
Oct 2022	6.10	96.50	7.01
Jun 2025	6.25	93.13	7.49
Nov 2026	6.60	93.63	7.61
Feb 2030	6.65	89.75	8.00
Apr 2031	7.00	91.63	8.04
Nov 2035	7.05	90.75	8.04
Mar 2037	7.25	91.13	8.18

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

Source: Byblos Bank Capital Markets

	Feb 26 - Mar 2	Feb 19-23	% Change	February 2018	February 2017	% Change
Total shares traded	2,282,280	509,625	347.8	5,480,337	3,077,394	78.1
Total value traded	\$6,111,974	\$4,252,221	43.7	\$43,415,304	\$30,071,143	44.4
Market capitalization	\$11.68	\$11.73bn	(0.41)	\$11.65bn	\$12.38bn	(5.9)

Source: Beirut Stock Exchange (BSE)



Demand for housing decelerates in fourth quarter of 2017

Demand for residential real estate in Lebanon decelerated in the fourth quarter of 2017, as reflected by the results of the Byblos Bank Real Estate Demand Index. The index posted a monthly average of 44.9 points in the fourth quarter of 2017, constituting a decrease of 9.3% from 49.6 points in the third quarter of the year and a decline of 3.3% from 46.5 points in the fourth quarter of 2016. The fourth-quarter results constitute the 14th lowest level in 42 quarterly readings.

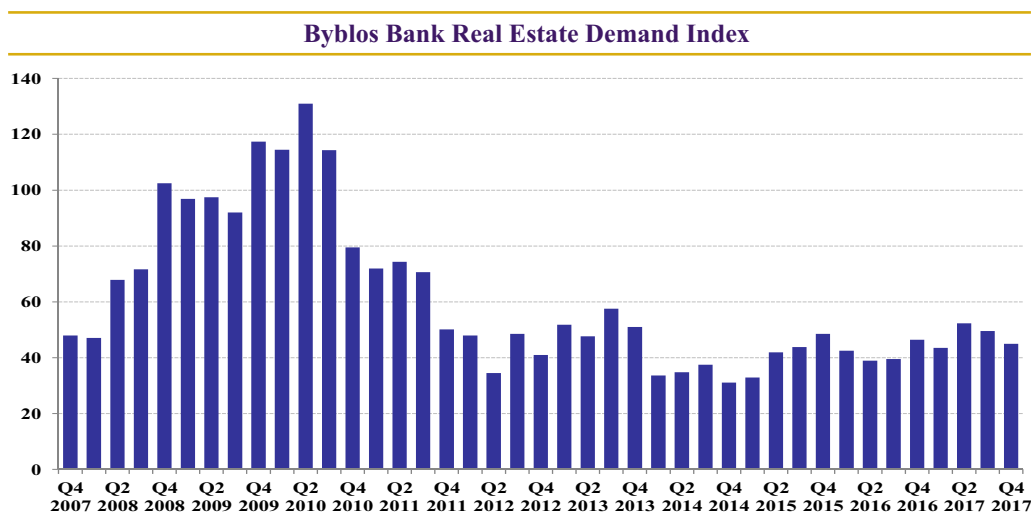
In addition, the index's average monthly score in the fourth quarter of 2017 was 65.7% lower than the peak of 131 points registered in the second quarter of 2010, and remains 59.1% below the annual peak of 109.8 points posted in 2010. It is 26.3% lower than the Index's monthly trend average score of 61.4 points since the Index's inception in July 2007.

Demand for housing in Lebanon is primarily correlated to political stability, consumer confidence and economic activity. However, the resolution of the political crisis that was triggered by the resignation of Prime Minister Saad Hariri in early November could not offset the impact on housing demand of the Lebanese Parliament's ratification in October 2017 of a series of tax increases on consumption, income and profits. In fact, the negative impact of the tax hikes on sentiment has weighed on the willingness of prospective buyers to acquire a residential unit, given that buying a house constitutes one of the most important investment decisions for the Lebanese, and the value of a house is usually the single most important non-financial asset for Lebanese residents. Also, the increase in taxes and fees could negatively affect their disposable income and purchasing power, and could weigh on their already-stretched budgets and increase real estate transaction costs, which, in turn, would hold back demand and delay the recovery in real estate activity.

Further, the index's results reflect the intentions of the Lebanese to buy or build a house, but these intentions need a conducive environment to translate into actual sales. In fact, only 5.1% of Lebanese residents polled in the fourth quarter had plans to either buy or build a residential property in the coming six month. In comparison, 6.9% of residents, on average, had plans to buy or build a residential unit in the country between July 2007 and December 2017, with this share peaking at about 15% in the second quarter of 2010.

In parallel, demand for housing in the fourth quarter of 2017 was the highest in the North, as 9.8% of its residents had plans to build or buy a house in the coming six months, compared to 9.7% in the preceding quarter. Beirut followed with 4.6% of its residents planning mainly to buy a residential unit in the coming six months relative to 5% in the third quarter of 2017; while 4.5% of residents in the South had plans to buy or build a house, up from 3.4% in the preceding quarter. In addition, 4.3% of residents in Mount Lebanon intend to buy or build a house, down from 5.7% in the third quarter, while 2.1% of residents in the Bekaa had plans to build or buy a residential unit, down from 2.8% in the previous quarter. Also, real estate demand declined among all income brackets in the covered quarter.

In parallel, the full year results show that the Byblos Bank Real Estate Demand Index averaged 47.6 in 2017, constituting an increase of 13.7% from a low base of 41.9 in 2016. But the index's average monthly score for the year was 56.7% below the annual peak of 109.8 points posted in 2010, and remained 22% lower than the index's monthly trend average score of 61 points since the index's inception in July 2007. The index declined in three out of four quarters during the year.



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

S&P affirms Lebanon's sovereign ratings, outlook 'stable'

S&P Global Ratings affirmed Lebanon's long- and short-term foreign and local currency sovereign credit ratings at 'B-/B', and maintained its 'stable' outlook on the ratings. It indicated that the 'stable' outlook reflects its expectations that deposit inflows to the financial system will remain sufficient to support the government's borrowing requirements and the country's external deficit over the next 12 months.

The agency pointed out that the government's debt-servicing capacity depends on the financial sector's willingness and ability to continue to subscribe to government securities. In turn, it noted that this relies mainly on non-resident deposit inflows and on financing from Banque du Liban (BdL). It considered that the government's reliance on the banking sector's willingness and ability to finance its needs, as well as the divisive domestic political environment and regional tensions, constitute structural weaknesses that have constrained the ratings. It added that the weakening of public institutions has weighed on economic activity and has negatively affected public finances, as reflected by the wide fiscal and current account deficits and the elevated public debt level.

S&P considered that the ratings are supported by Lebanon's external profile, as the country's liquid external assets, which consist of foreign currency reserves and the assets of the financial sector held abroad, exceed its external debt. However, it anticipated a gradual deterioration of the country's external profile, given the dependence on confidence sensitive non-resident deposit inflows to finance the wide fiscal and current account deficits. It said that the November 2017 political crisis led to about \$2.6bn in outflows, but it indicated that such outflows constitute a small share of the banking sector's deposits and were more than compensated by returning inflows, in line with trends during past episodes of political volatility.

In parallel, the agency reduced its forecast for Lebanon's real GDP growth to an average of 2.3% annually during the 2018-20 period from 3.3% previously, following the November 2017 political crisis and amid underlying structural weaknesses. It noted that the recently implemented tax measures negatively affect consumers and several economic sectors, including real estate and construction, which would weigh on consumption and investment in the country. It anticipated public and private investment to increase, in case the government implements the planned infrastructure projects under the Country Investment Program (CIP). It projected donor pledges at the upcoming Paris conference to be significantly lower than the government's proposed amounts and expected disbursements to be slow. Also, it forecast the public debt level to further increase in case public investment rises without simultaneously implementing fiscal and structural reforms.

The agency projected the current account deficit to remain wide and to average 21.5% of GDP annually during the 2018-21 period. It expected the upcoming parliamentary elections in May and the relatively higher global oil prices to support remittance inflows and tourism, especially from Lebanese expatriates in Gulf Cooperation Council countries. However, it anticipated that a higher import bill from a rebound in oil prices and the expected implementation of some investment projects will offset the rise in current account receipts. It forecast the country's overall external financing requirements at 132.6% and 141.1% of current account receipts and usable reserves in 2018 and 2019, respectively.

Further, S&P forecast the fiscal deficit to widen from 7.8% of GDP in 2017 to 10.5% of GDP in 2018 and 11.2% of GDP in 2020. It anticipated Lebanon's public finances and fiscal flexibility to remain constrained by structural expenditures, which include high transfers to the state-owned Electricité du Liban, debt servicing and the public-sector wage bill. It expected a moderate increase in capital spending in support of the CIP. Also, it projected the public debt level to grow from 139.8% of GDP in 2017 to 144.4% of GDP in 2018, and to reach 156.7% of GDP by 2021. It added that about 40% of the debt stock is denominated in foreign currency, but that non-residents hold less than 15% of the commercial debt.

Airport passengers up 10% in first two months of 2018

Figures released by the Beirut-Rafic Hariri International Airport show that 1,102,742 passengers utilized the airport (arrivals, departures and transit) in the first two months of 2018, constituting an increase of 10.1% from 1,001,694 passengers in the same period of 2017. The number of arriving passengers grew by 12.6% year-on-year to 526,810 in the first two months of 2018, compared to an increase of 1.6% in the same period of last year and to a rise of 9.7% in the first two months of 2016. Also, the number of departing passengers grew by 7.9% year-on-year to 575,399 in the first two months of 2018, relative to an increase of 1.9% in the same period of last year and to a rise of 10.2% in the first two months of 2016.

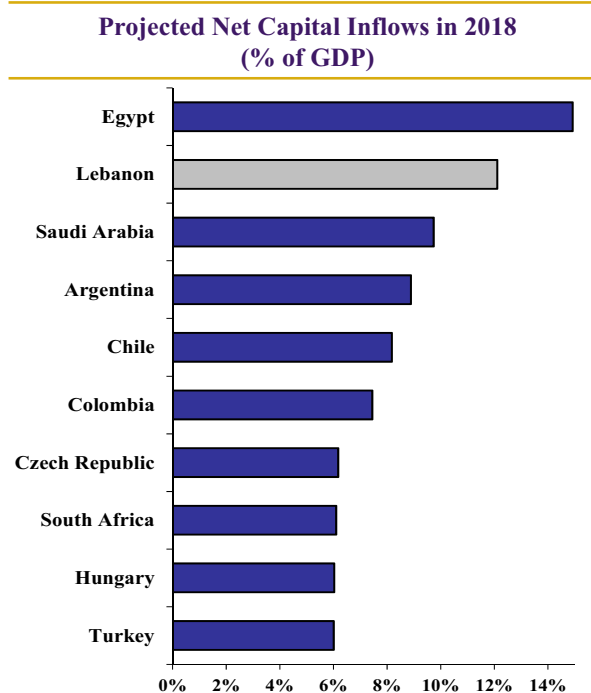
In parallel, the airport's aircraft activity was almost unchanged year-on-year at 9,938 take-offs and landings in the first two months of 2018, compared to a decline of 6.6% in the same period of 2017 and to a growth of 11.6% in the first two months of 2016. In addition, the HIA processed 13,588 metric tons of freight in the first two months of 2018 that consisted of 8,828 tons of import freight and 4,760 tons of export freight. Middle East Airlines had 3,673 flights in the first two months of 2018 and accounted for 37% of HIA's total aircraft activity.

Net private capital inflows projected at \$6.85bn in 2018

The Institute of International Finance projected non-resident net private capital inflows to Lebanon at \$6.85bn in 2018, nearly unchanged from \$6.82bn in 2017, compared to a peak of \$14bn in 2009. Lebanon would be the third smallest recipient of capital flows among 25 emerging markets, as well as the smallest among six countries in the Middle East & Africa (ME&A) region in 2018.

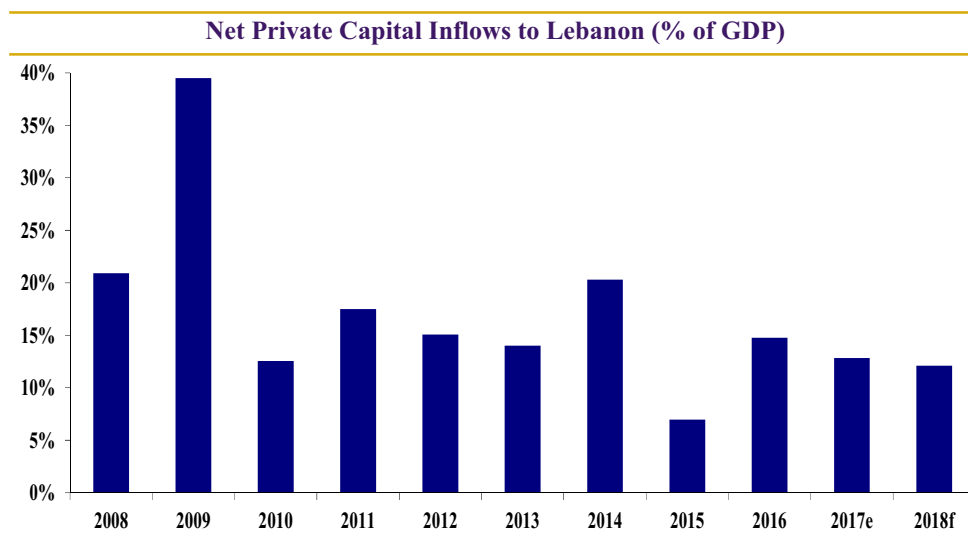
The IIF indicated that Lebanon's projected non-resident private capital inflows for 2018 include \$3.3bn in foreign direct investment (FDI), \$933m in portfolio investment and \$2.7bn in other investment inflows. It anticipated FDI inflows to rise by \$520.5m, or 19.1% from an estimated \$2.7bn in 2017; portfolio inflows to drop by \$187.2m, or 16.7% from \$1.1bn in 2017 and other investment inflows to decrease by \$298m, or 10% from \$3bn last year. Net private capital inflows to Lebanon would account for 0.5% of total net private capital inflows to emerging markets and for 4.2% of aggregate flows to ME&A economies in 2018. They would be equivalent to 12.1% of GDP in 2018, down from 12.8% of GDP in 2017, but constituting the second highest ratio among the 25 emerging markets.

In parallel, the IIF estimated net non-resident private capital inflows to Lebanon at \$6.82bn in 2017, constituting a decrease of 7.1% from \$7.34bn in 2016, and compared to flows of \$3.46bn in 2015. Net private capital inflows to Lebanon were the fourth lowest among 25 emerging markets in 2017, while they were the lowest in the ME&A region last year.



Source: Institute of International Finance, Byblos Research

Lebanon posted the second smallest decrease in net capital inflows in 2017 among six emerging markets that registered a decline in their inflows last year. The decrease in non-resident net private capital inflows to Lebanon last year reflects mainly an estimated drop of \$562.3m, or 33.4% in the inflows of portfolio investment and a decline of \$81.2m, or 2.7% in other investment flows, which were partly offset by an estimated increase of \$119.4m, or 4.6%, in foreign direct investments. Net private capital inflows to Lebanon accounted for 0.6% of total capital inflows to emerging markets and for 4.9% of aggregate flows to the ME&A region in 2017.

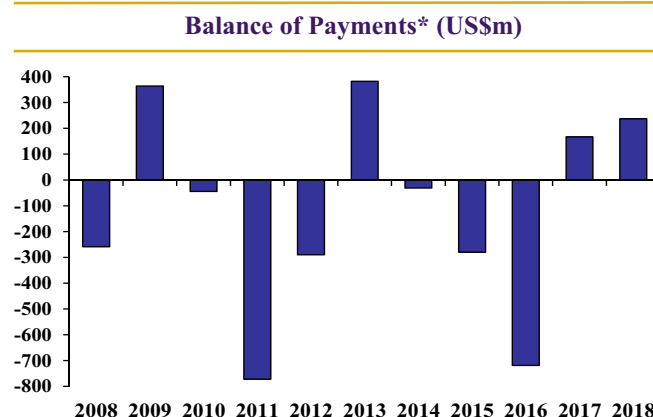


Source: Institute of International Finance, Byblos Research

Balance of payments posts surplus of \$237m in January 2018

Figures issued by Banque du Liban (BdL) show that Lebanon's balance of payments posted a surplus of \$236.9m in January 2018 compared to surpluses of \$853.8m in December 2017 and of \$166.7m in January 2017. The January 2018 surplus was caused by an increase of \$985.9m in the net foreign assets of the BdL, which was partly offset by a decline of \$749m in those of banks and financial institutions. Also, BdL indicated that it has included since November 2017 Eurobonds issued by the Lebanese government 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, \$3.4bn in 2015 and \$155.7m in 2017.

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.



* In the first month of each year

Source: Banque du Liban

Number of new construction permits down 1.4% in January 2018

The Orders of Engineers & Architects of Beirut and of Tripoli issued 1,159 new construction permits in January 2018, down by 1.4% from 1,176 permits in January 2017. In comparison, new construction permits increased by 4.9% in January 2017. Mount Lebanon accounted for 35.2% of newly-issued construction permits in January 2018, followed by the South with 22.2%, the Nabatieh area with 13.8%, the North region with 12.2%, the Bekaa area with 9.3% and Beirut with 5.1%. The remaining 2.2% were permits issued by the Order of Engineers & Architects of Tripoli for regions located outside northern Lebanon. The number of new construction permits issued for the South rose by 36% and that of permits issued for the Nabatieh area increased by 3.9% year-on-year in January 2018. In contrast, the number of new construction permits issued for the North dropped by 17.1% year-on-year in the covered month, followed by permits for Mount Lebanon (-10.5%), Beirut (-4.8%) and the Bekaa (-4.4%), while permits issued for regions located outside northern Lebanon declined by 18.8% year-on-year in January 2018.

Further, the surface area of granted construction permits reached 813,906 square meters (sqm) in January 2018, constituting a decrease of 4.1% from 848,967 sqm in January 2017. In comparison, the surface area of granted construction permits increased by 2.9% year-on-year in January 2017. Mount Lebanon accounted for 321,529 sqm, or 39.5% of the total, in the covered month. The North followed with 139,928 sqm (17.2%), then the South with 137,780 sqm (16.9%), the Nabatieh area with 72,562 sqm (8.9%), the Bekaa region with 64,587 sqm (7.9%) and Beirut with 45,302 sqm (5.6%). The remaining 32,218 sqm, or 4% 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.

Also, the surface area of new construction permits issued for the South grew by 20.5% year-on-year in the covered month, while it rose by 13.3% for the North and by 1.9% for Mount Lebanon. In contrast, the surface area of new construction permits issued for Beirut dropped by 29.8%, followed by that of permits for the Bekaa (-22.4%) and for the Nabatieh area (-4.9%). Also, the surface area of granted construction permits for regions located outside northern Lebanon fell by 55% year-on-year in January 2018. In parallel, cement deliveries totaled 5.15 million tons in 2017, constituting a decrease of 1.9% from 5.25 million tons in 2016, and relative to an increase of 4.1% in 2016.

Technical evaluation of 42 proposals for PV plants underway

The Lebanese Center for Energy Conservation (LCEC) indicated that an inter-ministerial committee has started the technical evaluation of 42 offers it received from companies to build 12 photovoltaic (PV) plants across Lebanon. It added that the committee will select 12 offers to construct three plants in each of the Bekaa & Hermel region, the South & Nabatieh area, the North & Akkar region, and in Mount Lebanon. It noted that it received 22 offers for the construction of PV plants in Bekaa & Hermel, 10 offers for the North, six offers for Mount Lebanon and four for the South. The plants will have an overall power capacity of 180 megawatts (MW), or 10MW to 15MW per plant.

The inter-ministerial committee has until April 2018 to select the 12 companies based on their qualifications and offers. The Council of Ministers will provide the final approval about the selected companies. In parallel, LCEC anticipated that the Ministry of Energy & Water will soon call on the private sector to submit proposals to build 24 new solar farms with an expected capacity of 360MW.

Trade deficit widens by 3.5% to \$1.4bn in January 2018

The total value of imports reached \$1.7bn in January 2018, constituting an increase of 6.3% from \$1.6bn in the same month of 2017; while the aggregate value of exports rose by 23.5% to \$283.4m in the covered month. As such, the trade deficit widened by 3.5% to \$1.42bn in January 2018 due to a year-on-year growth of \$101.6m in imports that was partly offset by an increase of \$54m in exports.

The value of imported oil & mineral fuels reached \$276.3m in January 2018 and accounted for 16.2% of total imports in the covered month, compared to a share of 22.6% in the same month of 2017. In volume terms, imports of oil & mineral fuels dropped by 37% to 519,663 tons in January 2018.

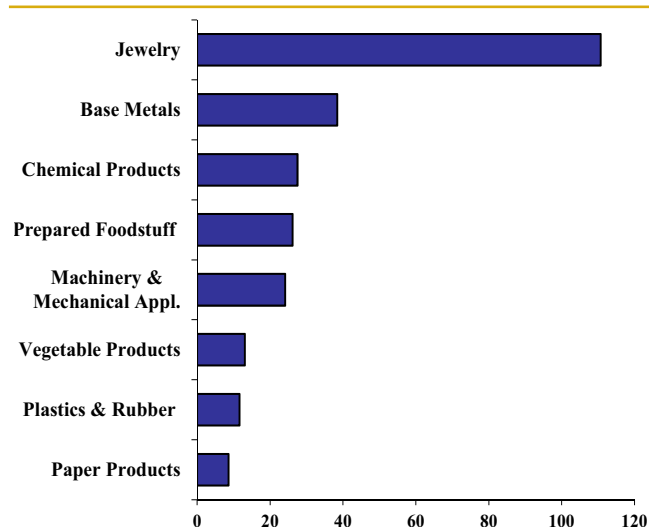
In addition, the rise in exports in January 2018 mainly reflects a growth of \$39.1m, or 54.6%, in the value of exported jewelry, a rise of \$12.4m, or 47.8%, in the value of exported base metals, and an increase of \$8.2m, or 42.1%, in the value of exported mineral products. The increase in such exports was partly offset by a drop of \$6m, or 18.7%, in the value of exported prepared foodstuff, among others. The coverage ratio was 16.6% in January 2018 compared to 14.3% in the same month of 2017.

In parallel, exports to Switzerland grew by 2.1 times year-on-year in January 2018, those to the UAE expanded by 49.2%, exports to Iraq rose by 15% and those to South Africa increased by 5.2%. In contrast, exported goods to Syria dropped by 46.1%, while those to Saudi Arabia declined by 6.3% year-on-year in the covered month. Re-exports totaled \$41.8m in January 2018 compared to \$75m in the same month of 2017. Also, the Hariri International Airport was the exit point for 46.1% of Lebanon's total exports in January 2018, followed by the Port of Beirut (40.8%), the Port of Tripoli (7.8%), the Masnaa crossing point (3.2%) and the Port of Saida (1.1%).

Lebanon's main non-hydrocarbon imports were machinery & mechanical appliances that reached \$242.6m in January 2018 and increased by 55.4% from the same month of 2017. Imports of chemical products followed at \$193.7m (+10.9%), then jewelry at \$137.2m (-7.7%), vehicles, aircraft & vessels at \$131.2m (-4.2%), base metals at \$130.3m (+59.2%), vegetable products at \$112.1m (+24.4%) and prepared foodstuff at \$111.4m (+3.8%). The Port of Beirut was the entry point for 69.6% of Lebanon's merchandise imports in January 2018, followed by the Hariri International Airport (20.3%) and the Port of Tripoli (7.9%).

China was the main source of imports with \$247m, or 14.5% of the total, in January 2018, followed by Italy with \$155.4m (9.1%), Greece with \$133m (7.8%), Germany with \$101.5m (6%), the United States with \$81.1m (4.8%) and Egypt with \$80.2m (4.7%). Imported goods from Italy grew by 80.3% year-on-year in the covered month, those from China rose by 76%, imports from Egypt increased by 11.7% and those from Germany improved by 9.5%. In contrast, imported goods the United States dropped by 30.2%, while those from Greece decreased by 14.8% year-on-year in January 2018.

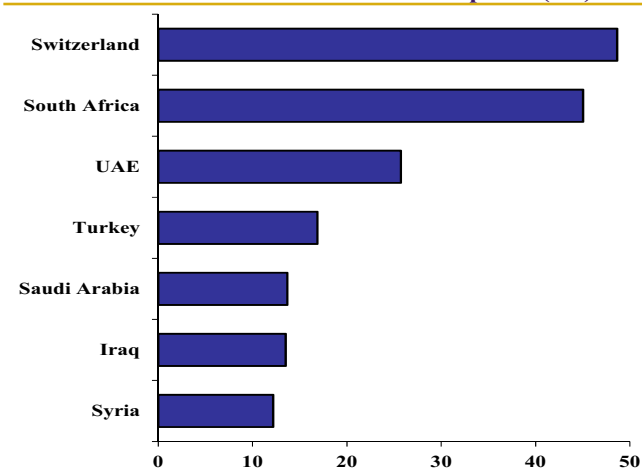
Main Lebanese Exports* (\$m)



*in January 2018

Source: Lebanese Customs Administration, Byblos Research

Main Destinations of Lebanese Exports* (\$m)



*in January 2018

Source: Lebanese Customs Administration, Byblos Research

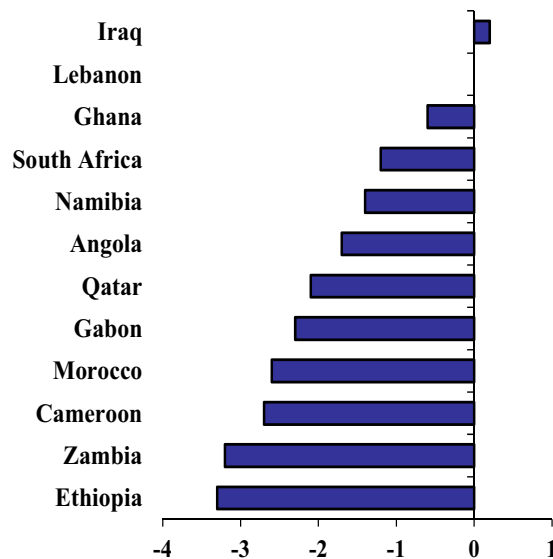
External bonds post sixth highest return in emerging markets in first two months of 2018

Figures issued by Citi Research indicate that Lebanon's external sovereign debt posted a return of zero percent in the first two months of 2018, constituting the sixth highest return among 34 emerging markets included in the Citi EM Sovereign Bond Index. Lebanon's sovereign debt return was lower than that of Belize (+4.3%), Costa Rica (+0.7%), Ukraine (+0.5%), and Iraq and Mongolia (+0.2% each).

Lebanon outperformed the overall emerging markets' return of -2.3%, the 'B'-rated sovereigns' return of -2.2% and the speculative grade sovereigns' return of -1.7% during the covered period. Also, Lebanon's sovereign debt posted the second highest return among 12 countries in the Middle East & Africa region in the first two months of 2018, behind only Iraq.

Further, Lebanon's sovereign debt posted a return of -2.7% in February 2018, constituting, along with Azerbaijan, the fourth lowest return in emerging markets during the covered month. Lebanon's sovereign debt performed better than only Ethiopia (-4.6%), Angola (-3.6%) and Zambia (-3.2%). Lebanon underperformed the emerging markets' return of -2%, the 'B'-rated sovereigns' return of -2.4% and the speculative grade sovereigns' return of -1.9% during the covered month. It also posted the fourth lowest return in the Middle East & Africa region in February 2018.

External Sovereign Debt Performance in the Middle East & Africa in First Two Months of 2018 (%)



Source: Citi Research, Byblos Research

CMA prohibits usage of cryptocurrencies by financial institutions

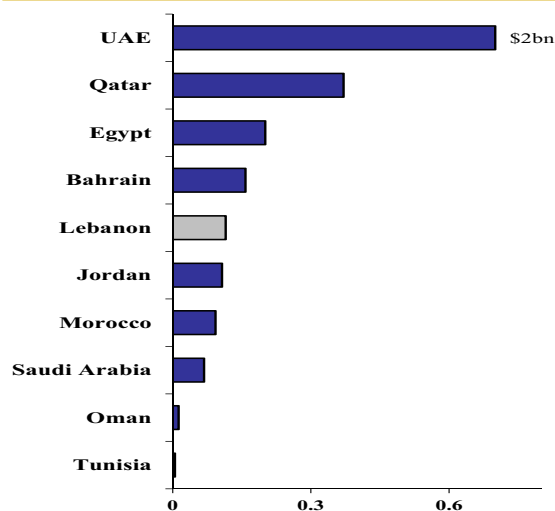
The Capital Markets Authority (CMA) published in the Official Gazette Announcement 30 on February 12, 2018 about electronic money or cryptocurrencies. The CMA prohibited licensed financial institutions in Lebanon from issuing or marketing electronic money or cryptocurrencies, as well as from trading cryptocurrencies for their own account or on behalf of other parties. It attributed its decision to several risks related to the use of electronic money, specifically the usage of Bitcoin. First, it indicated that the platforms or networks where the issuance and trading of digital currencies take place are not governed by any laws or regulations. It added that such platforms lack legal frameworks that guarantee cashing back the money that was initially used to buy the cryptocurrency. Second, it noted that digital currencies are not issued nor guaranteed by any central bank, which exposes them to high volatility in prices that can drop to zero. Third, it pointed out that digital currencies can be easily used for criminal activity, such as money laundering and the financing of terrorism. Fourth, it said that incorrect or unauthorized operations that occur from dealing with cryptocurrencies cannot be reversed. Consequently, the CMA cautioned the public from purchasing, owning or using such currencies.

M&A deals at \$115m in first two months of 2018

Financial information provider Bureau Van Dijk (BVD) indicated that the value of mergers & acquisitions (M&A) deals targeting Lebanon reached \$115m in the first two months of 2018, the fifth largest amount among 12 countries in the Middle East & North Africa (MENA) region. The value of M&A deals targeting Lebanon represented 3.7% of the MENA region's aggregate deal value of \$3.2bn in the covered period. In comparison, the value of M&A deals targeting the UAE reached \$2bn in the covered period, followed by Qatar (\$371m), Egypt (\$201m) and Bahrain (\$158m).

BVD noted that Lebanon had one M&A deal in the first two months of the year, similar to the number of deals in Qatar, Syria and Kuwait, and relative to Jordan (24 deals), the UAE (23 transactions), Egypt (17 deals), Saudi Arabia (nine transactions), Oman (six deals), Morocco (five transactions), and Bahrain and Tunisia (three deals each). The transaction in Lebanon consisted of selling the share of Saudi Arabian investment firm Kingdom Holding in the Four Season Hotel Beirut to a group of investors in January 2018. The hotel started its operations in January 2010.

Aggregate Value of M&A Deals in MENA countries (US\$bn)



Source: Bureau Van Dijk, Zephyr, Byblos Research

Banking sector assets at \$223bn at end-January 2018

The consolidated balance sheet of commercial banks operating in Lebanon shows that total assets stood at \$222.6bn at the end of January 2018, constituting an increase of 1.2% from the end of 2017 and a growth of 8.9% from end-January 2017. Loans extended to the private sector reached \$59.6bn at the end of January 2018, down by 1.2% from end-2017 and up by 4.7% from a year earlier. Loans to the resident private sector totaled \$53.8bn, constituting a decrease of 0.8% from end-2017 and a rise of 5.7% year-on-year; while credit to the non-resident private sector totaled \$5.9bn at end-January 2018 and regressed by 4.7% from end-2017 and by 4.2% from a year earlier. In nominal terms, credit to the private sector dropped by \$705.1m in January 2018 relative to a contraction of \$230.8m in the same month of 2017. Lending to the resident private sector regressed by \$417.2m in the covered month relative to a drop of \$203.6m in January 2017, while credit to the non-resident private sector decreased by \$287.9m in January 2018 compared to a drop of \$27.9m in the same month of 2017. The dollarization rate in private sector lending regressed to 70.5% at end-January 2018 from 72.3% a year earlier.

In addition, claims on non-resident banks reached \$12bn at the end of January 2018 and increased by 1.2% from \$11.83bn at the end of 2017, while claims on the public sector stood at \$31bn at end-January 2018, down by 2.9% from end-2017. The average lending rate in Lebanese pounds was 8.56% in January 2018 compared to 8.47% a year earlier, while the same rate in US dollars was at 7.74% relative to 7.26% in January 2017. Further, the deposits of commercial banks at Banque du Liban totaled \$107.4bn at the end of January 2018, constituting an increase of 22% from a year earlier.

In parallel, private sector deposits of the non-financial sector totaled \$169.1bn at the end of January 2018, increasing by 0.3% from the end of 2017 and by 3.9% from a year earlier. Deposits in Lebanese pounds reached \$53.4bn at end-January 2018, up by 1.2% from end-2017 and down by 4% year-on-year; while deposits in foreign currencies totaled \$115.8bn, nearly unchanged from end-2017 and up by 8% from end-January 2017. Aggregate non-resident deposits reached \$35.4bn at the end of January 2018, up by 0.6% from end-2017 and by 4.1% from a year earlier. In nominal terms, private sector deposits grew by \$475m in the covered month compared to an increase of \$239.5bn in January 2017. Resident private sector deposits grew by \$261.4m in January 2018 relative to a growth of \$226.9m in the same month of 2017, while non-resident deposits rose by \$214.3m in the covered month compared to a growth of \$13.3m in January 2017. Further, foreign-currency deposits decreased by \$145.9m in January 2018 relative to an increase of \$193.7m in the same month of 2017.

In parallel, deposits of non-resident banks reached \$8bn at the end of January 2018 and increased by 6.5% from end-2017 and by 24.4% from a year earlier. The dollarization rate of deposits was 68.4% at the end of January 2018, slightly down from 68.7% at end-2017 and compared to 65.8% a year earlier. Further, the average deposit rate in Lebanese pounds was 6.53% in January 2018 compared to 5.55% a year earlier, while the same rate in US dollars was 3.91% relative to 3.52% in January 2017.

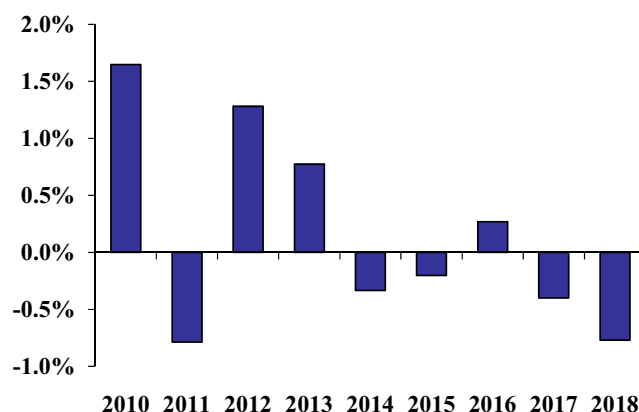
The ratio of private sector loans-to-deposits in foreign currency stood at 36.3%, well below Banque du Liban's limit of 70% and compared to 38.4% a year earlier. The same ratio in Lebanese pounds was 32.9% at end-January 2018 relative to 28.4% at the end of January 2017. As such, the ratio of total private sector loans-to-deposits reached 35.2%, nearly unchanged from 35% at end-January 2017. The banks' aggregate capital base was nearly unchanged at \$19.1bn at end-January 2018 from a year earlier.

Stock market index up by 3.5% in first two months of 2018

Figures released by the Beirut Stock Exchange (BSE) indicate that trading volume reached 10,989,778 shares in the first two months of 2018, constituting an increase of 7% from 10,273,380 shares traded in the same period of 2017; while aggregate turnover amounted to \$89.3m, up by 16.1% from a turnover of \$76.9m in the first two months of 2017. Market capitalization dropped by 5.9% from the end of February 2017 to \$11.65bn, with banking stocks accounting for 85.3% of the total, followed by real estate shares (11.7%), industrial firms (2.7%) and trading stocks (0.3%). The market liquidity ratio was 0.8% in the covered period compared to 0.6% in the first two months of 2017.

Real estate equities accounted for 47.5% of the aggregate trading volume in the first two months of the year, followed by banking stocks with 41.2%, industrial shares with 11% and trading stocks with 0.3%. Also, real estate equities represented 52.3% of the aggregate value of shares traded, followed by banking stocks with 28.7%, industrial stocks with 18.9% and trading stocks with 0.1%. The average daily traded volume for the period was 274,744 shares for an average daily value of \$2.2m. The figures reflect an increase of 1.6% in volume and a rise of 10.3% in value year-on-year in the first two months of the year. In parallel, the Capital Markets Authority's Market Value-Weighted Index for stocks traded on the BSE increased by 3.5% in the first two months of 2017, while the CMA's Banks Market Value-Weighted Index improved by 1.8% in the covered period.

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



* in the first month of each year

Source: Association of Banks in Lebanon, Byblos Research

Credit Libanais issues \$100m in subordinated debt

Credit Libanais issued \$100m in subordinated debt through the issuance of 10,000 subordinated notes worth \$10,000 each. The issuance of the notes, which took place on March 1, 2018, was approved by the bank's Ordinary General Assembly that was held on May 23, 2017. The subordinated notes are due in 2028 and carry a coupon rate of 7.75% paid annually. The bank can exercise a call option after five years of the issuance date by providing noteholders with a 30-day notice, subject to the approval of the Central Council of Banque du Liban. The bank would also need to demonstrate that its capital position exceeds the BdL's minimum capital requirements or ensure that the notes are replaced by capital with similar or better quality, in order to exercise the call option.

Credit Libanais posted audited net profits of \$57.7m in the first nine months of 2017, compared to \$52.6m in the same period of 2016. Its assets reached \$11.2bn at end-September 2017 and grew by 4.9% from end-2016; while loans & advances to customers, excluding loans & advances to related parties, totaled \$3.4bn at end-September 2017 and increased by 6% from end-2016. Also, customer deposits, excluding those from related parties, reached \$8.6bn at the end of September 2017, up by 4% from end-2016.

Gross premiums of motor insurance segment up 4% to \$362m in 2016

Figures released by the Insurance Control Commission (ICC) show that gross written premiums in the motor insurance segment reached \$362.1m in 2016 and grew by 3.6% from the previous year. The 'Non-Compulsory Motor' line accounted for 82.5% of the category's aggregate premiums and the 'Compulsory Motor' line represented 17.5% of the total. The motor insurance segment was the second-largest segment in the non-life insurance category in 2016 with a 33.3% share of total non-life premiums, behind the health insurance segment.

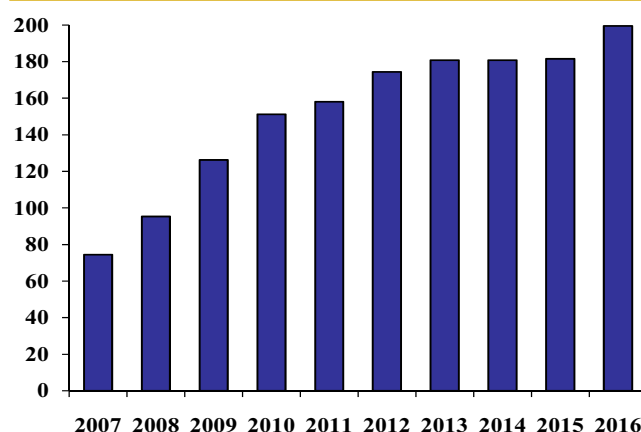
The written premiums in the 'Non-Compulsory Motor' line increased by 3.3% to \$298.7m in 2016, with the top five companies generating 41.6% of the segment's total premiums. Paid claims in the 'Non-Compulsory Motor' line grew by 11.5% to \$183.2m in 2016 and the number of claims fell by 4% to 438,411 in 2016. In parallel, the 'Non-Compulsory Motor' line posted net gains of \$55,058 in 2016, down from \$15.3m in profits in 2015.

Further, the loss ratio of the 'Third Party Liability' segment of the 'Non-Compulsory Motor' line, or the ratio of claims incurred to earned gross premiums, was 60.4% in 2016; the commission ratio, or the ratio of acquisition cost to earned gross premiums, reached 24.7%; the expense ratio, or the ratio of other general expenses to earned gross premiums, was 15.3%; and the reinsurance ratio, or the ratio of net reinsurance income to earned gross premiums, reached 2.6% in 2016. As such, the average technical combined loss ratio, which is the aggregate of the above four ratios, reached 102.9% in 2016 relative to 109.8% in 2015.

In parallel, the loss ratio of the 'Own Damage and Other Complimentary Risks' segment of the 'Non-Compulsory Motor' line was 60.5%, the commission ratio reached 26.3%, the expense ratio was 14.5% and the reinsurance ratio reached 1.4% in 2016. As such, the average combined loss ratio for the section was 102.7% in 2016 compared to 98.8% in 2015.

In addition, the written premiums in the 'Compulsory Motor' line grew by 5% to \$63.5m in 2016, with the top five companies generating premiums equivalent to about 55.9% of the line's total premiums. Paid claims in the 'Compulsory Motor' section decreased by 5.3% to \$16.4m in 2016, with the number of claims regressing by 4.1% to 6,897 in 2016. The loss ratio of the 'Compulsory Motor' line was 54.2%, the commission ratio reached 41%, the expense ratio was 12.5% and the reinsurance ratio reached -4.2% in 2016. As such, the average combined loss ratio for the line reached 103.5% in 2016, up from 103.1% in 2015. Also, the 'Compulsory Motor' line posted losses of \$2.3m in 2016 relative to losses of \$1.6m in 2015.

Motor Insurance Paid Claims (US\$m)



Source: Insurance Control Commission

Ratio Highlights

(in % unless specified)	2015	2016	2017e	Change*
Nominal GDP (\$bn)	49.5	49.7	53.1	
Public Debt in Foreign Currency / GDP	54.7	56.6	57.2	0.65
Public Debt in Local Currency / GDP	87.4	94.1	92.5	(1.59)
Gross Public Debt / GDP	142.1	150.7	149.8	(0.95)
Total Gross External Debt / GDP	175.8	183.9	185.6	1.70
Trade Balance / GDP	(30.5)	(31.6)	(38.2)	(6.56)
Exports / Imports	16.3	15.9	12.3	(3.61)
Fiscal Revenues / GDP	19.4	20.0	21.5	1.50
Fiscal Expenditures / GDP	27.4	29.9	29.1	(0.80)
Fiscal Balance / GDP	(8.0)	(9.9)	(7.6)	2.30
Primary Balance / GDP	1.0	(0.4)	1.9	-
Gross Foreign Currency Reserves / M2	58.7	62.2	68.2	5.98
M3 / GDP	249.7	267.2	260.6	(6.59)
Commercial Banks Assets / GDP	375.7	411.1	414.0	2.95
Private Sector Deposits / GDP	306.2	327.0	317.6	(9.32)
Private Sector Loans / GDP	109.5	115.0	113.6	(1.46)
Private Sector Deposits Dollarization Rate	64.9	65.8	68.7	2.88
Private Sector Lending Dollarization Rate	74.8	72.6	71.0	(1.61)

*Change in percentage points 16/17

**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	Jul 2016	Jun 2017	Jul 2017	Change**	Risk Level
Political Risk Rating	55.0	55.5	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	61.0	58.0	58.0	▲	High

MENA Average*	Jul 2016	Jun 2017	Jul 2017	Change**	Risk Level
Political Risk Rating	57.5	57.9	57.9	▼	High
Financial Risk Rating	38.8	38.8	37.9	▲	Low
Economic Risk Rating	29.7	30.6	30.7	▼	Moderate
Composite Risk Rating	63.0	63.6	63.2	▼	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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