

## LEBANON THIS WEEK

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Fiscal deficit narrows by 24% to \$3.8bn in 2017, equivalent to 24% of expenditures and 7% of GDP

Industrial exports up 6% to \$187m in January 2018

Compensation of public-sector personnel up 3% in first eight months of 2017, absorbs 36% of fiscal spending

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Stock market index up 6.6% in first quarter of 2018

Insurance premiums up 4% to \$1.63bn in 2017, claims up 9% to \$966m

New car sales down 6% in first quarter of 2018

Saradar Bank's net earnings at \$10m in 2017

Fransabank issues \$60m in green bonds

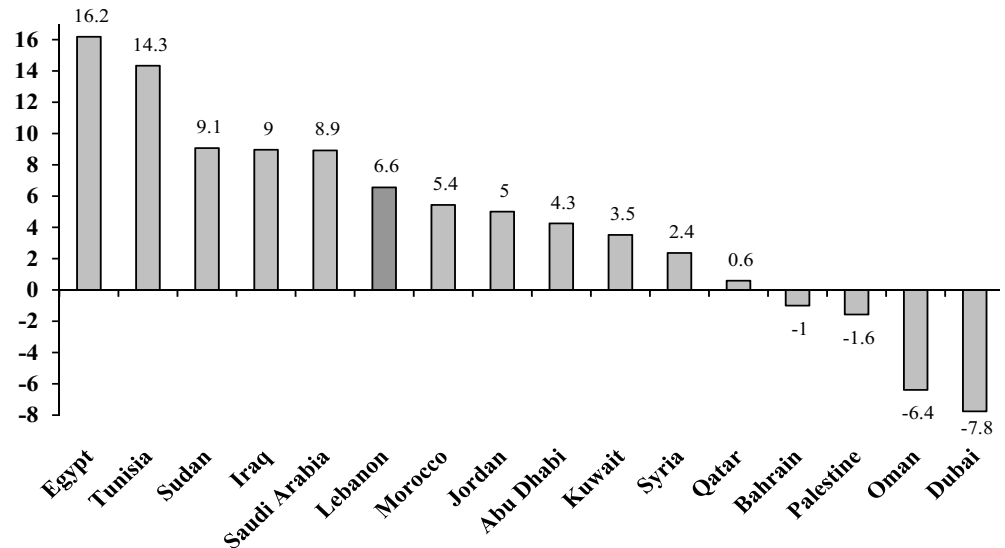
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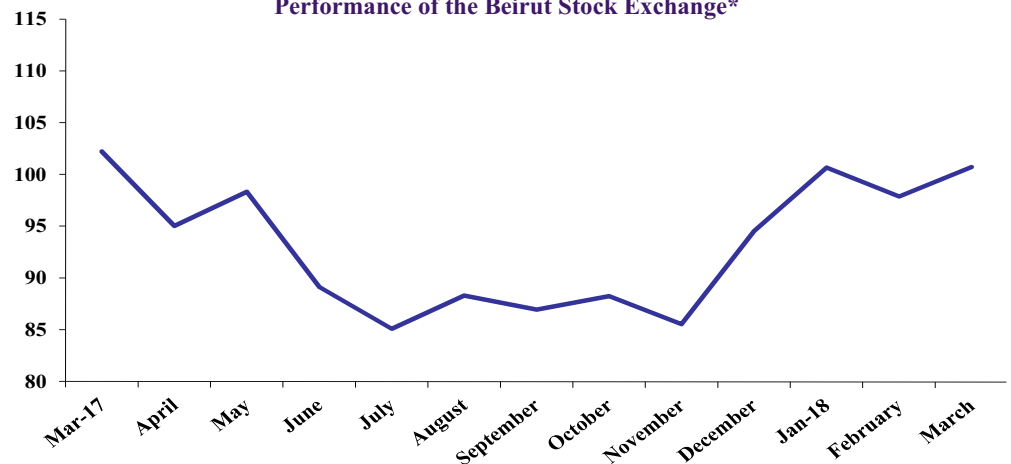
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### Charts of the Week

Performance of Arab Stock Markets in First Quarter 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

“It's time to move from words to deeds.”

*The World Bank's Chief Executive Officer, Kristalina Georgieva, on the urgent need for Lebanese authorities to start implementing structural reforms*

### Number of the Week

**\$235m:** Compensation and benefits of the 128 members of the Lebanese Parliament during the past eight years, according to the Lebanese Center for Policy Studies

## Lebanon in the News

\$m (unless otherwise mentioned)	2016	Nov 2016	Aug 2017	Sep 2017	Oct 2017	Nov 2017	% Change*
Exports	2,977	247	251	210	251	229	(7.42)
Imports	18,705	1,450	1,594	1,297	1,690	1,726	19.02
Trade Balance	(15,728)	(1,203)	(1,343)	(1,087)	(1,439)	(1,497)	24.45
Balance of Payments	1,238	453	368	457	(888)	68	(84.94)
Checks Cleared in LBP	19,892	2,539	1,869	1,475	1,993	1,880	(25.96)
Checks Cleared in FC	48,160	3,968	4,100	3,010	4,147	3,687	(7.08)
Total Checks Cleared	68,052	6,507	5,969	4,485	6,140	5,567	(14.45)
Budget Deficit/Surplus	(3,667.15)	(706.12)	(513.46)	(651.25)	(273.18)	(865.19)	22.53
Primary Balance	1,297.65	(40.58)	(192.77)	(145.72)	166.63	(119.74)	195.06
Airport Passengers***	7,610,231	555,931	1,067,441	861,828	616,742	592,890	6.65

\$bn (unless otherwise mentioned)	2016	Nov 2016	Aug 2017	Sep 2017	Oct 2017	Nov 2017	% Change*
BdL FX Reserves	34.03	34.38	34.03	35.06	36.77	35.69	3.82
In months of Imports	21.83	23.71	21.35	27.03	21.76	20.68	(12.77)
Public Debt	74.89	74.55	77.29	78.16	78.47	79.36	6.46
Bank Assets	204.31	200.95	209.39	213.42	215.79	216.21	7.59
Bank Deposits (Private Sector)	162.50	159.19	169.16	169.09	169.40	166.81	4.78
Bank Loans to Private Sector	57.18	56.49	58.67	58.93	59.13	59.55	5.41
Money Supply M2	54.68	54.12	55.59	55.50	55.07	51.96	(3.99)
Money Supply M3	132.80	130.04	138.92	138.87	138.68	136.99	5.35
LBP Lending Rate (%)****	8.23	8.26	8.10	8.31	8.24	7.98	(28 bps)
5LBP Deposit Rate (%)	5.56	5.54	5.55	5.53	5.56	5.88	34 bps
USD Lending Rate (%)	7.35	7.16	7.29	7.53	7.39	7.32	16 bps
USD Deposit Rate (%)	3.52	3.48	3.63	3.65	3.72	3.80	32 bps
Consumer Price Index**	(0.80)	9.60	5.10	4.10	4.60	4.60	(500 bps)

\* 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
Audi Listed	5.89	(5.00)	275,763	20.76%
Byblos Common	1.68	3.07	88,879	8.38%
Audi GDR	5.69	(7.48)	45,300	6.02%
Solidere "A"	8.14	(0.49)	30,404	7.18%
BLOM GDR	11.52	(5.96)	24,729	7.51%
Solidere "B"	8.00	(4.88)	21,659	4.59%
BLOM Listed	11.05	(7.14)	13,205	20.95%
HOLCIM	14.40	(2.37)	733	2.48%
Byblos Pref. 08	102.20	0.00	-	1.80%
Byblos Pref. 09	106.50	0.00	-	1.88%

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

Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
Nov 2018	5.15	100.00	5.14
May 2019	6.00	100.25	5.76
Mar 2020	6.38	100.50	6.09
Oct 2022	6.10	97.13	6.86
Jun 2025	6.25	94.38	7.27
Nov 2026	6.60	93.38	7.66
Feb 2030	6.65	90.00	7.97
Apr 2031	7.00	92.13	7.98
Nov 2035	7.05	91.00	8.01
Mar 2037	7.25	92.13	8.07

Source: Byblos Bank Capital Markets

	Apr 10-13	Apr 3-5	% Change	March 2018	March 2017	% Change
Total shares traded	503,872	244,738	105.9	34,632,170	2,874,774	1104.7
Total value traded	\$2,933,141	\$2,090,987	40.3	\$248,827,531	\$30,759,439	708.9
Market capitalization	\$11.34bn	\$11.76bn	(3.61)	\$11.85bn	\$12.47bn	(5.0)

Source: Beirut Stock Exchange (BSE)



### International community mobilizes \$11bn in support of the Lebanese economy

Within the context of international support for the stability of Lebanon's economy and its public finances, the Conférence Economique pour le Développement par les Réformes et avec les Entreprises (CEDRE), which took place on April 6 in Paris, yielded \$11.06bn in pledges from the international community to Lebanon. The pledges aim to finance mainly infrastructure projects that the Lebanese government submitted in its Capital Investment Program (CIP). In addition, the Lebanese government presented a "vision" that aims to increase public and private investments, maintain economic and financial stability, implement sectoral reforms, and put a strategy to reinforce and diversify productive sectors and exports. Lebanon's structural challenges, which consist of a wide fiscal deficit and elevated public debt level, have constrained capital spending to less than 1% of GDP per year, while economic growth has been subdued over the past few years. In addition, the Syrian conflict has had significant repercussions on Lebanon, including a massive influx of refugees that further reduced the efficiency of infrastructure and social services in the country.

A total of 48 countries and international and regional financial institutions participated in the CEDRE conference. About 17 countries and institutions pledged a total of \$10.2bn in loans, of which \$9.9bn are on concessional terms and about \$860m in grants. The participants considered concessional loans and private investments to be the most appropriate options to finance infrastructure projects and to create jobs, given Lebanon's fiscal constraints. The World Bank pledged \$4bn in loans over five years, the European Bank for Reconstruction and Development mobilized €1.1bn or about \$1.36bn, the European Investment Bank will deploy €800m or about \$1bn, the Arab Fund for Economic and Social Development pledged \$500m that can potentially double, the Islamic Development Bank pledged \$750m, France committed €550m or about \$680m in loans and grant, and the Kuwait Fund for Arab Economic Development and Qatar mobilized \$500m each, while other countries and international financial institutions mobilized the balance of the pledges. In addition, Saudi Arabia reinstated a pre-existing \$1bn credit line for Lebanon.

In parallel, Lebanon pledged to narrow the fiscal deficit by 1% of GDP annually over the next five years, as part of the government's fiscal consolidation and financial reforms that aim to support macroeconomic stability, gradually reduce the public debt level and help implement the CIP. Fiscal measures include improving tax collection and reducing Treasury transfers to Electricité du Liban. In addition, the government committed to implement structural reforms, which the participants considered to be crucial to attract new public and private investments.

Further, participants at the CEDRE conference stressed the importance of a "robust follow-up mechanism" to ensure the implementation of reforms and the proper disbursement of pledges. In this context, the Lebanese government intends to improve the procedures for the clearance, approval and implementation of externally funded projects with the help of donors and investors. Also, a dedicated website will be established to track project financing and implementation, which aims to ensure transparency.

In addition, donors announced that they intend to work with the new government that will be formed after the May parliamentary elections on the implementation of the CIP and of the reform agenda, including developing a concrete time-table for reforms.

Breakdown of Main Pledges at CEDRE Conference	
	US\$ million
World Bank	4,000
European Bank for Reconstruction and Development	1,364
Arab Fund for Economic and Social Development*	1,000
Saudi Arabia**	1,000
European Investment Bank	992
Islamic Development Bank	750
France	682
Qatar	500
Kuwait Fund for Arab Economic Development	500

\* Initial pledge of \$500m that could possibly double

\*\* Re-activation of a pre-existing \$1bn credit line

Source: Newswires, Byblos Research

## World Bank links positive impact of Capital Investment Program to implementation of reforms

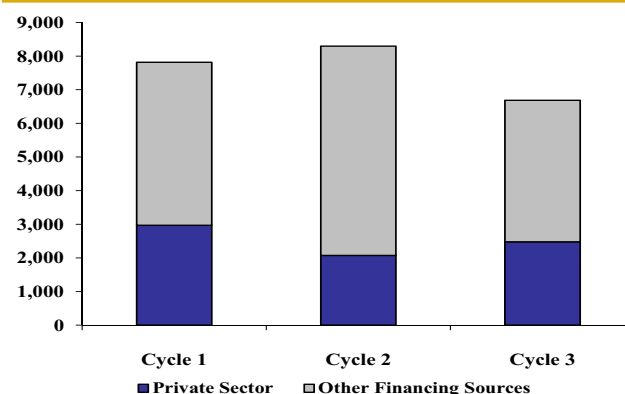
In its assessment of Lebanon's Capital Investment Program (CIP), the World Bank Group (WBG) considered the CIP to be an effective tool to upgrade the poor quality of the country's infrastructure, to attract foreign direct investments, to support growth and to create jobs. The WBG, at the request of the Lebanese government, conducted an assessment of more than 280 projects under the CIP in electricity, water, wastewater, transportation, telecommunications and solid waste, as well as in the cultural and industrial sectors. The vast majority of CIP investments are in the transport (32%), energy (24%) and water (21%) sectors. The CIP is a \$22.94bn investment program divided into four-year cycles, with \$10.8bn allocated to Cycle 1, \$6.45bn to Cycle 2 and \$5.69bn to Cycle 3.

The WBG indicated that the vast majority of projects under the CIP are strategic priorities in their respective sectors. Also, it estimated that 83% of projects in electricity and solid waste, at least 73% of cultural projects, 50% of industrial projects and 38% of projects in each of the telecommunications and the transportation sectors have the capacity to attract foreign direct investment. In addition, it said that most projects in electricity, transportation, culture and industry, if completed, would have a high impact on growth and job creation. Further, the WBG pointed out that about 50% of projects in the telecommunications, electricity, solid waste and industrial sectors, and 25% of transportation projects can be implemented over an 18-month period. It added that the implementing agency related to each sector has currently the necessary capacity to execute the majority of projects across most sectors, except in the electricity sector where the implementing agency has the capacity to execute only 9% of projects.

In parallel, the WBG indicated that its cost estimates for each cycle differ from the government's projections, especially for cycles 1 and 2. It estimated the cost of projects in Cycle 1 at \$7.8bn, or 33.3% of the CIP's total cost, the cost in Cycle 2 at \$8.3bn (37%) and the cost in Cycle 3 at \$6.7bn (29%). It attributed the difference in the allocation of funds with the government's figures mainly to the fact that some projects that the government included in Cycle 1 qualify for Cycle 2 because of capacity and time constraints, which make them unlikely to be implemented in Cycle 1. Further, it said that the private sector could finance \$7.5bn, or 33% of the CIP's cost, including \$3bn in Cycle 1, while it noted that concessional loans would finance most projects in Cycle 2 due to the projects' low financial returns. Overall, it added that the private sector's financing of projects through debt and equity would range between \$330m and \$1bn per year. It pointed out that projects in the electricity sector are the most appealing to the private sector, as it anticipated private investments to finance 66% of electricity projects under the CIP, as well as 18% of solid waste projects, and 8% of all telecommunications and transport projects. It considered that priority projects with high rates of social and economic returns, but with low financial returns, such as water and transportation projects, could need financial support from the state to make them commercially viable and attractive to private investors. It encouraged authorities to establish a Lebanon Infrastructure Financing Facility (LIFF) in order to support such projects.

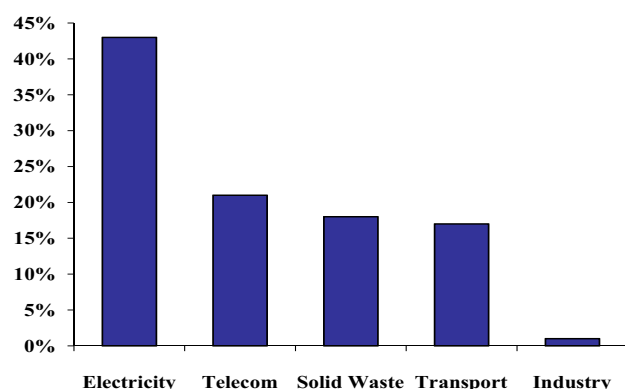
In parallel, the WBG pointed out that the implementation of structural reforms is crucial to ensure the CIP's effectiveness and to make projects sustainable and attractive to investors. It called on authorities to introduce a fiscal framework that can reduce the public debt to sustainable levels, to adjust electricity tariffs, to endorse an anti-corruption law, to adopt a Single Treasury Account, to reform the public investment management system, to ratify the public procurement law, to endorse a new customs strategy to speed up and simplify procedures, to pass a credit infrastructure legislative, and to ensure the functionality of the Higher Council for Privatization and Public-Private Partnerships. It noted that the credit infrastructure legislative package would help increase the Lebanese private sector's access to finance, especially to small- and medium-sized enterprises and start-ups. Further, it called on authorities to implement sector-specific reforms, such as switching to natural gas instead of fuel for electricity generation, ratifying a water code, adopting a national transport strategy and restructuring the telecommunications sector, among other reforms.

**Breakdown of Project Financing by Sources (US\$m)**



Source: World Bank, Byblos Research

**Private Sector Financing in Cycle 1  
(% of Number of Projects)**



Source: World Bank, Byblos Research

### **CEDRE conference is opportunity to address economic and fiscal challenges**

Global financial services firm Bank of America Merrill Lynch considered that the CEDRE donor conference provides an opportunity for Lebanese authorities to address the country's elevated public debt level and subdued economic growth through medium-term fiscal reforms as well as through investments co-funded by concessional loans and the private sector. It estimated that capital expenditures in Lebanon averaged 1.5% of GDP in recent years, which reflects the lack of fiscal space and is well below the average for emerging market peers. This has resulted in significant infrastructure challenges and lower potential growth.

Bank of America Merrill Lynch noted that the international community pledged over a period of five to six years \$11bn, equivalent to 20% of the country's GDP that are linked to economic reforms. It added that the pledged amount would increase to \$12.5bn when including a \$1bn credit line that Saudi Arabia reinstated during the conference, and a potential \$500m in additional funding from the Arab Fund for Economic and Social Development. It considered Saudi Arabia's pledge to be symbolic for the time being, as Lebanon has not used the pre-existing credit line in the past. It noted that the Lebanese government was guiding market expectations towards \$5bn to \$8bn in pledges prior to the conference, and that the aggregate committed amount came at the higher end of expectations.

Further, it considered Lebanon's Capital Investment Program (CIP), which includes about 275 projects to develop and rehabilitate infrastructure during the 2018-2030 period, to be ambitious. It anticipated the private sector to finance 33% of the \$22.9bn program, as concessional loans would likely finance projects with low economic returns. It added that pledges at the CEDRE conference fully cover the cost of the first cycle of the CIP, which is estimated at \$10.8bn.

Also, it pointed out that authorities need to implement fiscal consolidation measures in order to minimize the impact of additional borrowing on Lebanon's public debt level. It said that Lebanese authorities aim to narrow the fiscal deficit by 1% of GDP annually over the next five years through reforms, such as re-imposing taxes on retail petroleum products, increasing the value-added tax rate and raising electricity tariffs, all of which could be politically divisive. Further, it indicated that authorities need to implement structural reforms in order to ensure the timely implementation of infrastructure projects and to increase Lebanon's absorption capacity. Also, it noted that Lebanese authorities need to communicate investment opportunities in a transparent and clear way in order to attract private sector investments.

However, it indicated that Lebanese authorities have not yet submitted a clear agenda for reforms, which could be due to considerations linked to the approaching parliamentary elections and to potential political opposition to a number of the proposed fiscal measures. It added that the international community tied the disbursement of funds to reforms because the Lebanese government did not enact fiscal measures after similar donor conferences in the past. It considered that the lack of direct oversight from the International Monetary Fund on any of Lebanon's planned fiscal measures provides the government with the flexibility to adjust reforms and financial support according to economic conditions and to its priorities. Overall, it did not expect donors to disburse funds before the completion of preparatory works that could take 18 to 24 months. It anticipated donors to follow up on the implementation of the CIP and to set up a timetable for reforms through a coordination mechanism with Lebanese authorities.

In addition, Bank of America Merrill Lynch said that the CEDRE conference confirms that Lebanon maintains strong international support, given its strategic geopolitical importance in the Middle East. It also considered that the CEDRE conference, the Rome II conference in March 2018 that supported the Lebanese Army and Internal Security Forces, and the upcoming Brussels II conference that aims to help Lebanon deal with the burden of the Syrian refugees, are supporting Prime Minister Saad Hariri's position ahead of the parliamentary elections that are scheduled for May 6 of this year.

In parallel, Moody's Investors Service considered that the \$11bn in pledges earmarked to finance Lebanon's infrastructure projects is credit positive for the sovereign, as it helps restart public investments and encourages fiscal reforms. It noted that the efficiency of Lebanon's public investment is low, which negatively affects its public finances. In this context, it pointed out that public investment per capita was \$6,530 in 2015 according to the International Monetary Fund, which is 26% below the median of upper middle-income countries. It also noted that Lebanon's efficiency gap, which is the country's public investment per capita relative to the assessed quality of infrastructure, was 40% in 2015, one of the largest gaps among upper middle-income countries. Further, the agency indicated that it will factor-in the effect of the CIP in its growth projections when investments under the program materialize.



### Cost of sending remittances from most destinations increases in first quarter of 2018

Figures issued by the World Bank show that the cost of sending \$500 in remittances from the United States to Lebanon reached 5.96% in the first quarter of 2018 relative to 5.93% in the fourth quarter of 2017 and to 5.9% in the first quarter of 2017. The cost includes the transaction fee and exchange rate margin, and represents the average cost of transferring money through commercial banks and money transfer operators (MTOs). In nominal terms, the cost of sending \$500 from the U.S. to Lebanon was \$29.82 in the first quarter of 2018 compared to \$29.65 in the preceding quarter and to \$29.48 in the first quarter of 2017. Lebanon is the seventh most expensive destination for sending \$500 from the U.S. among 42 countries with available data.

Further, the cost of sending remittances from Canada to Lebanon was 6.86% in the first quarter of 2018 for a transfer of CAD500, up from 6.16% in the fourth quarter of 2017 and relative to 7.58% in the first quarter of 2017. In nominal terms, the cost of sending CAD500 from Canada to Lebanon was CAD34.32 in the first quarter of 2018 relative to CAD30.79 in the previous quarter and to CAD37.92 in the first quarter of 2017. Lebanon is the second most expensive destination for sending CAD500 from Canada among 15 countries with available data.

Also, the cost of sending remittances from Australia to Lebanon reached 7.14% in the first quarter of 2018 for a transfer of AUD500, down from 7.32% in the fourth quarter of 2017 and relative to 7.33% in the first quarter of 2017. The cost of sending AUD500 from Australia to Lebanon was AUD35.7 in the first quarter of 2018 relative to AUD36.61 in the preceding quarter and to AUD36.64 in the first quarter of 2017. Lebanon is the fifth most expensive destination for sending AUD500 from Australia among 16 countries with available data.

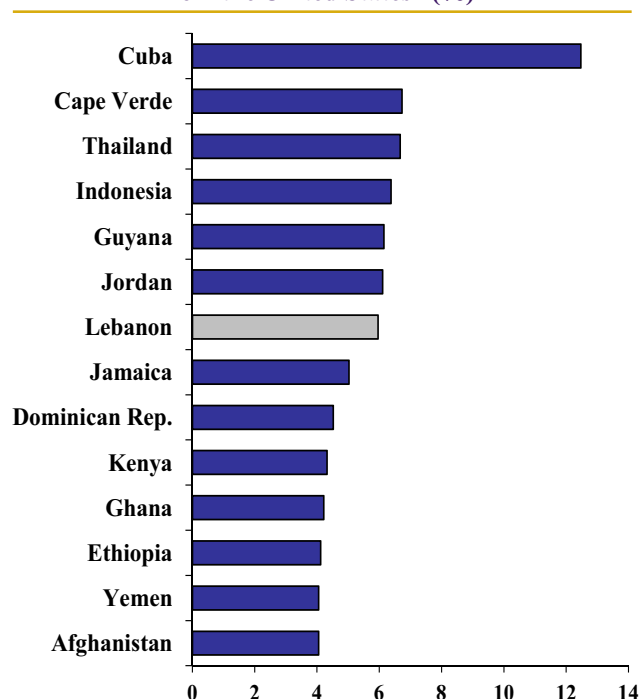
In addition, the cost of sending remittances from France to Lebanon was 7.19% in the first quarter of 2018 for a transfer of EUR345 relative to 7.15% in the fourth quarter of 2017 and up from 6.62% in the first quarter of 2017. In nominal terms, the cost of sending EUR345 from France to Lebanon was EUR24.81 in the first quarter of 2018 relative to EUR24.66 in the previous quarter and to EUR22.84 in the first quarter of 2017. Lebanon is the third most expensive destination for sending EUR345 from France among 16 countries with available data.

Further, the cost of sending remittances from the United Kingdom to Lebanon reached 9.27% in the first quarter of 2018 for a transfer of GBP300, up from 8.79% in the fourth quarter of 2017 and relative to 10.55% in the first quarter of 2017. In nominal terms, the cost of sending GBP300 from the UK to Lebanon was GBP27.81 in the first quarter of 2018 relative to GBP26.36 in the preceding quarter and to GBP31.66 in the first quarter of 2017. Lebanon is the second most expensive destination for sending GBP300 from the UK among 33 countries with available data.

Also, the cost of sending remittances from Germany to Lebanon was 7.21% in the first quarter of 2018 for a transfer of EUR345, up from 6.91% in the fourth quarter of 2017 and relative to 8.16% in the first quarter of 2017. In nominal terms, the cost of sending EUR345 from Germany to Lebanon was EUR24.87 in the first quarter of 2018 relative to EUR23.83 in the previous quarter and to EUR28.14 in the first quarter of 2017. Lebanon is the second most expensive destination for sending EUR345 from Germany among 24 countries with available data.

Finally, the cost of sending remittances from Saudi Arabia to Lebanon reached 2.16% in the first quarter of 2018 for a transfer of SAR1,870, equivalent to \$500, down from 2.25% in the fourth quarter of 2017 and relative to 1.83% in the first quarter of 2017. In nominal terms, the cost of sending SAR1,870 from Saudi Arabia to Lebanon was SAR40.33 in the first quarter of 2018 relative to SAR42.08 in the preceding quarter and to SAR34.29 in the first quarter of 2017. Lebanon is the third least expensive destination for sending SAR1,870 from Saudi Arabia among 17 countries with available data.

**Costliest Destinations of Remittances from the United States\* (%)**



\* Cost of sending \$500 from the U.S.

Source: World Bank, Byblos Research

### **Narrowing of fiscal deficit would reduce Banque du Liban's market intervention**

Banque du Liban Governor Riad Salamé reaffirmed that the monetary situation in Lebanon is stable and sound. He stressed that Lebanon would not abandon its current currency peg to the US dollar for a managed devaluation of the Lebanese pound, given that such a decision would be detrimental to the Lebanese economy. He added that a currency devaluation would weigh on confidence and economic growth, would lead to a significant increase in interest and inflation rates, and would negatively affect social stability. In addition, he indicated that interest rates on Lebanese pound-deposits will remain at the levels they reached in November 2017, and that the average maturity of deposits has increased from 40 days to 120 days. He noted that the current level of interest rates on deposits has created an equilibrium in the interest rate market, and that BdL does not plan to raise interest rates on Lebanese pounds or US dollars in the near future. Further, he indicated that Lebanese banks are well-capitalized, and that BdL does not intend to conduct financial engineering operations in the near term.

In addition, Governor Salamé indicated that the Lebanese government has a perfect track record of repaying its debt obligations and that BdL has sufficient foreign assets to meet Lebanon's obligations in foreign currency in coming years. He added that the balance of payments posted a surplus in the first two months of 2018, while deposits continued to grow and BdL's foreign assets further increased. In parallel, Governor Salamé considered that BdL has had to carry for years the cost of the government's wide and recurrent fiscal deficit. He added that BdL's market interventions would decrease considerably if the government managed to narrow the budget deficit and reduce the public debt level.

In parallel, Governor Salamé indicated that economic activity in Lebanon continues to be subdued in the absence of much-needed fiscal and structural reforms. He said that the implementation of reforms provides an anchor for the Lebanese economy and requires serious political will. Further, Governor Salamé noted that the size of the public sector has expanded significantly in recent years, as it increased from 15% of GDP prior to the civil war to about 34% of GDP currently. He considered that such an expansion is unhealthy for the economy, as it has created additional burdens and losses that are weighing on economic growth and that have increased corruption. He said that authorities should develop a proper business environment in order to stimulate economic activity. In this context, he welcomed the government's efforts to increase the private sector's involvement in stimulating the economy through public-private partnerships. He said that the government should implement other reforms, such as the privatization of the electricity sector, the creation of a pension fund for the private sector instead of the current end-of-service indemnity program, as well as the ratification of a new bankruptcy law, among others. Also, he stressed the importance of the CEDRE conference as a vital step towards implementing the required reforms, and added that the concessional loans for infrastructure financing in Lebanon will encourage partnerships between the private and public sectors and, in turn, support economic growth.

### **Ministry of Finance plans \$5bn Eurobonds swap with Banque du Liban**

The Ministry of Finance announced that it plans to swap \$5bn in Eurobonds for the equivalent in Lebanese pound-denominated Treasury bonds from Banque du Liban's (BdL) portfolio. It said that the swap operation would reduce the debt servicing cost by LBP2.2 trillion or the equivalent of \$1.5bn, and would support BdL's assets in foreign currency. The ministry indicated that the government needs to secure a total of \$7.3bn to cover its obligations in foreign currency this year. It said that it will cover about \$2.3bn through revenues or debt exchange of maturing bonds. It added that it will cover the remaining \$5bn through debt issuance. In November 2017, the Ministry of Finance swapped \$1.7bn in Eurobonds with LBP2,562bn worth of Lebanese pound-denominated Treasury bills from BdL's portfolio.

Further, Bank of America Merrill Lynch pointed out that the planned swap operation would increase BdL's portfolio of Eurobonds to over \$7.5bn and would require careful management. It considered that BdL would sell part of the Eurobonds to domestic banks, but it noted that BdL has to provide incentives for banks to encourage them to buy the Eurobonds.

Lebanon's gross public debt reached \$80.4bn at the end of January 2018, constituting an increase of 1.1% from \$79.5bn at end-2017 and a growth of 5.5% from \$76.2bn at end-January 2017. Debt denominated in Lebanese pounds totaled \$49.8bn at end-January 2018, up by 3.8% from end-January 2017; while debt denominated in foreign currency stood at \$30.6bn, constituting a growth of 8.4% from end-January 2017. Local currency debt accounted for 62% of the gross public debt at the end of January 2018 compared to 63% a year earlier, while foreign currency-denominated debt represented the balance of 38% relative to 37% at end-January 2017. BdL held 50.4% of the Lebanese pound-denominated public debt at the end of January 2018 relative to 41.5% a year earlier, while commercial banks held 35.2% of the local debt compared to 43.8% at end-January 2017.

### Banque du Liban's foreign assets up 3.3% to \$43.4bn in first quarter of 2018

Banque du Liban's (BdL) interim balance sheet totaled \$122.8bn at the end of March 2018, constituting an increase of 3.8% from \$118.3bn at end-2017 and a rise of 20.5% from \$101.9bn at the end of March 2017. Assets in foreign currency reached \$43.4bn at the end of March 2018, reflecting an expansion of 3.3% from \$42bn at end-2017 and an increase of 8.2% from \$40.1bn at the end of March 2017. Assets in foreign currency rose by \$958.8m in January, by \$412.9m in February and by \$29.9m in March 2018. This resulted in an aggregate increase of \$1.4bn in the first quarter of 2018. In comparison, BdL's assets in foreign currency increased by \$612.4m in the first quarter of 2015, while they declined by \$499.5m in the first quarter of 2016 and by \$617.2m in the first quarter of 2017.

In parallel, the value of BdL's gold reserves rose by 2.2% from the end of 2017 and by 6.6% year-on-year to \$12.2bn at end-March 2018. The value of gold reserves reached a peak of \$16.7bn at the end of August 2011. Also, the securities portfolio of BdL grew by 33.7% year-on-year to \$32.4bn at end-March 2018. Further, deposits of the financial sector reached \$100.7bn at the end of March 2018 and increased by \$3.2bn, or by 3.3%, from the end of 2017, while they grew by \$19.3bn, or 23.7% from end-March 2017. In comparison, public sector deposits totaled \$6.6bn at the end of March 2018 and increased by \$726m, or 12.3%, from end-2017, while they decreased by \$49.6m or 0.7% year-on-year.

### Occupancy rate at Beirut hotels at 55%, room yields down 13% in first two months of 2018

EY's benchmark survey of the hotel sector in the Middle East indicated that the average occupancy rate at hotels in Beirut was 54.9% in the first two months of 2018, down from 62% in the same period of 2017 and compared to an average rate of 67.1% in 14 Arab markets included in the survey. The occupancy rate at Beirut hotels was the third lowest in the region in the first two months of 2018, while it was the sixth lowest in the same period of 2017. Also, the occupancy rate at hotels in Beirut regressed by 7.1 percentage points year-on-year, constituting the second largest decrease among the 14 Arab markets, behind only Doha (-14.1 percentage points). In comparison, the average occupancy rate in Arab markets grew by 2.9% year-on-year in the first two months of 2018. Occupancy rates at Beirut hotels were 49.1% in January and 61.3% in February 2018, compared to 56.3% in January and 68.3% in February 2017.

The average rate per room at Beirut hotels was \$147 in the first two months of 2018, ranking the capital's hotels as the fifth least expensive in the region, relative to Abu Dhabi (\$103), Cairo (\$112), Makkah (\$115) and Amman (\$134). The average rate per room at Beirut hotels decreased by 1.7% year-on-year in the covered period. Beirut had the smallest decrease in its average rate per room among nine cities posting a decline in the first two months of 2018. The average rate per room in Beirut came below the regional average of \$166.1 that regressed by 3.2% from the first two months of 2017.

Further, revenues per available room (RevPAR) were \$81 in Beirut in the first two months of 2018, down from \$93 in the same period of 2017. They were the third lowest in the region relative to Amman (\$69) and Makkah (\$72). Beirut's RevPAR decreased by 13% year-on-year and posted the third smallest decline, behind Madinah (-0.2%) and Dubai (-3.4%). Beirut posted RevPARs of \$74 in January and \$88 in February 2018, compared to \$87 in January and \$99 in February 2017. Dubai posted the highest occupancy rate at 85.5%, the highest average rate per room in the region at \$289, and the highest RevPAR at \$247 in the first two months of 2018.

### Airport passengers up 14% in first quarter of 2018

Figures released by the Beirut-Rafic Hariri International Airport show that 1,728,816 passengers utilized the airport (arrivals, departures and transit) in the first quarter of 2018, constituting an increase of 13.7% from 1,520,127 passengers in the same quarter of 2017. The number of arriving passengers grew by 14% year-on-year to 840,170 in the first quarter of 2018, compared to a marginal increase of 0.1% in the same quarter last year and to a rise of 11.1% in the first quarter of 2016. Also, the number of departing passengers grew by 13.5% year-on-year to 887,779 in the first three months of 2018, while it was unchanged in the same period last year, compared to a rise of 10.4% in the first quarter of 2016.

In parallel, the airport's aircraft activity increased by 1.9% year-on-year to 15,345 take-offs and landings in the first quarter of 2018, compared to a decline of 6.2% in the same period of 2017 and to a growth of 11% in the first three months of 2016. In addition, the HIA processed 22,040 metric tons of freight in the first quarter of 2018 that consisted of 14,578 tons of import freight and 7,462 tons of export freight. Middle East Airlines had 5,600 flights in the first quarter of 2018 and accounted for 36.5% of HIA's total aircraft activity.

#### Hotel Sector Performance in First Two Months of 2018

	Occupancy Rate (%)	RevPAR (US\$)	RevPAR % change
Dubai	85.5	247	(3.4)
Muscat	81.0	145	5.3
Kuwait City	70.1	141	19.5
Makkah	63.0	125	15.4
Ras Al Khaimah	75.4	124	7.0
Riyadh	70.5	119	(0.2)
Manama	60.9	107	24.5
Jeddah	48.2	92	(14.7)
Doha	59.1	87	(25.5)
Abu Dhabi	84.4	87	(13.6)
Cairo City	73.3	82	14.2
<b>Beirut</b>	<b>54.9</b>	<b>81</b>	<b>(13.0)</b>
Madina	62.0	72	(16.3)
Amman	51.6	69	3.2

Source: EY, Byblos Research



### Lebanon's external debt posts third highest return in emerging markets in first quarter of 2018

Figures issued by Intercontinental Exchange, Inc. (ICE) indicate that Lebanon's external debt posted a return of 2.27% in the first quarter of 2018, constituting the second highest return among 44 markets in the Central & Eastern Europe and the Middle East & Africa (CEEMEA) region, as well as the third highest return among 76 emerging markets included in ICE's External Debt EM Sovereign Index. Lebanon outperformed the overall emerging markets' return of -1.78% during the covered period. Also, Lebanon's external debt posted the second highest return among 27 countries in the Middle East & Africa region in the first three months of the year.

Further, Lebanon's external debt posted a return of 2.2% in March 2018, constituting the third highest return in the CEEMEA region, and the fourth highest in emerging markets during the covered month. Lebanon outperformed the emerging markets' return of 0.23% in March 2018. It also posted the third highest return in the Middle East & Africa region during the covered month.

In parallel, ICE indicated that the option-adjusted spread on Lebanese Eurobonds was 437 basis points at the end of March 2018 compared to 384 basis points at end-March 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 231 basis points at the end of March 2018.

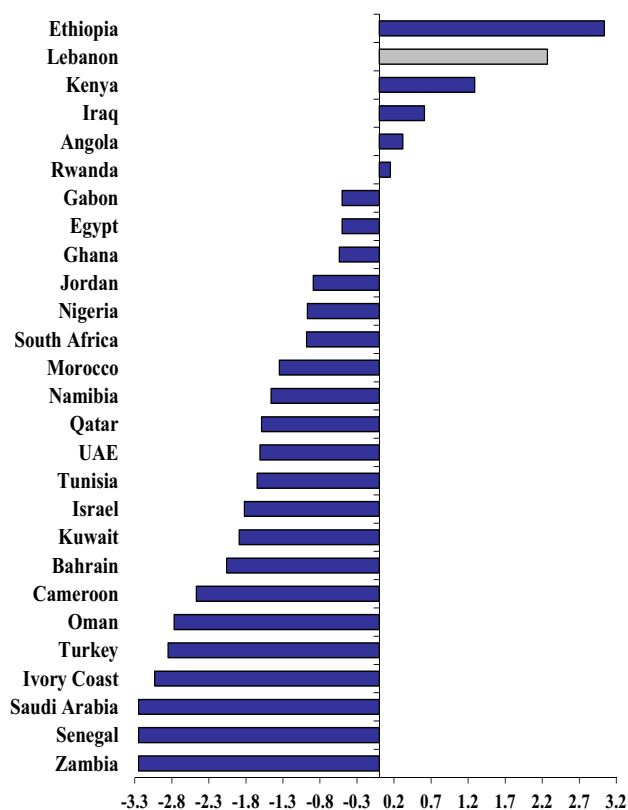
Lebanon has a weight of 2.37% on ICE's External Debt EM Sovereign Index, the sixth largest weight in the CEEMEA universe and the 12th largest among emerging economies. Lebanon accounted for 4.4% of allocations in the CEEMEA region.

### Lebanon included in CDS emerging markets index

Research and analytics provider IHS Markit included Lebanon in its Markit CDX Emerging Markets Index (CDX EM Index) starting on March 20, 2018. The CDX EM Index tracks 15 emerging market sovereigns, including Lebanon, that trade in the single-name credit default swap market. Credit default swaps are derivatives that are based on the credit risk of a single borrower, such as a corporation or a sovereign. They represent the cost of insuring government or corporate bonds against default and are a reflection of perceived credit risk. The composition and rules of the index are reviewed in March and September of each year. Also, the composition of the index is based on a set of rules that are designed to track the most relevant instruments in credit default swap markets in emerging economies.

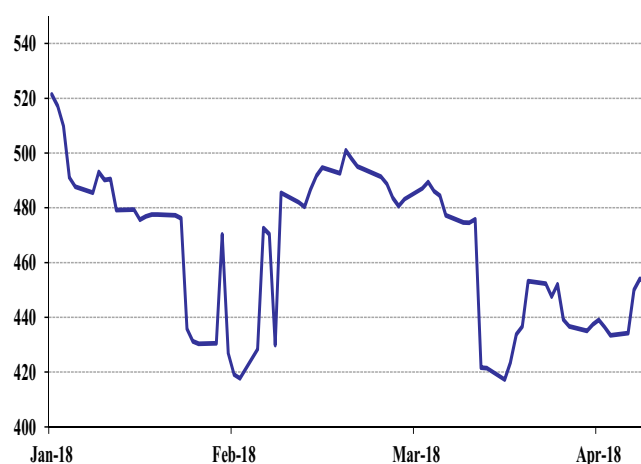
IHS Markit indicated that Lebanon, along with Argentina, Chile, Malaysia, Panama, Peru and the Philippines, has a weight of 3% on the CDX EM Index, the smallest among the 15 covered sovereigns. Lebanon's weight on the Index is lower than that of Brazil (15%), Turkey (14%), Mexico (13%), China (11%), Russia and South Africa (9% each), and Colombia and Indonesia (4% each). Market estimates put the trading in credit default swaps for Lebanon at roughly \$650m.

External Debt Performance in the Middle East & Africa in First Quarter of 2018 (%)



Source: ICE, Byblos Research

Lebanon's Five-Year CDS Spreads



Source: Thomson Reuters, Byblos Research

### Fiscal deficit narrows by 24% to \$3.8bn in 2017, equivalent to 24% of expenditures and 7% of GDP

Figures released by the Finance Ministry show that the fiscal deficit reached \$3.8bn in 2017 and narrowed by 24% from \$4.9bn in 2016. The deficit was equivalent to 24.4% of total budget and Treasury expenditures compared to 33.3% in 2016. Government expenditures reached \$15.4bn and increased by 3.5% from 2016, while revenues grew by 17.1% year-on-year to \$11.6bn. As such, the narrowing of the deficit reflects a rise of \$1.7bn in total revenues that was partly offset by an increase of \$513.3m in overall expenditures last year. The growth in revenues is mainly due to an increase of \$635.5m in receipts from the tax on profits last year, 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 16.8% year-on-year to \$8.2bn in 2017, of which 28.1%, or \$2.3bn, were in VAT receipts that increased by 7.5% year-on-year. Tax receipts accounted for 76.2% of budgetary revenues and for 70.6% of total Treasury and budgetary receipts. The distribution of other tax revenues shows that receipts from taxes on income, profits & capital gains grew by 39.3% to \$2.8bn in 2017; revenues from customs increased by 2.2% to \$1.43bn; receipts from property taxes rose by 15.4% to \$937.4m; while revenues from taxes on goods & services increased by 12% to \$400.3m and receipts from stamp fees expanded by 12% to \$347.7m.

The distribution of income tax receipts shows that the tax on profits accounted for 50% of income tax revenues in 2017, followed by the tax on interest deposits with 21.5%, taxes on wages & salaries with 18.2% and the capital gains tax with 8.5%. Receipts from the tax on profits increased by 83.8%, those from taxes on capital gains rose by 23.5%, revenues from taxes on interest deposits grew by 10.5%, and receipts from taxes on wages & salaries rose by 9.3% last year. Also, the distribution of property taxes shows that revenues from real estate registration fees grew by 20.2% to \$639.5m in 2017 and receipts from the built property tax expanded by 10.7% to \$187.5m, while revenues from the inheritance tax decreased by 0.5% to \$110.4m. Further, non-tax budgetary receipts grew by 14% year-on-year to \$2.6bn. They mainly included \$1.8bn in revenues generated from government properties that rose by 11.4% year-on-year, as well as \$585.6m in receipts generated from administrative fees and charges that expanded by 13.4% year-on-year. Receipts from telecommunication services increased by 1.5% to \$1.28bn and accounted for 73.1% of income from government properties and for 50.1% of non-tax budgetary revenues.

On the expenditures side, budgetary spending, which includes general expenditures and debt servicing, increased by 8.7% to \$14.1bn in 2017. General budgetary spending grew by 11.4% year-on-year to \$8.9bn. It included \$1.1bn in outlays from previous years that shrank by 5.3% year-on-year and \$1.3bn in transfers to Electricité du Liban that increased by 43.3% year-on-year because of higher global oil prices, among other general spending items. Also, debt servicing totaled \$5.2bn in 2017 and grew by 4.4% from 2016. Debt servicing accounted for 33.7% of total expenditures and for 36.8% of budgetary spending, while it absorbed 44.6% of overall revenues and 48.1% of budgetary receipts. Interest payments on Lebanese pound-denominated debt grew by 5.6% to \$3.2bn in 2017, while debt servicing on foreign currency debt increased by 3% to \$1.8bn. In addition, Treasury transfers decreased by 32.2% to \$1.3bn in 2017, mainly due to a decline of 60% to \$412.7m in transfers to municipalities following the high transfers related to municipal and mayoral elections in 2016. The primary budget balance posted a surplus of \$1.9bn in 2017, or 13.4% of budgetary expenditures, while the overall primary balance posted a surplus of \$1.4bn, or 9.3% of spending.

Comparative Fiscal Results (% of GDP)		
	2016	2017
Budget Revenues	18.6%	20.2%
Tax Revenues	14.1%	15.4%
Non-Tax Revenues	4.5%	4.8%
<i>of which Telecom revenues</i>	2.5%	2.4%
Budget Expenditures	25.9%	26.4%
<b>Budget Surplus/Deficit</b>	<b>(7.3%)</b>	<b>(6.2%)</b>
<b>Budget Primary Surplus</b>	<b>2.6%</b>	<b>3.5%</b>
Treasury Receipts	1.3%	1.6%
Treasury Expenditures	3.8%	2.4%
Total Revenues	19.8%	21.8%
Total Expenditures	29.7%	28.8%
<b>Total Deficit</b>	<b>(9.9%)</b>	<b>(7.0%)</b>
<b>Total Primary Surplus/Deficit</b>	<b>0.04%</b>	<b>2.7%</b>

Source: Ministry of Finance, Institute of International Finance, Byblos Research

### **Industrial exports up 6% to \$187m in January 2018**

Figures released by the Ministry of Industry show that industrial exports totaled \$187m in January 2018, constituting a decrease of 14.8% from \$219.6m in December 2017, and an increase of 6.3% from \$175.9m in January 2017. Base metal exports totaled \$38.5m and accounted for 20.6% of aggregate industrial exports in January 2018, followed by chemical products with \$37.7m (20.2%), machinery & mechanical appliances with \$33.8m (18.1%), foodstuffs & tobacco with \$27.3m (14.6%), plastics & rubber with \$11.9m (6.4%) and paper & paperboard with \$8.6m (4.6%). Arab countries were the destination of 47.4% of Lebanese industrial exports in January 2018, followed by European economies with 24%, Asian countries with 14.4%, African economies with 9.4%, countries in the Americas with 3.7% and markets in Oceania with 0.6%.

On a country basis, Iraq was the main destination of Lebanese industrial exports and accounted for 9.4% of the total in the covered month, followed by the Turkey with 8.9%, Saudi Arabia with 7.3%, the UAE with 7%, France with 6.8% and Syria with 5.2%. In January 2018, 12 Arab states, eight European economies, four African countries, three Asian economies, two countries in the Americas and one country in Oceania imported \$1m or more each of Lebanese industrial products.

In parallel, imports of industrial equipment and machinery reached \$24m in January 2018, up by 3.6% from \$23.2m in December 2017, and by 14.7% from \$21m in January 2017. Italy was the main source of such imports and accounted for 30.7% of the total in January 2018, followed by Germany with 20.2% and China with 13.8%.

### **Compensation of public-sector personnel up 3% in first eight months of 2017, absorbs 36% of fiscal spending**

Figures issued by the Ministry of Finance show that the compensation of public-sector personnel totaled \$3.4bn in the first eight months of 2017, constituting an increase of 3.3% from \$3.3bn in the same period of 2016. Salaries, wages and related benefits accounted for 65.1% of the total in the covered period, followed by retirement benefits (24.7%), transfers to public institutions to cover salaries (5.4%), and end-of-service indemnities (4.8%). The rise in the compensation of public-sector personnel reflects a 10% increase in end-of-service indemnities, as well as a growth in retirement benefits (+4.8%), in salaries, wages & related benefits (+2.4%) and in transfers to public institutions to cover salaries (+1.5%). The compensation of public-sector personnel represented the largest component of current primary spending and accounted for 66.8% of such expenditures in the first eight months of 2017, compared to 67.1% in the same period of 2016. The compensation of public-sector personnel absorbed 36.4% of fiscal spending in the covered period relative to 34.6% in the same period of 2016.

In parallel, salaries, wages and related benefits paid to public-sector employees amounted to \$2.2bn in the first eight months of 2017, constituting an increase of 2.4% from \$2.1bn in the same period of 2016. This category includes basic salaries, employment benefits, allowances, contributions to civil servants' cooperatives, as well as contributions to other mutual funds providing health insurance for specific categories of civil servants, mainly civil and religious judges, and employees at the Parliament. Salaries and benefits of military personnel reached \$1.4bn and accounted for 64% of salaries, wages and related benefits paid to the public sector in the covered period. Educational personnel followed with \$406.6m (18.6% of the total), then civil staff with \$208.3m (9.5%), the government's contribution to the employees' cooperative with \$148.6m (6.8%) and customs employees with \$21.9m (1%). Also, the Lebanese Army's salaries totaled \$895m in the first eight months of 2017 and represented 64% of military personnel's salaries and benefits. The salaries of the Internal Security Forces followed with \$386.7m (27.6%), those of the General Security Forces with \$93m (6.6%) and the salaries of State Security Forces with \$26m (1.8%).

The overall increase in salaries, wages and related benefits paid to public-sector employees reflects a year-on-year growth of \$47.1m in allowances, a rise of \$43.8m in other payments such as bonuses given to non-military bodies, and an increase of \$0.66m in employment benefits, which were partly offset by a decrease of \$47.8m in basic salaries. Overall, allowances grew by 16.9% year-on-year to \$325.7m in the first eight months of 2017, other payments disbursed to non-military bodies rose by 30.6% to \$187.1m and employment benefits grew by 0.7% to \$96.2m, while basic salaries regressed by 3% to \$1.55bn in the covered period.

### Stock market index up 6.6% in first quarter of 2018

Figures released by the Beirut Stock Exchange (BSE) indicate that trading volume reached 45,621,948 shares in the first quarter of 2018, constituting an increase of 3.5 times from 13,148,154 shares traded in the same quarter of 2017; while aggregate turnover amounted to \$338.1m, up by 3.1 times from a turnover of \$107.7m in the first quarter of 2017. Market capitalization regressed by 5% from the end of March 2017 to \$11.85bn, with banking stocks accounting for 85.2% of the total, followed by real estate equities (11.9%), industrial stocks (2.6%) and trading firms' stocks (0.3%). The market liquidity ratio was 2.9% in the covered quarter compared to 0.9% in the first quarter of 2017.

Banking stocks accounted for 84% of the aggregate trading volume in the first quarter of 2018, followed by real estate equities with 13.3%, industrial shares with 2.6% and trading stocks with 0.1%. Also, banking stocks represented 79.1% of the aggregate value of shares traded, followed by real estate equities with 15.9%, industrial stocks with 5% and trading stocks with 0.03%. The average daily traded volume for the quarter was 747,901 shares for an average daily value of \$5.5m. The figures reflect a rise of 3.5 times in volume and an increase of 3.1 times in value year-on-year in the first quarter of the year. In parallel, the Capital Markets Authority's Market Value-Weighted Index for stocks traded on the BSE increased by 6.6% in the first quarter of 2018, while the CMA's Banks Market Value-Weighted Index improved by 3% in the covered quarter.

### Insurance premiums up 4% to \$1.63bn in 2017, claims up 9% to \$966m

Figures released by the Association of Insurance Companies in Lebanon (ACAL) indicate that insurance premiums generated in Lebanon totaled \$1.63bn in 2017, constituting an increase of 4% from \$1.57bn in 2016. Premiums reached \$447m in the first quarter, \$400.6m in the second quarter, \$401m in the third quarter and \$382.7m in the fourth quarter of 2017.

Life insurance premiums totaled \$504.9m in 2017 and accounted for 30.9% of the sector's aggregate premiums. Medical insurance premiums followed with \$478.1m (29.3%), then motor insurance premiums with \$376.6m (23.1%), fire premiums with \$109.3m (6.7%), workmen compensation with \$52.6m (3.2%), cargo premiums with \$37m (2.3%), public liability premiums with \$20m (1.2%) and engineering premiums with \$8.8m (0.5%), while premiums from other categories amounted to \$44.1m and accounted for 2.7% of the total.

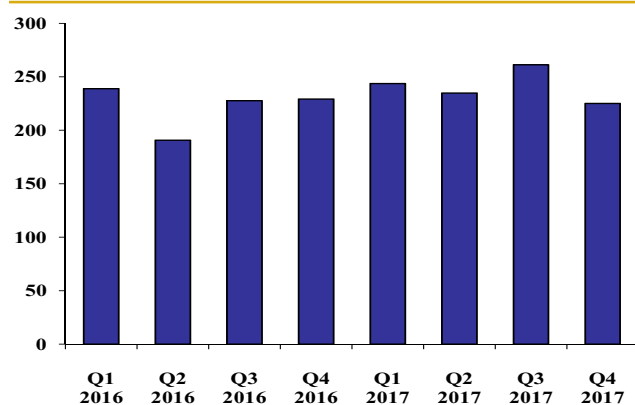
ACAL noted that medical insurance premiums covering Lebanese citizens grew by 4% to \$463m in 2017, while premiums covering Lebanese expatriates rose by 5% year-on-year to \$15.1m. Also, non-compulsory motor premiums increased by 3% to \$307.8m in 2017, while compulsory motor premiums expanded by 8% year-on-year to \$68.7m. Also, cargo premiums grew by 16% in 2017, posting the largest increase among all categories, followed by public liability premiums (+7%), life premiums (+5%), medical and motor insurance premiums (+4% each), engineering premiums (+2%) and fire and workmen premiums (+1% each).

Further, ACAL indicated that total benefits and claims paid by insurance companies stood at \$965.8m in 2017, constituting an increase of 8.9% from \$886.5m in 2016. Benefits and claims paid for the non-life categories reached \$662.8m last year, constituting an increase of 2.9% from \$643.8m in 2016, while claims disbursed for the life insurance category amounted to \$303m and grew by 24.9% from \$242.7m in 2016.

Medical claims accounted for 36% of total claim payments in 2017, followed by life insurance claims (31.4%), motor claims (21.6%), workmen compensation claims (3.4%), fire claims (3.2%), cargo claims (1.1%), and engineering claims and public liability claims (0.5% each). Engineering claims surged by 78% in 2017, life insurance claims expanded by 25%, cargo claims increased by 8%, motor claims rose by 4%, medical insurance claims grew by 3% and workmen compensation claims expanded by 2%, while claims related to other categories increased by 2% year-on-year. In contrast, public liability claims declined by 24% last year, while fire claims decreased by 5% year-on-year.

In parallel, protection with savings policies accounted for 62.4% of total life insurance premiums and for 22.5% of the number of life insurance contracts in 2017, while life protection plans represented 37.6% of total life insurance premiums and 77.5% of the total number of life insurance contracts last year.

Paid Claims (US\$ million)



Source: ACAL, Byblos Research



### New car sales down 6% in first quarter of 2018

Figures released by the Association of Automobile Importers in Lebanon show that dealers sold 7,645 new passenger cars in the first quarter of 2018, constituting a decrease of 5.8% from 8,118 cars sold in the same quarter of 2017. Individuals and institutional clients purchased 2,489 new cars in January, as well as 2,255 new vehicles in February and 2,901 new automobiles in March 2018.

Japanese cars accounted for 39.5% of total car sales in the first quarter of 2018, followed by Korean vehicles with a 31.4% share, European automobiles (20.1%), American cars (6.4%) and Chinese vehicles (2.7%). The sales of new Chinese cars jumped by 2.2 times year-on-year in the covered quarter, the demand for Japanese automobiles grew by 83.7%, the number of American cars sold improved by 41.1%, the sales of Korean vehicles expanded by 30.8% and demand for European automobiles increased by 27.2%.

Kia is the leading brand in the Lebanese market with 1,377 vehicles sold in the first quarter of 2018, followed by Hyundai with 1,014 new cars sold, Toyota (1,002), Nissan (746), Suzuki (351), Mitsubishi (280), Renault (271) and Chevrolet (270). In parallel, car dealers sold 491 new commercial vehicles in the covered quarter, down by 22.2% from 631 commercial vehicles purchased in the first quarter of 2017. Overall, car dealers sold 8,136 new passenger automobiles and commercial vehicles in the first quarter of 2018, down by 7% from 8,749 cars sold in the same quarter of 2017.

In parallel, Lebanon's top five distributors sold 5,093 vehicles in the first quarter of 2018 and accounted for 62.6% of new car sales. NATCO sal sold 1,386 vehicles, equivalent to 17% of the total, followed by Boustany United Machineries sal with 1,086 cars (13.3%), Rasamny Younis Motor Co. sal with 1,052 automobiles (12.9%), Century Motor Co. sal with 1,042 vehicles (12.8%) and Bassoul Heneiné sal with 527 cars (6.5%).

### Saradar Bank's net earnings at \$10m in 2017

Saradar Bank sal, one of Lebanon's top 15 banks in terms of deposits, announced unaudited consolidated net profits of \$10.1m in 2017, constituting an increase of 3.1 times from net earnings of \$3.3m in 2016. The bank is the new entity formed by the merger of Near East Commercial Bank sal with Banque de L'Industrie et du Travail sal. Net operating income grew by 23.7% year-on-year to \$68.4m in 2017, with net interest income increasing by 11.5% to \$28.1m and net fees & commissions receipts rising by 13.5% to \$12.6m. Non-interest income accounted for 59.3% of total income in 2017, down from 66.7% the previous year; with net fees & commissions representing 30.8% of non-interest earnings relative to 22% in 2016. Further, the bank's interest margin was 1.28% last year relative to 1.3% in 2016; while its spread reached 1.22% in 2017 compared to 1.24% in the preceding year. Total operating expenditures increased by 14.6% to \$56.3m in 2017, with staff expenses declining by 15% to \$28.4m and administrative & other operating expenditures growing by 89.5% to \$26.5m. Also, the bank's return on average assets was 0.44% in 2017 relative to 0.16% in 2016, while its return on average equity reached 4.18% in 2017 compared to 1.4% in 2016. The bank's cost-to-income ratio increased to 81.7% in 2017 from 64.9% in 2016.

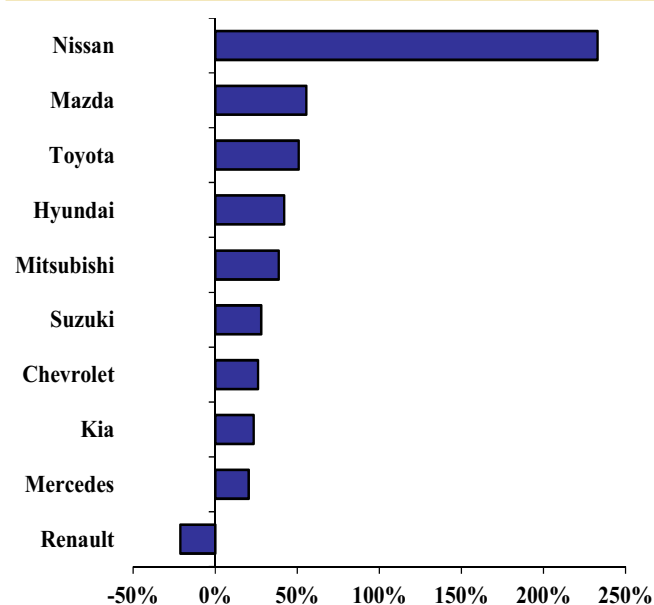
In parallel, total assets reached \$2.56bn at the end of 2017, up by 26.6% from end-2016, while loans & advances to customers, excluding those to related parties, grew by 28.7% from end-2016 to \$762.7m. Also, customer deposits, excluding those from related parties, totaled \$1.95bn at end-2017 and increased by 25.7% from the end of 2016. The loans-to-deposits ratio increased from 37.3% at end-2016 to 37.9% at the end of 2017. Further, the bank's shareholders' equity reached \$245.5m at the end-2017, up by 4.1% from end-2016.

### Fransabank issues \$60m in green bonds

The Ordinary General Assembly of Fransabank that was held on February 8, 2018 approved the issuance of a \$60m green bond offering through the issuance of 600 "Series 1" bonds worth \$100,000 each. Also, the debt issuance was approved by Banque du Liban. The notes, which are due in 2025 and carry a coupon rate of 6.788% paid semi-annually, represent the first tranche of the bank's \$150m green medium-term note program. Proceeds from the issuance aim to finance environmental projects in Lebanon. Fransabank's share capital consists of 21,925,000 common shares, 375,000 Series "C" Preferred Shares, 425,000 Series "D" Preferred Shares, 525,000 Series "E" Preferred Shares, and 375,000 Series "F" Preferred Shares.

In parallel, Moody's Investors Service assigned on February 26, 2018 a Green Bond Assessment of GB1 (Excellent) to Fransabank's \$60m green bond offering. It considered that the assessment reflects the bank's commitment to allocate the bond proceeds to finance or refinance eligible projects that comply with the Green Bond Principles, which are guidelines that recommend transparency and disclosure, and promote integrity in the development of the green bond market.

**Sales of Top 10 Car Brands in First Quarter of 2018**  
(% change\*)



\* year-on-year

Source: AIA, Byblos Research



## 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	Sep 2016	Aug 2017	Sep 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*	Sep 2016	Aug 2017	Sep 2017	Change**	Risk Level
Political Risk Rating	57.6	57.8	57.8	▼	High
Financial Risk Rating	38.9	38.0	38.1	▲	Low
Economic Risk Rating	29.7	30.6	30.4	▼	Moderate
Composite Risk Rating	63.1	63.2	63.1	↔	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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