

## LEBANON THIS WEEK

### In This Issue

<b>Economic Indicators.....</b>	<b>1</b>
<b>Capital Markets.....</b>	<b>1</b>
<b>Lebanon in the News.....</b>	<b>2</b>

Lebanon's net wealth per capita at \$65,148, 73rd highest worldwide and ninth highest in MENA region

Occupancy rate at Beirut hotels at 64%, room yields up 15% in 2017

Opened letters of credit at \$5.7bn for imports and \$3.2bn for exports in 2017

External debt posts 12th highest return in emerging markets in first two months of 2018

Banque du Liban asks banks to compute Liquidity Coverage Ratio

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

Lebanese passport holders can travel to 38 countries and territories worldwide without a visa

Lebanon ranks 104th globally, third among Arab countries on democracy index

Treasury transfers to Electricité du Liban up 51.5% to \$1.1bn in first 10 months of 2017

Lebanon represented in Forbes magazine's list of world billionaires

### Corporate Highlights .....8

Kafalat loan guarantees down 14% to \$10m in first two months of 2018

Fitch takes action on BankMed's Turkish subsidiary

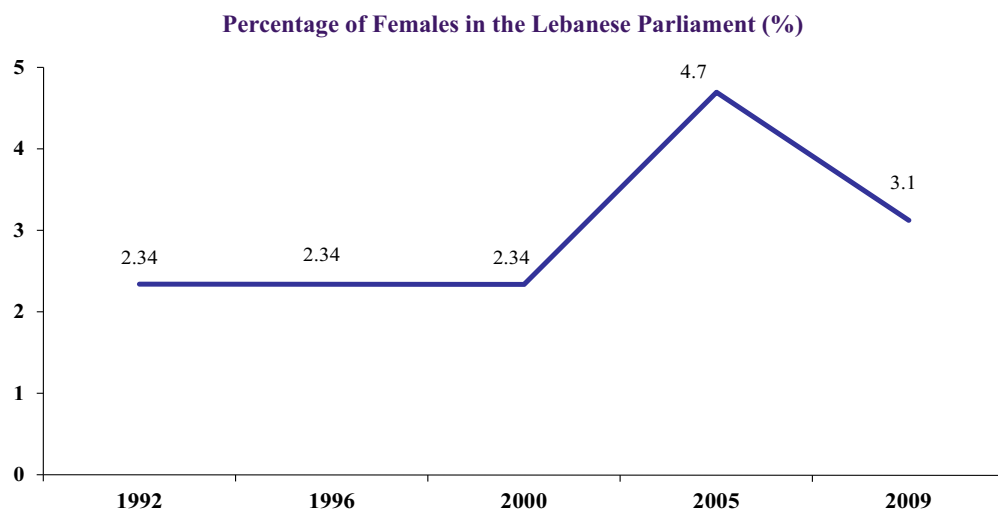
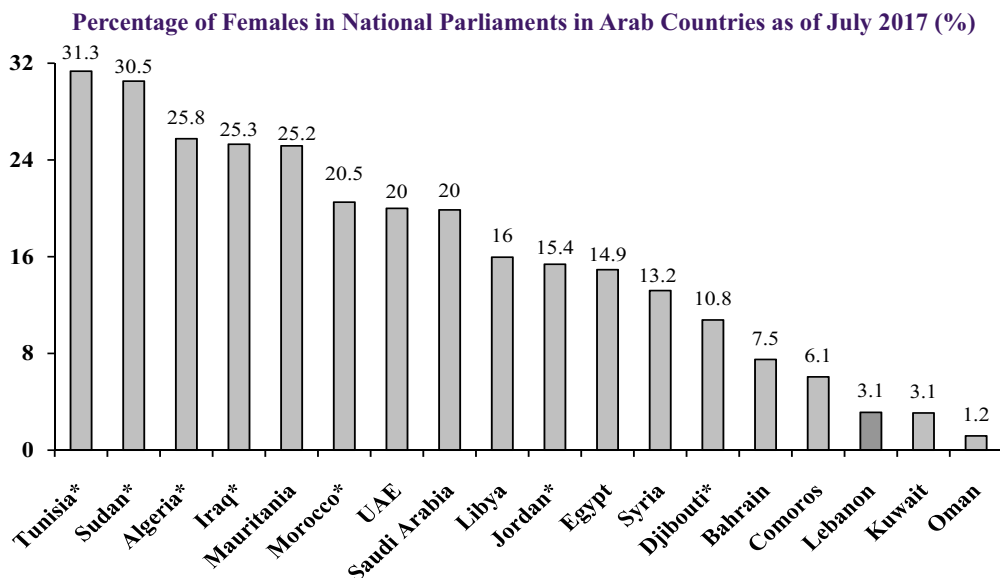
Insurers' return on investment at 5% and return on equity at 12.8% in 2016

### Ratio Highlights.....9

### Risk Outlook .....9

### Ratings & Outlook.....9

### Charts of the Week



\*Quota system in place to reserve number of seats for females in parliament

Source: United Nations Economic and Social Commission for West Asia, Byblos Bank

### Quote to Note

“The electricity sector has not only been widely identified as Lebanon’s most pressing bottleneck, but it also remains a significant drain on the budget.”

*The International Monetary Fund, on the urgent need to reform the electricity sector*

### Number of the Week

**11.4%:** Percentage of female candidates to the upcoming parliamentary elections in Lebanon

## Lebanon in the News

<b>\$m</b> (unless otherwise mentioned)	<b>2016</b>	<b>Oct 2016</b>	<b>Jul 2017</b>	<b>Aug 2017</b>	<b>Sep 2017</b>	<b>Oct 2017</b>	<b>% Change*</b>
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

<b>\$bn</b> (unless otherwise mentioned)	<b>2016</b>	<b>Oct 2016</b>	<b>Jul 2017</b>	<b>Aug 2017</b>	<b>Sep 2017</b>	<b>Oct 2017</b>	<b>% Change*</b>
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

<b>Most Traded Stocks on BSE</b>	<b>Last Price (\$)</b>	<b>% Change*</b>	<b>Total Volume</b>	<b>Weight in Market Capitalization</b>	<b>Sovereign Eurobonds</b>	<b>Coupon %</b>	<b>Mid Price \$</b>	<b>Mid Yield %</b>
Audi Listed	6.00	0.00	502,876	20.58%	Nov 2018	5.15	99.50	5.91
Solidere "A"	8.21	(0.97)	186,329	7.04%	May 2019	6.00	99.50	6.43
Solidere "B"	8.12	(1.58)	90,043	4.53%	Mar 2020	6.38	99.25	6.78
BLOM GDR	12.39	(0.24)	87,159	7.86%	Oct 2022	6.10	96.63	6.98
Byblos Common	1.61	(0.62)	15,818	7.81%	Jun 2025	6.25	93.50	7.42
BLOM Listed	11.85	(0.42)	5,100	21.86%	Nov 2026	6.60	93.50	7.63
HOLCIM	14.56	(1.29)	2,684	2.44%	Feb 2030	6.65	89.88	7.98
Byblos Pref. 09	102.50	(0.10)	104	1.76%	Apr 2031	7.00	91.75	8.03
Audi GDR	5.80	0.00	-	5.97%	Nov 2035	7.05	91.00	8.01
Byblos Pref. 08	102.10	0.00	-	1.75%	Mar 2037	7.25	91.63	8.12

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

Source: Byblos Bank Capital Markets

	<b>Mar 5-9</b>	<b>Feb 26-Mar 2</b>	<b>% Change</b>	<b>February 2018</b>	<b>February 2017</b>	<b>% Change</b>
<b>Total shares traded</b>	1,083,523	2,282,280	(52.5)	5,480,337	3,077,394	78.1
<b>Total value traded</b>	\$6,966,383	\$6,111,974	14	\$43,415,304	\$30,071,143	44.4
<b>Market capitalization</b>	\$11.65bn	\$11.68bn	(0.19)	\$11.65bn	\$12.38bn	(5.9)

Source: Beirut Stock Exchange (BSE)



### Lebanon's net wealth per capita at \$65,148, 73rd highest world-wide and ninth highest in MENA region

The World Bank estimated Lebanon's wealth per capita at \$65,148, the 73rd highest among 141 countries worldwide and the ninth highest out of 16 countries in the Middle East & North Africa (MENA) region. Lebanon's wealth per capita was the eighth lowest among 38 upper middle-income countries (UMICs) included in the survey. The World Bank broadened the measures used to assess a country's economic progress by including wealth as a complementary indicator to gross domestic product (GDP). It measured the national wealth of 141 countries based on four asset categories that are human capital, produced capital & urban land, natural capital, and net foreign assets.

Lebanon had a higher level of national wealth per capita than Thailand (\$62,599), Ukraine (\$56,053) and Albania (\$53,107), while it had a lower level of wealth than South Africa (\$77,348), Jamaica (\$71,766) and the Republic of Congo (\$68,779) among economies with a GDP of \$10bn or more. Lebanon came ahead of only Thailand, Albania, Macedonia (\$52,210), Turkey (\$45,998) and Bosnia & Herzegovina (\$40,486) among UMICs.

Lebanon's wealth per capita was lower than the global level of \$168,580 per capita, the wealth level of \$158,892 per capita in the MENA region and the UMIC's level of \$112,798 per capita, while it was higher than the wealth level of \$48,495 per capita among low- and middle-income countries in the MENA region.

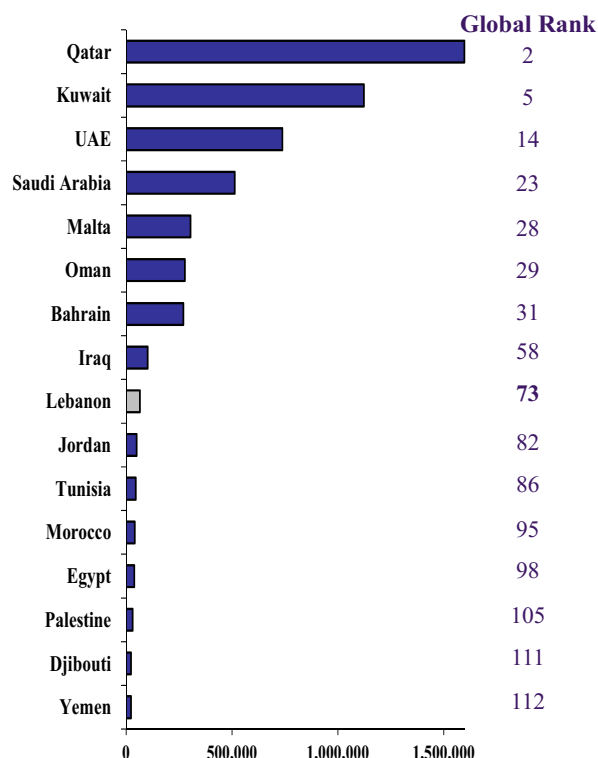
The World Bank estimated Lebanon's human capital at \$42,153 per capita in 2014, the largest component of the country's wealth. It calculates human capital as the present value of a person's future earnings. Lebanon's human capital per capita was higher than in Jamaica, Peru and Thailand, and lower than in Turkmenistan, Botswana and South Africa. It was lower than that of only Qatar, the UAE, Kuwait, Malta, Bahrain, Saudi Arabia and Oman in the MENA region.

Further, the World Bank estimated Lebanon's produced capital & urban land at \$31,015 per capita. This category includes machinery, buildings, equipment and residential & non-residential urban land. Globally, Lebanon's produced wealth per capita was higher than in Panama, Jamaica and Malaysia, and lower than in Belarus, Mauritius and Brazil. Lebanon's produced wealth per capita was lower than that of Qatar, the UAE, Bahrain, Malta, Kuwait, Saudi Arabia and Oman in the MENA region.

In addition, the World Bank estimated Lebanon's natural capital at \$4,131 per capita, of which 65.6% is cropland and 31.4% is pastureland. Natural capital is calculated as the discounted sum of the value of the rents generated over the lifetime of assets, such as energy, minerals, agricultural land and terrestrial protected areas. Lebanon ranked ahead of only South Korea, Senegal, Japan, Sri Lanka, Mauritius, Bangladesh, Malta and Singapore worldwide. It came ahead of only Malta in the MENA region.

Finally, the World Bank estimated Lebanon's net foreign position at -\$12,151 per capita in 2014. Net foreign assets are the difference between a country's external assets and liabilities. Lebanon ranked ahead of only the U.S., Portugal, Greece, Spain, Australia, Ireland and Iceland globally.

Net Wealth Per Capita in MENA Countries (US\$)



Source: World Bank, Byblos Research

Components of the Lebanon's Wealth Per Capita

	Global Rank	MENA Rank	UMICs Rank	Lebanon Value	Global Value	UMICs Value	MENA Value
Produced Capital & Urban Land	54	8	14	\$31,015	\$44,760	\$28,527	\$23,984
Natural Capital	128	15	36	\$4,131	\$15,841	\$18,960	\$70,137
Human Capital	65	8	25	\$42,153	\$108,654	\$65,742	\$54,871
Net Foreign Assets	134	16	38	(\$12,151)	(\$676)	(\$432)	\$9,900

Source: World Bank, Byblos Research

### Occupancy rate at Beirut hotels at 64%, room yields up 15% in 2017

EY's benchmark survey of the hotel sector in the Middle East indicated that the average occupancy rate at hotels in Beirut was 63.7% in 2017, up from 59.4% in 2016 and compared to an average rate of 62.2% in 14 Arab markets included in the survey. The occupancy rate at Beirut hotels, along with that in Jeddah, was the sixth highest in the region in 2017, while it was the sixth lowest in 2016. Also, the occupancy rate at hotels in Beirut improved by 4.3 percentage points year-on-year, constituting the fourth largest increase among the 14 Arab markets, behind Kuwait (+7.3 percentage points), Cairo (+5.5 percentage points) and Muscat (+4.4 percentage points). In comparison, the average occupancy rate in Arab markets grew by 1.5% in 2017. Occupancy rates at Beirut hotels were 56.7% in January, 66.7% in February, 62% in March, 68.8% in April, 70% in May, 45.3% in June, 74.9% in July, 68.7% in August, 74.1% in September, 68.3% in October, 54.4% in November and 54.3% in December 2017. In comparison, occupancy rates at Beirut hotels were 55.7% in January, 57% in February, 51.1% in March, 55.6% in April, 66.8% in May, 44.1% in June, 65.3% in July, 63% in August, 71.5% in September, 54.8% in October, 65.6% in November and 62.9% in December 2016.

Hotel Sector Performance in of 2017			
	Occupancy Rate (%)	RevPAR (US\$)	RevPAR % change
Dubai	77.7	189	(6)
Jeddah	63.7	170	(15)
Madina	49.1	147	9
Riyadh	60.7	129	(7)
Ras Al Khaimah	74.5	118	2
Kuwait City	50.1	117	14
Muscat	70	114	(6)
Doha	59.3	104	(14)
Manama	51.1	100	(10)
<b>Beirut</b>	<b>63.7</b>	<b>96</b>	<b>15</b>
Abu Dhabi	77.1	93	(3)
Makkah	55.5	92	(15)
Amman	49.4	70	(10)
Cairo City	68.9	58	78

Source: EY, Byblos Research

The average rate per room at Beirut hotels was \$151 in 2017, ranking the capital's hotels as the fourth least expensive in the region, relative to Cairo (\$85), Abu Dhabi (\$120) and Amman (\$142). The average rate per room at Beirut hotels increased by 6.9% in 2017. Beirut, along with Cairo and Makkah, were the only markets to post an increase in their average rate per room last year. The average rate per room in Beirut came below the regional average of \$186.5 that regressed by 3.5% from 2016.

Further, revenues per available room (RevPAR) were \$96 in Beirut in 2017, up from \$84 in 2016. They were the fifth lowest in the region relative to Cairo (\$58), Amman (\$70), Riyadh (\$92) and Abu Dhabi (\$93). However, Beirut's RevPAR grew by 14.5% year-on-year and posted the second highest increase, behind Cairo (+77.7%). Beirut posted RevPARs of \$82 in January, \$91 in February, \$86 in March, \$102 in April, \$101 in May, \$73 in June, \$127 in July, \$111 in August, \$123 in September, \$101 in October, \$72 in November and \$84 in December 2017. In comparison, RevPAR at hotels in Beirut were \$79 in each of January and February, \$68 in March, \$72 in April, \$95 in May, \$55 in June, \$97 in July, \$91 in August, \$107 in September, \$75 in October, \$88 in November and \$97 in December 2016. Makkah posted the highest average rate per room in the region at \$300, while Dubai posted the highest occupancy rate at 77.7% and the highest RevPAR at \$189 in 2017.

### Opened letters of credit at \$5.7bn for imports and \$3.2bn for exports in 2017

Figures released by Banque du Liban indicate that the value of letters of credit (LCs) opened to finance imports to Lebanon totaled \$5.7bn in 2017, unchanged from the previous year. The value of LCs opened to finance imports to Lebanon reached \$1.8bn in the first quarter, \$1.37bn in the second quarter, \$1.23bn in the third quarter and \$1.3bn in the fourth quarter of 2017. Further, utilized credits for imports reached \$5.76bn last year, up by 8.3% from \$5.3bn in 2016. They totaled \$2.05bn in the first quarter, \$1.4bn in the second quarter, \$1.17bn in the third quarter and \$1.13bn in the fourth quarter of 2017. Also, outstanding import credits stood at \$1.04bn at the end of 2017 compared to \$1.35bn a year earlier. In addition, the aggregate value of inward bills for collection reached \$1.3bn in 2017, constituting an increase of 11.8% from \$1.2bn in 2016. The value of inward bills for collection totaled \$539.8m in the first quarter, \$253.7m in the second quarter, \$259m in the third quarter and \$370.7m in the fourth quarter of 2017. The outstanding value of inward bills for collection reached \$75.5m at the end of 2017 relative to \$145.7m at end-2016.

In parallel, the value of documentary LCs opened to finance exports from Lebanon reached \$3.2bn in 2017, constituting an increase of 86.5% from \$1.73bn in the previous year. It totaled \$1.1bn in the first quarter, \$682.2m in the second quarter, \$733.3m in the third quarter and \$702.4m in the fourth quarter of 2017. Further, utilized credits for exports reached \$3.3bn last year, up by 79% from \$1.84bn of used credits in 2016. They totaled \$872m in the first quarter, \$1.15bn in the second quarter, \$579.4m in the third quarter and \$690.5m in the fourth quarter of 2017. Also, outstanding export credits stood at \$869.5m at the end of 2017 compared to \$722.6m at end-2016. The aggregate value of outward bills for collection amounted to \$1.57bn last year, constituting an increase of 3.7% from \$1.52bn in 2016. They reached \$361.5m in the first quarter, \$641.7m in the second quarter, \$287.3m in the third quarter and \$281.1m in the fourth quarter of 2017. The outstanding value of outward bills for collection reached \$396.7m at the end of 2017 relative to \$721.1m at end-2016.

### External debt posts 12th highest return in emerging markets in first two months of 2018

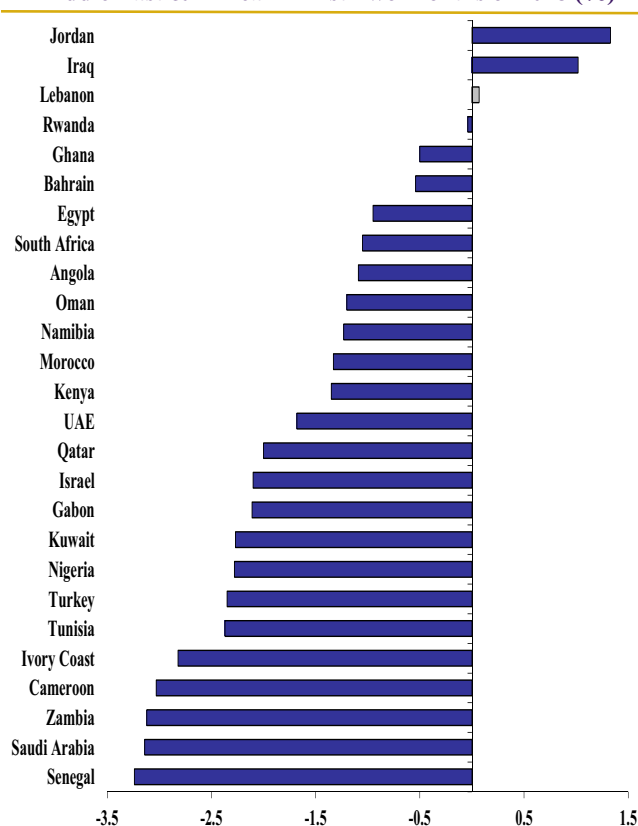
Figures issued by Intercontinental Exchange, Inc. (ICE) indicate that Lebanon's external debt posted a return of 0.07% in the first two months of 2018, constituting the eighth highest return among 44 markets in the Central & Eastern Europe and the Middle East & Africa (CEEMEA) region, as well as the 12th highest return among 76 emerging markets included in ICE's External Debt EM Sovereign Index. Lebanon outperformed the overall emerging markets' return of -2% during the covered period. Also, Lebanon's external debt posted the third highest return among 26 countries in the Middle East & Africa region in the first two months of the year.

Further, Lebanon's external debt posted a return of -2.64% in February 2018, constituting the seventh lowest return in the CEEMEA region, and the 13th lowest in emerging markets during the covered month. Lebanon underperformed the emerging markets' return of -1.73% in February 2018. It also posted the fifth lowest return in the Middle East & Africa region during the covered month.

In parallel, ICE indicated that the option-adjusted spread on Lebanese Eurobonds was 467 basis points at the end of February 2018 compared to 404 basis points at end-February 2017. The spread on Lebanese Eurobonds was the second widest in the CEEMEA region and the sixth widest among emerging markets. It was wider than the emerging markets' overall spread of 221 basis points at the end of February 2018.

Lebanon has a weight of 2.34% on ICE's External Debt EM Sovereign Index, the sixth largest weight in the CEEMEA universe and the 12th largest among emerging economies. Lebanon accounted for 4.4% of allocations in the CEEMEA region.

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



Source: ICE, Byblos Research

### Banque du Liban asks banks to compute Liquidity Coverage Ratio

Banque du Liban (BdL) issued Basic Circular 145 on March 8, 2018 about the Liquidity Coverage Ratio (LCR) at commercial banks. The circular asks banks to keep an LCR that reflects their internal assessment of liquidity risk and that is in line with their liquidity risk profile. It said that the LCR applies to the banks' financial statements for their operations in Lebanon, as well as to the individual financial statements of their foreign branches and subsidiaries. Also, it noted that the LCR must exceed 100% for each "significant currency" for the banks. It defines a "significant currency" as a currency that represents 5% or more of a bank's liabilities.

Further, the circular defines the LCR as the ratio of the stock of high quality liquid assets (HQLA) over the total net cash outflows in the next 30 calendar days. It noted that the HQLA is the total unencumbered assets that are low risk and that are quickly convertible to cash with a small loss of value and without an impact on the bank's profitability and solvency, among other characteristics. It added that the stock of HQLA excludes the statutory reserve requirements and mandatory placements with BdL, as well as reserve requirements and mandatory placements with the central bank of the host country for overseas subsidiaries.

In parallel, the circular asks banks to use different scenarios when calculating the LCR in order to better manage and assess their liquidity position, such as using net cash outflows over the next 90 days. It also asks banks to set internal liquidity limits that ensure the sound management and monitoring of risk liquidity at the level of each subsidiary and of the banking group, as well as to conduct stress tests and examine their impact on the existing liquidity ratios.

In case the LCR falls below 100% for any significant currency, whether at the level of the banks' operations in Lebanon or at their foreign subsidiaries, the banks have to inform the Banking Control Commission of Lebanon within one week from the date of the breach. It added that banks have to prepare a plan to comply again with the required threshold, along with the necessary timeframe.



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

In its semi-annual risk assessment of 115 banking systems in advanced and emerging economies, Fitch Ratings placed Lebanon's banking sector among 92 banking systems with a "low level of potential vulnerability", the highest category on Fitch's Macro-Prudential Indicator (MPI). The MPI identifies the build-up of potential stress in banking systems due to a specific set of circumstances. It aims to highlight potential systemic stress that could materialize up to three years after an early warning is first detected. As such, it identifies instances of rapid real credit growth over successive two-year periods, along with growth in real property prices, an appreciation in the real exchange rate or a rise in real equity prices. Its assessment is based on three years of annual data, with a trigger in any of the three years determining a country's MPI score. It said that an MPI score of '1' denotes low potential vulnerability, while a score of '2' reflects moderate vulnerability and a score of '3' denotes a high level of vulnerability to potential systemic stress.

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

In parallel, the agency indicated that Lebanon's banking sector was among 15 banking systems that have a Banking System Indicator (BSI) of 'b'. The BSI is a measure of intrinsic banking system quality or strength, derived from Fitch's Viability Ratings for banks. It deliberately excludes potential support from shareholders or governments since the objective is to highlight systemic weaknesses that might trigger the need for such support. The BSI is an asset-weighted average of bank Viability Ratings for at least two-thirds of banks in any banking system, including systemically important unrated banks.

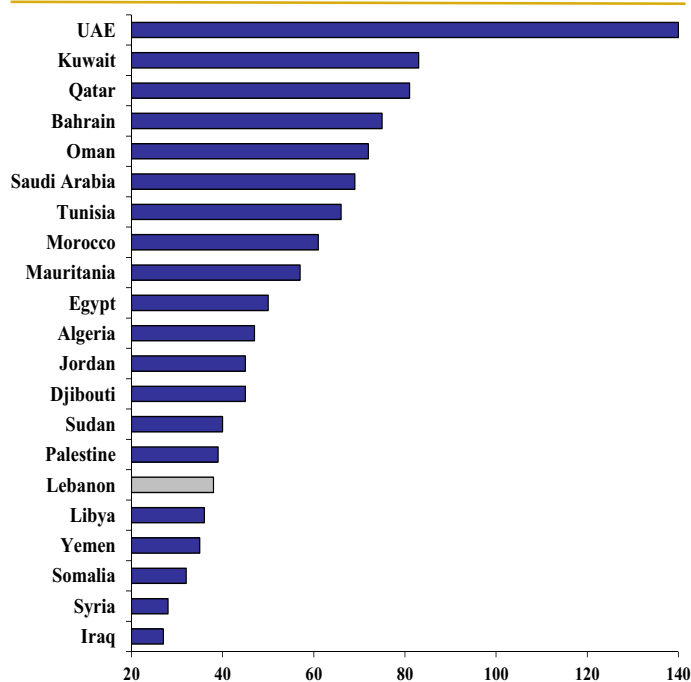
Lebanon came in the 'b' category, along with Egypt and Nigeria in the Middle East & Africa region, as well as Armenia, the Dominican Republic, Ecuador, Kazakhstan, Sri Lanka and Vietnam, among others. Fitch said that 62% of banking systems in developed countries have BSIs of 'a' or higher. It added that only four banking sectors in developed economies have a BSI of 'aa' and only one sector has a BSI of 'ccc' or lower. Also, it indicated that the typical level of banking strength in emerging markets is weaker and is distributed evenly across the 'bbb', 'bb' and 'b' categories, with only two banking sectors in the 'a' category and two sectors in the 'ccc' or lower categories. Lebanon, Argentina, Armenia, Belarus, Cyprus, the Dominican Republic, Ecuador, El Salvador, Kazakhstan, Mongolia, Nigeria and Ukraine are the only countries with an MPI score of '1' and a BSI strength of 'b'.

### Lebanese passport holders can travel to 38 countries and territories worldwide without a visa

The 2018 Henley & Partners Visa Restrictions Index ranked Lebanon in 187th place among 199 countries and territories worldwide and in 16th place among 21 Arab countries. Lebanon ranked in 185th place globally and in 14th place among Arab countries on the 2017 index and in 181st place globally and in 14th place among Arab countries on the 2016 index. The index ranks countries according to the number of countries and territories that their citizens can access without a visa. According to Henley & Partners, the global rankings reflect the international freedom of travel for the passport holders of various nations.

The survey indicated that holders of Lebanese passports can travel to 38 countries and territories worldwide without a visa as of February 13, 2018, compared to 37 countries and territories in 2017 and relative to 39 in 2016. The number of countries that Lebanese citizens can access without a visa is similar to that of Bangladesh, Iran and Kosovo. Globally, Lebanon ranked ahead of only Eritrea (37 destinations), Libya and Nepal (36 destinations each), Yemen (35 destinations), Somalia (32 destinations), Pakistan (30 destinations), Syria (28 destinations), Iraq (27 destinations) and Afghanistan (24 destinations). Japan and Singapore ranked in first place globally, as citizens of the two countries can access 180 destinations without a visa, while the UAE came in first place regionally with visa-free access to 140 destinations worldwide.

Number of Visa-Free Destinations per Country in 2018



Source: Henley & Partners, Byblos Research

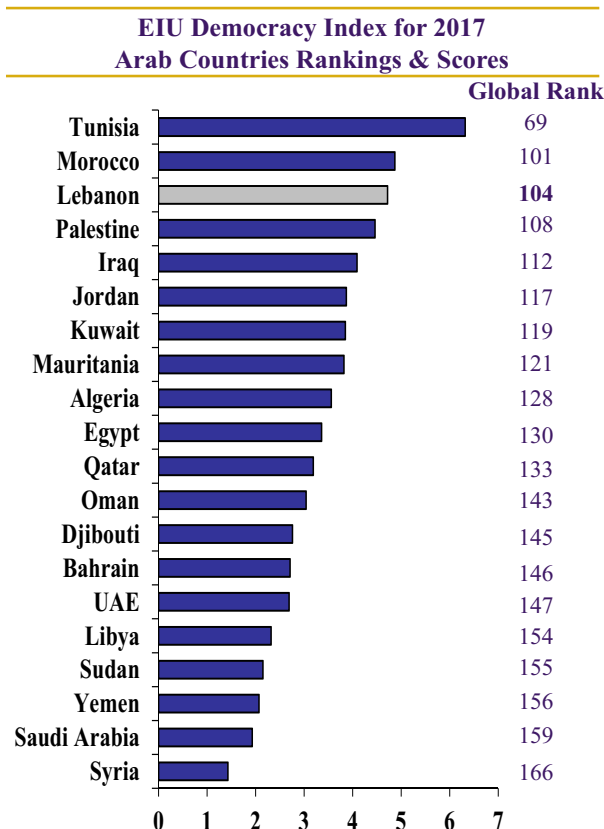
### Lebanon ranks 104th globally, third among Arab countries on democracy index

The Economist Intelligence Unit's 2017 Democracy Index ranked Lebanon in 104th place among 167 countries worldwide and in third place among 20 Arab countries. Lebanon's global rank dropped by two spots and its regional rank regressed by one notch from the 2015 and 2016 surveys. The index measures 60 indicators that are grouped in five categories that are Electoral Processes & Pluralism, Civil Liberties, the Functioning of Government, Political Participation, and Political Culture. Each category is rated on a scale from zero to 10, with the overall index calculated as a simple average of the five sub-indices. The survey also placed countries in four categories of political freedoms that are full democracies, flawed democracies, hybrid regimes and authoritarian regimes.

Globally, Lebanon has a more democratic system than Sierra Leone, Nicaragua and Thailand, but is considered to be less democratic than Morocco, Bosnia & Herzegovina and Burkina Faso. Lebanon received a score of 4.72 points, below the global average of 5.48 points. Lebanon's score declined by 2.9% from its score of 4.86 points in each of the 2015 and 2016 surveys. Lebanon, along with Iraq, Morocco and Palestine, came in the "Hybrid Regimes" category, and Tunisia was the only Arab country to qualify as a "Flawed Democracy", while the rest of the Arab countries were classified as having "Authoritarian" regimes.

Lebanon tied with Guinea and Kenya, ranked ahead of Nicaragua and Kuwait, and came behind Jordan and Egypt on the Electoral Process & Pluralism Sub-Index, which measures the degree of freedom, fairness and transparency of elections. Regionally, Lebanon trailed only Tunisia, Morocco, Iraq, Palestine, Jordan and Egypt on this sub-index.

Also, Lebanon tied with Liberia, ranked ahead of Palestine and the Republic of Congo, and came behind Laos and Saudi Arabia on the Functioning of Government Sub-Index. It ranked ahead of only Palestine, Algeria, Djibouti, Sudan, Libya, Iraq, Yemen and Syria in the region. Finally, Lebanon tied with Madagascar, Niger, Pakistan and Tanzania, ranked ahead of Nigeria and Morocco, and came behind Kyrgyzstan and Burkina Faso on the Civil Liberties Sub-Index. Lebanon trailed only Tunisia among Arab countries.



Source: Economist Intelligence Unit, Byblos Research

### Components of the 2017 Democracy Index for Lebanon

	Global Rank	Arab Rank	UMICs Rank	Lebanon Score	Global Average Score	Arab Average Score	UMICs Average Score
Political Participation	21	3	2	7.22	5.15	4.08	5.29
Civil Liberties	103	2	29	4.71	5.80	3.15	5.84
Electoral Process & Pluralism	119	7	30	3.50	5.90	2.05	5.78
Political Culture	58	2	8	5.63	5.62	4.78	5.09
Functioning of Government	132	12	35	2.57	4.91	2.74	4.65

Source: Economist Intelligence Unit, Byblos Research

### Treasury transfers to Electricité du Liban up 51.5% to \$1.1bn in first 10 months of 2017

Figures released by the Finance Ministry show that Treasury transfers to Electricité du Liban (EdL) totaled \$1.08bn in the first 10 months of 2017, constituting an increase of 51.5% from \$712.6m 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 \$1.04bn, or 94.5% of transfers, in the covered period. It added that transfers to Electricity Syria stood at \$28.8m, or 2.7% of total transfers, while EdL's debt servicing represented the balance of \$9.7m, or 0.9% of the total. It attributed the rise in transfers mainly to an increase of \$341.4m, or 48.8%, in payments to KPC and Sonatrach in the first 10 months of 2017. Also, in September 2017, Lebanon started paying for its electricity imports from Syria. In contrast, debt servicing decreased by \$3.5m or 26.6%, in the first 10 months of 2017.

The ministry said that the rise in payments to KPC and Sonatrach reflects a 22.7% year-on-year increase in oil prices at the time the oil contracts were executed, and a rise of 21.2% in the quantity of imported fuel oil, which were partly offset by a decrease of 9.3% 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 10 months of 2017, down from 6.6% in the same period of 2016. EdL transfers accounted for 13.4% of primary expenditures in the first 10 months of 2017, compared to 9% 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.

### Lebanon represented in *Forbes* magazine's list of world billionaires

*Forbes* magazine's annual survey of the world's billionaires for 2018 included seven persons from Lebanon, up from four Lebanese in the 2017 survey. The list included four family members of the late Prime Minister Rafiq Hariri, two members of the Mikati family and one member from the Mouawad family. The survey ranked Mr. Taha Mikati in 859th place with a net worth of \$2.8bn in the 2018 list, and Former Prime Minister Najib Mikati in 887th place with an estimated net fortune of \$2.7bn. Mr. Bahaa Hariri followed in 1157th place, down from 939th place in 2017, with a net wealth of \$2.1bn relative to \$2.2bn in last year's survey. Further, Mr. Robert Mouawad ranked in 1477th place, down from 1290th place in the 2017 survey, with an estimated net worth of \$1.6bn, unchanged from last year's survey. Three other members of the Hariri family were included in this year's list after being excluded from the 2017 list. Prime Minister Saad Hariri ranked in 1561st place with an estimated net fortune of \$1.5bn, while his brothers, Mr. Ayman Hariri and Mr. Fahd Hariri, each ranked in 1756th place with a net worth of \$1.3bn each. The survey ranks individuals according to their assets, including stakes in public and private companies, real estate, art and cash.

In parallel, *Forbes* indicated that the Mikati brothers founded the telecommunications firm Investcom in 1982 and sold most of their stake to South Africa's MTN Group in 2006 for \$3.6bn in cash and stocks, but they still own 10% of MTN through their holding company M1 Group. The Beirut-based M1 Group has also investments in real estate, jet leasing, apparel and food distribution. In addition, it said that Mr. Bahaa Hariri has massive investments in Jordan and his real estate holding company Horizon Group helped develop, in partnership with the Jordanian government, part of downtown Amman into a new commercial and residential area. He is also a majority owner of Globe Express Services, a logistics company. Also, it indicated that Mr. Robert Mouawad expanded his family business in jewelry manufacturing and currently has around 20 stores in the Middle East, Asia, Switzerland and the United States. He is also the owner of the Robert Mouawad Real Estate Group and has developed luxury residences on a man-made island in Bahrain. Further, *Forbes* noted that Prime Minister Saad Hariri owned a stake in Saudi Oger, one of the biggest construction companies in Saudi Arabia, which shut down operations in 2017 due to a cutback in spending by the Saudi government. Prime Minister Hariri also owns a stake in Turk Telekom, Turkey's formerly state-owned telecom company. Also, Mr. Ayman Hariri is the co-founder and CEO of Vero, an ad-free social media platform for sharing music, videos and photos. He also invests in startups through the New York-based firm Red Sea Ventures. Mr. Fahd Hariri has developed three residential buildings in Beirut, has investments in three Lebanese banks and invests in real estate in New York and Paris.

Select Billionaires of Lebanese Descent on Forbes' 2018 list of the World's Richest People					
	Rank	Worth (\$bn)	Trend*	Source	Country
Carlos Slim Helu	7	67.1	Up	Telecom	Mexico
Joseph Safra	36	23.8	Up	Banking	Brazil
Jacques Saadé	228	7.0	Up	Shipping	France
Manuel Moroun	1477	1.6	Up	Transportation	United States
George Joseph	1650	1.4	Down	Insurance	United States
Alfredo Harp Helu	1867	1.2	Unchanged	Banking	Mexico

\*in net worth

Source: *Forbes* magazine, Byblos Research

The number of billionaires on the 2018 list reached a record-high of 2,208 individuals compared to 2,043 billionaires in the 2017 survey, while their aggregate net worth reached a peak of \$9.1 trillion, up from \$7.67 trillion in 2017. The average net worth per billionaire reached an all-time high of \$4.1bn in this year's survey, up from \$3.8bn in 2017.



### Kafalat loan guarantees down 14% to \$10m in first two months of 2018

Figures released by the Kafalat Corporation show that loans extended to small- and medium-sized enterprises (SMEs) under the guarantee of Kafalat reached \$10.1m in the first two months of 2018, constituting a decrease of 13.7% from \$11.7m in the same period of 2017. Kafalat provided 74 loan guarantees in the covered period, down by 23% from 96 guarantees in the first two months of 2017. The average loan size was \$136,064 in the first two months of 2018 compared to \$121,433 in the same period of 2017. Mount Lebanon accounted for 48.7% of the total number of guarantees, followed by the Bekaa with 13.5%, Nabatieh and Beirut with 10.8% each, the South with 9.5%, and the North with 6.8%. Also, the industrial sector accounted for 48.7% of the total number of guarantees in the first two months of 2018, followed by the agricultural sector with 31.1%, tourism with 17.6%, and specialized technologies and handicraft with 1.4% each.

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

### Fitch takes action on BankMed's Turkish subsidiary

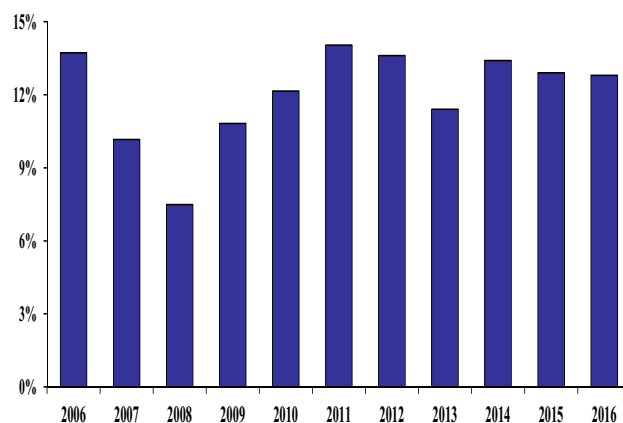
Fitch Ratings downgraded Turkland Bank's long-term Issuer Default Ratings (IDRs) from 'BB-' to 'B+'. The bank is equally-owned by BankMed sal and Arab Bank Group. The agency attributed its action to the downgrade of the long-term IDRs of its parent company Arab Bank from 'BB+' to 'BB'. It also lowered Turkland Bank's Support Rating from '3' to '4' and its national long-term rating from 'A+(tur)' to 'A(tur)', while it affirmed at 'b' its Viability Rating.

Fitch pointed out that the downgrades reflect the Arab Bank's reduced ability to support Turkland Bank in case of need. It added that its assessment of the support that Turkland Bank could receive from its parent companies takes into account its weak performance, among other factors. Also, it noted that the Arab Bank Group's 50% ownership in Turkland Bank could complicate the immediate provision of solvency support in case of need. However, Fitch pointed out that Turkland Bank has benefited from timely and sufficient provision of capital and liquidity support from both the Arab Bank Group and BankMed. In parallel, the agency indicated that the 'stable' outlook on the bank's mirrors the same outlook on the Arab Bank's ratings.

### Insurers' return on investment at 5% and return on equity at 12.8% in 2016

Figures released by the Insurance Control Commission (ICC) show that the aggregate assets of 50 insurance companies operating in Lebanon reached \$4.6bn at the end of 2016, constituting an increase of 4.6% from \$4.4bn at end-2015. The insurance sector's aggregate investments reached \$2.8bn in 2016 and accounted for 60.6% of total assets, followed by unit-linked contracts investments with \$668.5m (14.6%) and receivables under the insurance business of \$343.3m (7.5%). Also, blocked bank deposits & deposits with maturities of more than three months stood at \$897m and accounted for 32.2% of total investments, followed by fixed income investments at \$852.6m (30.7%), cash & cash equivalents at \$599.1m (21.5%), investments in land & real estate at \$166m (6%) and investments in subsidiaries & associates at \$89.3m (3.2%). The collective return on investments of the insurance sector reached 5% in 2016, up from 4.8% in 2015. In parallel, the aggregate net income of insurance companies reached \$139.6m in 2016, constituting an increase of 8.5% from \$128.7m in 2015. Further, insurance companies posted a combined annualized return on assets of 3% in 2016, nearly unchanged from 2.9% in 2015.

### Return on Equity of Insurance Companies in Lebanon



Source: Insurance Control Commission

In parallel, the aggregate loss ratio of the 50 insurance companies, or the ratio of claims incurred to earned gross premiums, was 65.6% in 2016; the commission ratio, or the ratio of acquisition cost to earned gross premiums, reached 17.3%; the expense ratio, or the ratio of other general expenses to earned gross premiums, was 12.5%; and the reinsurance ratio, or the ratio of net reinsurance income to earned gross premiums, reached 3.8% in 2016. As such, the average technical combined loss ratio, which is the aggregate of the above four ratios, reached 99.2% in 2016 relative to 96.4% in 2015. In parallel, the total shareholders' equity of the insurance sector reached \$1.1bn in 2016, constituting a rise of 8.8% from \$999.4m in 2015. As such, the return on equity of the insurance segment posted an annualized rate of 12.8% relative to 12.9% in 2015.

## 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	Aug 2016	Jul 2017	Aug 2017	Change**	Risk Level
Political Risk Rating	54.5	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	60.75	58.0	58.0	▲	High

MENA Average*	Aug 2016	Jul 2017	Aug 2017	Change**	Risk Level
Political Risk Rating	57.4	57.9	57.8	▼	High
Financial Risk Rating	38.8	38.9	38.0	▲	Low
Economic Risk Rating	29.7	30.7	30.6	▼	Moderate
Composite Risk Rating	62.9	63.2	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



---

**Economic Research & Analysis Department**  
**Byblos Bank Group**  
**P.O. Box 11-5605**  
**Beirut – Lebanon**  
**Tel: (961) 1 338 100**  
**Fax: (961) 1 217 774**  
**E-mail: [research@byblosbank.com.lb](mailto:research@byblosbank.com.lb)**  
**[www.byblosbank.com](http://www.byblosbank.com)**

---

Lebanon This Week is a research document that is owned and published by Byblos Bank sal. The contents of this publication, including all intellectual property, trademarks, logos, design and text, are the exclusive property of Byblos Bank sal, and are protected pursuant to copyright and trademark laws. No material from Lebanon This Week may be modified, copied, reproduced, repackaged, republished, circulated, transmitted, redistributed or resold directly or indirectly, in whole or in any part, without the prior written authorization of Byblos Bank sal.

The information and opinions contained in this document have been compiled from or arrived at in good faith from sources deemed reliable. Neither Byblos Bank sal, nor any of its subsidiaries or affiliates or parent company will make any representation or warranty to the accuracy or completeness of the information contained herein.

Neither the information nor any opinion expressed in this publication constitutes an offer or a recommendation to buy or sell any assets or securities, or to provide investment advice. This research report is prepared for general circulation and is circulated for general information only. Byblos Bank sal accepts no liability of any kind for any loss resulting from the use of this publication or any materials contained herein.

The consequences of any action taken on the basis of information contained herein are solely the responsibility of the person or organization that may receive this report. Investors should seek financial advice regarding the appropriateness of investing in any securities or investment strategies that may be discussed in this report and should understand that statements regarding future prospects may not be realized.

---

# BYBLOS BANK GROUP

## LEBANON

---

Byblos Bank S.A.L  
Achrafieh - Beirut  
Elias Sarkis Avenue - Byblos Bank Tower  
P.O.Box: 11-5605 Riad El Solh - Beirut 1107 2811- Lebanon  
Phone: (+ 961) 1 335200  
Fax: (+ 961) 1 339436

## IRAQ

---

Erbil Branch, Kurdistan, Iraq  
Street 60, Near Sports Stadium  
P.O.Box: 34 - 0383 Erbil - Iraq  
Phone: (+ 964) 66 2233457/8/9 - 2560017/9  
E-mail: [erbilbranch@byblosbank.com.lb](mailto:erbilbranch@byblosbank.com.lb)

Sulaymaniyah Branch, Kurdistan, Iraq  
Salem street, Kurdistan Mall - Sulaymaniyah  
Phone: (+ 964) 773 042 1010 / (+ 964) 773 041 1010

Baghdad Branch, Iraq  
Al Karrada - Salman Faeq Street  
Al Wahda District, No. 904/14, Facing Al Shuruk Building  
P.O.Box: 3085 Badalat Al Olwiya – Iraq  
Phone: (+ 964) 770 6527807 / (+ 964) 780 9133031/2  
E-mail: [baghdadbranch@byblosbank.com.lb](mailto:baghdadbranch@byblosbank.com.lb)

Basra Branch, Iraq  
Intersection of July 14th, Manawi Basha Street, Al Basra – Iraq  
Phone: (+ 964) 770 4931900 / (+ 964) 770 4931919  
E-mail: [basrabranch@byblosbank.com.lb](mailto:basrabranch@byblosbank.com.lb)

## UNITED ARAB EMIRATES

---

Byblos Bank Abu Dhabi Representative Office  
Intersection of Muroor and Electra Streets  
P.O.Box: 73893 Abu Dhabi - UAE  
Phone: (+ 971) 2 6336050 - 2 6336400  
Fax: (+ 971) 2 6338400  
E-mail: [abudhabirepoffice@byblosbank.com.lb](mailto:abudhabirepoffice@byblosbank.com.lb)

## ARMENIA

---

Byblos Bank Armenia CJSC  
18/3 Amiryan Street - Area 0002  
Yerevan - Republic of Armenia  
Phone: (+ 374) 10 530362 Fax: (+ 374) 10 535296  
E-mail: [infoarm@byblosbank.com](mailto:infoarm@byblosbank.com)

## NIGERIA

---

Byblos Bank Nigeria Representative Office  
161C Rafu Taylor Close - Off Idejo Street  
Victoria Island, Lagos - Nigeria  
Phone: (+ 234) 706 112 5800  
(+ 234) 808 839 9122  
E-mail: [nigeriarepresentativeoffice@byblosbank.com.lb](mailto:nigeriarepresentativeoffice@byblosbank.com.lb)

## BELGIUM

---

Byblos Bank Europe S.A.  
Brussels Head Office  
Rue Montoyer 10  
Bte. 3, 1000 Brussels - Belgium  
Phone: (+ 32) 2 551 00 20  
Fax: (+ 32) 2 513 05 26  
E-mail: [byblos.europe@byblosbankeur.com](mailto:byblos.europe@byblosbankeur.com)

## UNITED KINGDOM

---

Byblos Bank Europe S.A., London Branch  
Berkeley Square House  
Berkeley Square  
GB - London W1J 6BS - United Kingdom  
Phone: (+ 44) 20 7518 8100  
Fax: (+ 44) 20 7518 8129  
E-mail: [byblos.london@byblosbankeur.com](mailto:byblos.london@byblosbankeur.com)

## FRANCE

---

Byblos Bank Europe S.A., Paris Branch  
15 Rue Lord Byron  
F- 75008 Paris - France  
Phone: (+33) 1 45 63 10 01  
Fax: (+33) 1 45 61 15 77  
E-mail: [byblos.europe@byblosbankeur.com](mailto:byblos.europe@byblosbankeur.com)

## CYPRUS

---

Limassol Branch  
1, Archbishop Kyprianou Street, Loucaides Building  
P.O.Box 50218  
3602 Limassol - Cyprus  
Phone: (+ 357) 25 341433/4/5 Fax: (+ 357) 25 367139  
E-mail: [byblosbankcyprus@byblosbank.com.lb](mailto:byblosbankcyprus@byblosbank.com.lb)

## ADIR INSURANCE

---

Dora Highway - Aya Commercial Center  
P.O.Box: 90-1446  
Jdeidet El Metn - 1202 2119 Lebanon  
Phone: (+ 961) 1 256290  
Fax: (+ 961) 1 256293

