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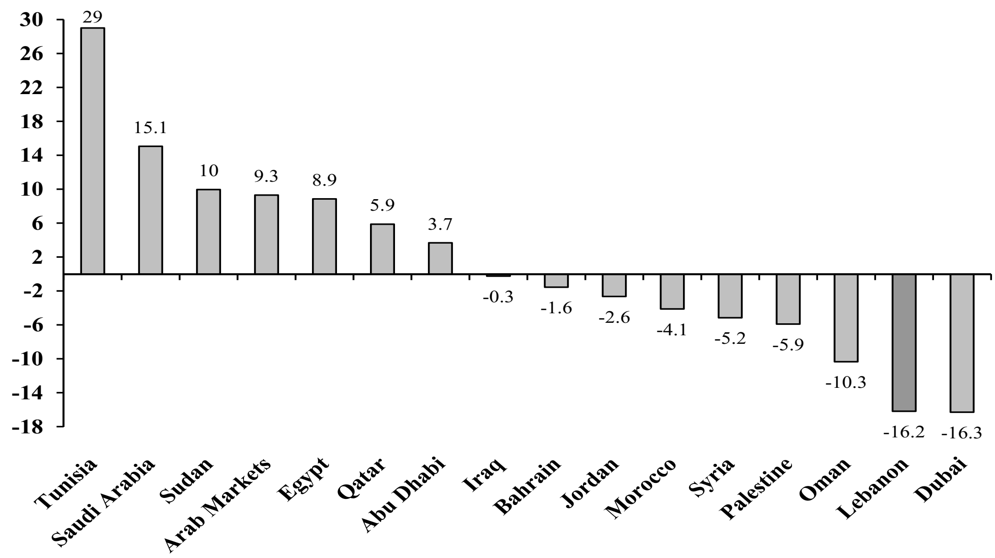
BYBLOS BANK SAL
Economic Research & Analysis Department

LEBANON THIS WEEK

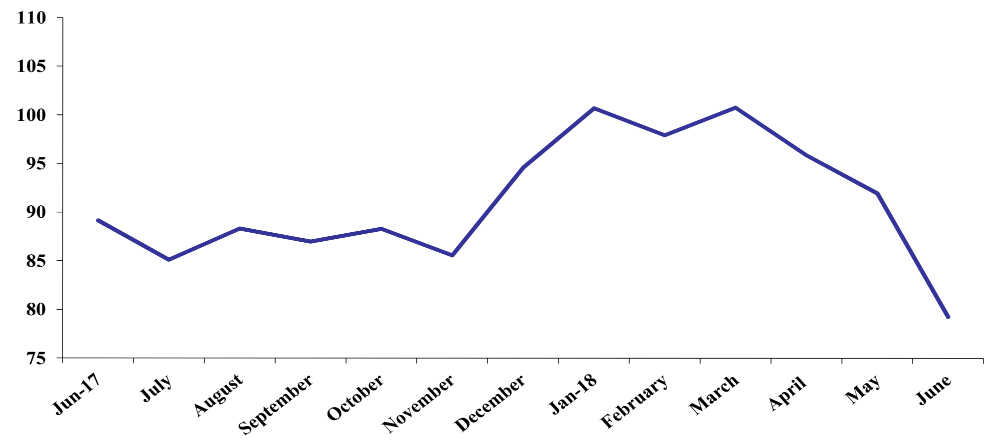
In This Issue

Charts of the Week

Performance of Arab Stock Markets in the First Half 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, S&P Dow Jones Indices, Arab Federation of Exchanges, Byblos Bank

Quote to Note

"The outcome of the recent CEDRE investment conference, where international organizations and donors supported the government's Capital Investment Program, represents an opportunity for growth-enhancing reforms and investment."

The International Monetary Fund, on the need for Lebanese authorities to take advantage of international support to implement structural reforms

Number of the Week

-0.05%: Contribution of the public administration to Lebanon's economic growth in 2016, according to national accounts published by the Central Administration of Statistics

Lebanon in the News

$m *(unless otherwise mentioned)*	2017	Dec 2016	Sep 2017	Oct 2017	Nov 2017	Dec 2017	% Change*
Exports	2,844	244	210	251	229	251	2.70
Imports	19,582	1,536	1,297	1,690	1,726	2,278	48.3
Trade Balance	(16,739)	(1,292)	(1,087)	(1,439)	(1,497)	(2,027)	56.88
Balance of Payments	(156)	910	457	(888)	68	854	(6.16)
Checks Cleared in LBP	21,677	1,879	1,475	1,993	1,880	2,131	13.41
Checks Cleared in FC	46,578	3,880	3,010	4,147	3,687	4,127	6.37
Total Checks Cleared	68,255	5,759	4,485	6,140	5,567	6,258	8.67
Budget Deficit/Surplus	(3,300.82)	(513.35)	(651.25)	(273.18)	(865.19)	(350.41)	(31.74)
Primary Balance	1,882.86	(111.56)	(145.72)	166.63	(119.74)	15.77	-
Airport Passengers***	8,235,845	598,001	861,828	616,742	592,890	626,866	4.83

$bn *(unless otherwise mentioned)*	2017	Dec 2016	Sep 2017	Oct 2017	Nov 2017	Dec 2017	% Change*
BdL FX Reserves	35.80	34.03	35.06	36.77	35.69	35.80	5.21
In months of Imports	18.57	22.15	27.03	21.76	20.68	6.15	(72.25)
Public Debt	79.52	74.90	78.16	78.47	79.37	79.52	6.17
Bank Assets	219.86	204.31	213.42	215.79	216.21	219.86	7.61
Bank Deposits (Private Sector)	168.67	162.50	169.09	169.40	166.81	168.67	3.80
Bank Loans to Private Sector	60.32	57.18	58.93	59.13	59.55	60.32	5.49
Money Supply M2	52.48	54.68	55.50	55.07	51.96	52.48	(4.02)
Money Supply M3	138.38	132.80	138.87	138.68	136.99	138.38	4.20
LBP Lending Rate (%)****	8.09	8.23	8.31	8.24	7.98	8.09	(14bps)
LBP Deposit Rate (%)	6.41	5.56	5.53	5.56	5.88	6.41	85 bps
USD Lending Rate (%)	7.67	7.35	7.53	7.39	7.32	7.67	32 bps
USD Deposit Rate (%)	3.89	3.52	3.65	3.72	3.80	3.89	37 bps
Consumer Price Index**	4.40	3.10	4.10	4.60	4.80	5.00	190 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	5.25	0.00	1,374,461	20.12%
Solidere "A"	7.23	(9.17)	218,840	6.93%
BLOM Listed	10.50	0.00	197,157	21.64%
Solidere "B"	7.05	(11.88)	66,123	4.39%
BLOM GDR	10.50	(0.47)	44,100	7.44%
Byblos Common	1.45	0.00	15,194	7.86%
Audi GDR	5.10	1.80	3,464	5.86%
Byblos Pref. 08	90.90	0.00	1,105	1.74%
HOLCIM	15.50	(1.71)	1,100	2.90%
Byblos Pref. 09	90.90	(1.14)	250	1.74%

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

Sovereign Eurobonds	Coupon %	Mid Price $	Mid Yield %
Nov 2018	5.15	99.75	5.82
May 2019	6.00	98.38	7.93
Mar 2020	6.38	96.13	8.89
Oct 2022	6.10	86.38	10.12
Jun 2025	6.25	80.00	10.36
Nov 2026	6.60	78.63	10.49
Feb 2030	6.65	76.88	10.06
Apr 2031	7.00	76.63	10.33
Nov 2035	7.05	75.63	10.04
Mar 2037	7.25	77.50	9.91

Source: Byblos Bank Capital Markets

	Jun 25-29	Jun 18-22	% Change	May 2018	May 2017	% Change
Total shares traded	2,151,001	1,013,223	112.3	3,629,854	18,564,676	(80.4)
Total value traded	$12,993,672	$8,203,074	58.4	$28,799,512	$157,326,100	(81.7)
Market capitalization	$10.43bn	$10.58bn	(1.43)	$10.97bn	$11.72bn	(6.4)

Source: Beirut Stock Exchange (BSE)

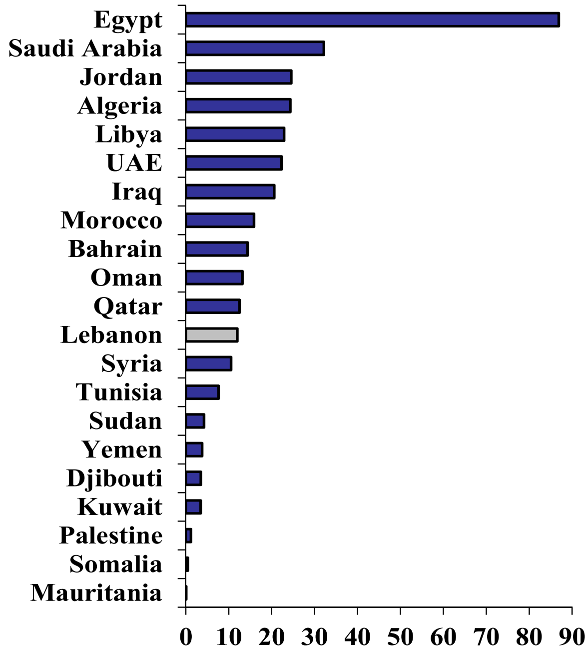
Inter-Arab Greenfield foreign direct investment in Lebanon at $12bn between 2003 and 2017

Figures compiled by fDi Markets show that the cumulative amount of Arab Greenfield foreign direct investment (FDI) in Lebanon totaled $11.98bn between 2003 and 2017. Lebanon was the 12th largest recipient of inter-Arab Greenfield FDI among 21 Arab countries during the covered period, ahead of Syria ($10.53bn), Tunisia ($7.62bn), Sudan ($4.24bn), Yemen ($3.82bn), Djibouti ($3.5bn), Kuwait ($3.48bn), Palestine ($1.19bn), Somalia ($484.7m) and Mauritania ($91.8m). The amount of Greenfield FDI in Lebanon accounted for 3.6% of total such investments in Arab countries between 2003 and 2017. Also, the cumulative amount of Arab Greenfield FDI in Lebanon accounted for 2.2% of the country's aggregate GDP over the 2003-17 period.

The FDI figures cover cross-border Greenfield projects that lead to the direct creation of jobs and capital investment. They include joint ventures when these transactions lead to a new physical Greenfield operation, but exclude mergers and acquisitions and other equity investments. fDi Markets is a database that tracks cross-border Greenfield investments across the world, and is owned by the Financial Times Group.

The real estate sector in Lebanon attracted $7.58bn in Greenfield FDI, or 63.3% of the total, between 2003 and 2017. The hotels & tourism sector followed with $3.33bn (27.8%), then the metals industry with $300m (2.5%), the financial services sector with $279.5m (2.3%), the entertainment industry with $98.1m (0.8%), storage with $63.5m and the transportation sector with $62.8m (0.5% each); while other sectors attracted $270m, or 2.3% of the total during the covered period.

Inter-Arab Greenfield FDI Inflows between 2003 and 2017 (US$bn)



Source: fDi Markets, Byblos Research

The UAE was the main source of Arab Greenfield FDI in Lebanon with $7.76bn or 64.8% of the total, followed by Kuwait with $2.05bn (17.1%), Saudi Arabia with $1.9bn (15.9%), Qatar with $104.5m (0.9%), Bahrain with $100.1m (0.8%), Egypt with $20.9m (0.2%), Iraq and Jordan with $15.1m each, and Oman with $12.6m (0.1% each).

In parallel, Lebanon attracted 93 Greenfield FDI projects from Arab countries between 2003 and 2017, constituting the 10th lowest number of projects among 21 Arab countries. Lebanon attracted a larger number of projects than Syria (75 projects), Libya (54 projects), Sudan (49 projects), Tunisia (38 projects), Yemen (19 projects), Palestine (12 projects), Djibouti (11 projects), and Mauritania and Somalia (six projects each). Also, the UAE was the source of 53 Greenfield FDI projects to Lebanon, or 57% of the total, followed by Kuwait with 18 projects (19.4%), Saudi Arabia with nine projects (9.7%), Bahrain and Qatar with four projects each (4.3%), Egypt with two projects (2.2%), and Iraq, Jordan and Oman with one project each (1.1% each). Further, the number of Greenfield FDI projects in Lebanon accounted for 3.4% of such projects in Arab countries over the covered period. Overall, Kuwait, Saudi Arabia and the UAE accounted for 86% of the number of projects in Lebanon and for 97.8% of their value.

Surveyed economists expect Lebanon's real GDP growth at 1.9% in 2018

Bloomberg's quarterly survey of economists and analysts about the outlook on the Lebanese economy projected real GDP growth at 1.9% in 2018, compared to a March 2018 forecast of 2%, while it expected growth to accelerate to 2.6% in 2019. The individual forecasts of growth rates for 2018 ranged from 1.5% to 2.5%, while the consensus forecast among 87.5% of participants is that real GDP would grow by 2% or less this year. The results displayed a median real GDP growth figure of 1.9% for 2018. The survey's results are based on the opinions of eight economists and analysts based in Lebanon and abroad. Bloomberg conducted the poll between June 17 and June 21, 2018.

Also, participants forecast Lebanon's average inflation rate at 4.3% in 2018 and at 3.8% in 2019. The opinions of polled economists differed on the direction of consumer prices in 2018 with expectations ranging from 3% to 6%, while 87.5% of participants agreed that the inflation rate would be between 3% and 4.5% this year. The poll's results revealed a median inflation rate of 4.2% for 2018.

In addition, surveyed economists forecast Lebanon's fiscal deficit at 7.9% of GDP in 2018 and at 7.4% of GDP in 2019. The participants expected the fiscal deficit at between 6.5% of GDP and 9% of GDP this year, with a median of 7.9% of GDP. Further, polled economists projected the current account deficit at 20.7% of GDP this year and at 20.8% of GDP in 2019. The surveyed economists expected the current account deficit to range between 17% of GDP and 25.8% of GDP, with a median of 20.3% of GDP in 2018.

In parallel, respondents assigned an average probability of 16.7% for Lebanon to enter into recession in the next 12 months. The opinions of surveyed economists ranged between 10% and 20%. The poll's results indicated a median probability of 20% for a recession in 2018.

Lebanon ranks 81st globally, 10th among Arab countries in transparency of real estate sector

Jones Lang LaSalle's Global Real Estate Transparency Index for 2018 ranked Lebanon in 81st place among 100 countries and markets worldwide and in 10th place among 15 Arab countries and markets included in the survey. Lebanon also came in 23rd place among 29 upper-middle income economies (UMICs). Based on the same set of countries and markets included in the 2016 and 2018 surveys, Lebanon's rank changed from 83rd place in 2016 to 81st place in 2018.

The index, which is issued every two years, measures national real estate transparency across the globe and is used to compare transparency conditions across markets. It highlights the important differences in transactions processes, property rights and the regulatory and legal environment around the world. It also aims to provide international benchmarks to cross-border investors, developers and occupiers of real estate, as well as government and industry bodies, in order to measure and improve transparency in their markets.

Real Estate Transparency Index 2018

	Score	Arab Rank	Gobal Rank	Level of Transparency
Dubai	2.79	1	40	Semi
Saudi Arabia	3.32	2	54	Semi
Abu Dhabi	3.37	3	55	Semi
Egypt	3.45	4	57	Semi
Bahrain	3.55	5	62	Low
Morocco	3.56	6	63	Low
Jordan	3.74	7	68	Low
Kuwait	3.84	8	70	Low
Qatar	3.90	9	71	Low
Lebanon	**4.18**	**10**	**81**	**Opaque**
Oman	4.19	11	82	Opaque
Tunisia	4.20	12	83	Opaque
Algeria	4.27	13	87	Opaque
Iraq	4.51	14	95	Opaque
Libya	4.63	15	99	Opaque

Source: Jones Lang LaSalle, Byblos Research

Jones Lang LaSalle compiled the index from 186 quantitative and qualitative transparency measures that are grouped into 14 major topic areas, which are, in turn, grouped into six sub-indices. The six sub-indices are Performance Measurement that has a weight of 28.5%, Market Fundamentals (16.5%), Governance of Listed Investment Vehicles (10%), Regulatory & Legal Issues (25%), the Transaction Process (15%) and Sustainability (5%). The index scores range from 1.00 to 5.00 points. A country or market with a perfect 1.00 score is considered to have a high level of transparency, while a score of 5.00 represents the lowest transparency level. The survey then assigns countries and markets to one of five transparency levels that are "Highly Transparent", "Transparent", "Semi-Transparent", "Low Transparency" and "Opaque".

Globally, Lebanon's real estate market is more transparent than markets in Oman, Tunisia and Uganda, and is less transparent than markets in Rwanda, Ecuador and Panama. It also ranks ahead of only Algeria, Belarus, the Dominican Republic, Iraq, Libya and Venezuela among upper-middle income economies. Lebanon received a score of 4.18 points in the 2018 survey compared to 4.06 points in the 2016 study, 3.9 points in the 2014 survey and 3.75 points in the 2012 study, reflecting a deterioration in the transparency level of the Lebanese real estate market. Also, its score lagged the global average of 3.2 points, the UMICs' average of 3.5 points and the Arab average of 3.8 points.

Further, the Lebanese real estate market came in the "Opaque" category in the 2018 survey, along with 20 other countries in the world that include Angola, Ethiopia, the Dominican Republic and Senegal. The survey downgraded the Lebanese real estate market from the "Semi-Transparent" category in 2012 to the "Low-Transparency" category in 2014 and to the "Opaque" category in 2016.

In parallel, Lebanon, along with the Bahamas, ranked in the 14th percentile worldwide on the Market Fundamentals sub-index, which reflects the availability of data on the office, retail, industrial, hotels and residential real estate segments. Lebanon ranked ahead of Algeria and Venezuela and behind Belarus and Iraq on this category. Further, Lebanon, along with Guatemala, Honduras and Libya, came in the fifth percentile worldwide on the Regulatory & Legal sub-index, which assesses a country's real estate regulations, land and property registration, including the accessibility of land registry records to the public.

In addition, Lebanon, along Mozambique, came in the sixth percentile globally on the Transaction Process sub-index, which assesses the quality and availability of pre-sale information and fairness of the bidding process, among others, as well as the availability and quality of occupier services. Lebanon ranked ahead of only Ethiopia, Senegal, Venezuela, Iraq and Libya on this sub-index.

Components of the 2018 Real Estate Transparency Index for Lebanon

Sub-Index	Global Rank	Arab Rank	UMIC Rank	Lebanon Score	Global Avge Score	Arab Avge Score	UMIC Avge Score
Performance Measurement	57	7	13	4.2	3.64	4.20	4.06
Market Fundamentals	86	11	25	4.8	3.44	4.33	3.69
Governance of Listed Vehicles	63	8	15	3.3	2.98	3.49	3.25
Regulatory & Legal	95	14	27	4.0	2.66	3.36	2.94
Transaction Process	94	13	26	4.3	2.59	3.41	2.91
Sustainability	51	5	13	4.4	3.97	4.50	4.31

Source: Jones Lang LaSalle, Byblos Research

Constitutional Council invalidates seven articles in 2018 Budget Law

The Constitutional Council invalidated on May 14, 2018 articles 14, 26, 35, 43, 49, 51 and 52 of the 2018 Budget Law that the Lebanese Parliament enacted in March 2018. Article 14 gave the Council of Ministers until October 2018 to appoint the members of regulatory authorities and boards of directors of public institutions. Article 26 provided incentives for businesses to settle any unpaid income taxes that they incurred between 2011 and 2016. It allowed businesses or individuals that are not registered with tax authorities, or those in the informal economy, to settle unpaid income taxes incurred between 2011 to 2016. It also permitted registered taxpayers who may or may not have declared their income to settle any unpaid income taxes during the 2013-16 period.

Further, Article 35 allowed real estate owners to settle fees and fines on violations related to their property. Also, Article 43 gave the Council of Ministers until the end of 2020 to shutdown public institutions that are obsolete, and to merge institutions that have similar roles and provide similar services. Further, Article 49 allowed Arabs and foreigners who buy a residential property in Lebanon, as well as their spouses and children, to become residents of Lebanon for the duration of their ownership of the unit, provided that the value of the unit exceeds LBP750m in Beirut, or LBP500m in other regions.

In addition, article 51 modified the working hours of public sector employees from 32 hours to 34 hours per week. The distribution of the working hours will depend on a decree approved by the Council of Ministers based on a proposal by the Prime Minister, provided that working hours on Friday are from 8:00 am to 11:00 am. Also, Article 52 fixed the annual judiciary holiday for each judge at a month and a half. It also required the Supreme Judicial Council, the State Consultative Council and the Audit Bureau to determine the holiday schedule for each judicial department during the period that extends between July 15 and September 30 of each year.

USAID launches program to support job creation in Lebanon

The U.S. Agency for International Development (USAID), in partnership with the Beirut-based Berytech Foundation, officially launched the Lebanon Enterprise Development (LED) project to support Lebanon's business environment and create jobs in Beirut, the Bekaa, Mount Lebanon and South Lebanon. The $14m three-year project, which will be financed by the USAID, will offer customized technical assistance to local small- and medium-sized enterprises to help them address challenges related to their business growth, productivity and profitability. The initiative could be extended for another two years, which would raise total USAID commitments for the project to $25m over five years. The LED project will operate across Lebanon, with a head office in Beirut, as well as regional offices covering Beirut, Mount Lebanon, North Lebanon, South Lebanon and the Bekaa. The project is expected to create 9,000 jobs by 2022.

In May 2017, LED signed a similar partnership with the Business Incubation Association in Tripoli (BIAT) to introduce business development activities in North Lebanon, in order to support businesses in a wide range of sectors that include the agro-food, tourism and hospitality, pharmaceutical and medical, information and communications technology, fashion, and manufacturing sectors.

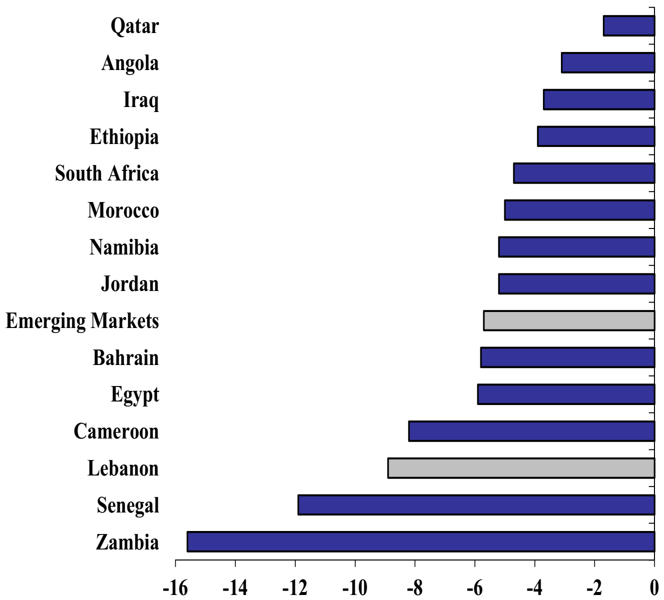
External bonds post sixth lowest return in emerging markets in first half of 2018

Figures issued by Citi Research indicate that Lebanon's external sovereign debt posted a return of -8.9% in the first half of 2018, constituting the sixth lowest return, among 43 emerging markets included in the Citi EM Sovereign Bond Index. Also, Lebanon's sovereign debt posted the third lowest return among 14 countries in the Middle East & Africa region in the first half of 2018. Lebanon's sovereign debt return was higher than that of Turkey (-9.1%), Senegal (-11.9%), Ecuador (-12.3%), Argentina (-14.9%) and Zambia (-15.6%) in the covered period.

Lebanon underperformed the overall emerging markets' return of -5.7% and the speculative grade sovereigns' return of -7.8%, but outperformed the 'B'-rated sovereigns' return of -9.1% during the covered period.

Further, Lebanon's sovereign debt posted a return of -5.1% in June 2018, constituting the fifth lowest return in emerging markets during the covered month. Lebanon's sovereign debt outperformed only Argentina (-5.8%), Ukraine (-5.6%), Cameroon (-5.4%) and Senegal (-5.2%) in June 2018. Also, Lebanon underperformed the emerging markets' return of -1.8%, the 'B'-rated sovereigns' return of -4.4% and the speculative grade sovereigns' return of -3.4% during the covered month.

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



Source: Citi Research, Byblos Research

Deposit inflows, stable currency and debt repayment record are among sovereign strengths

In its annual sovereign assessment on Lebanon, Moody's Investors Service indicated that Lebanon's 'B3' government bond rating balances the country's wide fiscal deficit and elevated debt burden, with its resilient bank deposit amid sustained remittance inflows, as well as the government's perfect track record of public debt repayment. It said that the 'stable' outlook on the rating reflects the high level of foreign currency reserves, which have been resilient to political instability in previous years. The agency indicated that its assessment is based on four factors that are Economic Strength, Institutional Strength, Fiscal Strength, and Susceptibility to Event Risk.

Moody's ranked Lebanon's Economic Strength at "Low+", the 10th highest level on a scale of 15 notches that range from "Very High (+)" to "Very Low (-)" and similar to the median level of similarly-rated countries. It noted that its assessment reflects the country's moderate income per capita, subdued growth prospects, vulnerability to external shocks, as well as insufficient public investments, reduced competitiveness, and regional economic and political uncertainties. Other countries with the same level of Economic Strength include Cameroon and Gabon. It projected Lebanon's real GDP growth to increase from 1.9% in 2017 to 2.5% in 2018 and 3% in 2019, mainly due to better economic policy coordination following the improvement in the political environment, as well as to the expected implementation of the Capital Investment Program funded by pledges from the international community at the CEDRE conference. It noted that the CEDRE conference, which was held in April 2018, resulted in investment funding commitments of more than $11bn to be disbursed over the next five years, based on the implementation of fiscal and structural reforms. In this context, it forecast Lebanon's real GDP growth to average 3% annually in the 2018-21 period, reflecting a pick up in investment activity.

In parallel, the agency assessed Lebanon's Institutional Strength as "Low-", the 12th highest level on a scale of 15 notches, and similar to the Institutional Strength of Kenya and Zambia. Lebanon's assessment is one notch higher than the median level of "Very Low (+)" for similarly-rated countries. This category evaluates the government's ability and willingness to pursue policies that support its timely debt payments. The agency indicated that its assessment reflects the country's weak government effectiveness, which is partly offset by Banque du Liban's (BdL) credible monetary policy, the resilience of the financial sector and the government's willingness to service its debt. It said that the ratification of the 2017 and 2018 budgets and the holding of parliamentary elections have improved government effectiveness. It added that the government has never defaulted on its debt despite serious political and economic shocks. It also noted that Banque du Liban (BdL) has maintained confidence in monetary policy and in the currency peg to the US dollar, which has prevented a deterioration in the country's Institutional Strength assessment.

Further, the agency evaluated Lebanon's Fiscal Strength as "Very Low (-)", which reflects a wide fiscal deficit and an elevated debt level. Lebanon's assessment on this category is the lowest on a scale of 15 notches compared to a median level of "Low (+)" for similarly-rated countries. Other countries with the same level of Fiscal Strength include Bahrain and Jamaica. The agency projected Lebanon's fiscal deficit to average 8.3% of GDP annually during the 2018-19 period. Further, it forecast the public debt level, excluding debt owed to public entities, to increase from 142.1% of GDP at end-2017 to 144.8% of GDP at the end of 2019.

Finally, Moody's ranked Lebanon's Susceptibility to Event Risk at "High (-)", the sixth lowest level on a scale of 15 notches, and similar to the median level of similarly-rated countries. Other countries with the same level of Susceptibility to Event Risk include Ethiopia and Tunisia. This factor assesses a country's vulnerability to sudden events that would materially impact the government's creditworthiness, such as political risks, as well as risks to government liquidity and to the banking sector. But the agency expected deposit inflows to remain resilient, due in part to Banque du Liban's stabilizing policies and higher deposit rates.

World Bank approves additional $90m loan for water project

The World Bank approved in June 2018 a loan of $90m to finance the Greater Beirut Water Supply Project that was approved by the World Bank in 2010 and became effective in 2012. The funding aims to cover the financing gap under the initial project and to help finance the costs associated with the scaling up of investments.

Following the approval of the additional $90m funding package, total commitments to the project will amount to $460m. The World Bank's financial commitment to the project totals $290m, the Beirut Mount Lebanon Water Establishment (BMLWE), a public entity under the oversight of the Ministry of Energy and Water, will provide $140m, while the Lebanese government will finance the remaining $30m.

The Greater Beirut Water Supply Project aims to increase the provision of potable water to the residents in the Greater Beirut and Mount Lebanon area, including to those in the low-income neighborhoods of Southern Beirut. The project consists of four components, which are water supply infrastructure, the construction of supply reservoirs and distribution networks and installation of meters, utility strengthening and national studies, and compensation for land acquisition and resettlement.

The $90m financing package will help finance three out of the four components of the project. First, $55m will partly finance the first component of the project related to the construction of water supply infrastructure. Specifically, it will cover the increase in the cost of the capacity of three regional reservoirs in the Hadath and Hazmieh regions, as well as supervision and contingency costs.

Further, $20m of the new loan will help identify leakages, repair pipes and minimize water leakage, among other irregularities under the third component of the project. Further, $15m of the additional loan will finance the implementation of a resettlement action plan, which will provide displaced people with compensation for land expropriation along with other compensations, and will monitor and evaluate the implementation of the resettlement action plan.

Cost of living in Beirut is 65th highest in the world, fourth highest among Arab cities in 2018

The annual Cost of Living Survey in 209 cities around the world by global consulting firm Mercer ranked the cost of living in Beirut as the 65th highest worldwide and the fourth highest among 17 Arab cities surveyed in 2018. Also, the cost of living in Beirut is the 16th highest among 48 cities in 35 upper middle-income countries (UMICs) included in the survey. In comparison, Beirut was the 52nd most expensive city worldwide and the fourth most expensive in the Arab world in 2017. Beirut's global rank regressed by 13 spots in this year's survey, mainly due the weakening of the US dollar against other major currencies worldwide as the Lebanese pound is pegged to the US dollar, as well as to decreases in rental accommodation costs.

The study measures the comparative cost of over 200 items in each location, including the cost of housing, food, clothing and household goods, as well as transportation and entertainment. The rankings are derived from a survey conducted in March 2018. The survey uses New York City as the base city for the index and compares all cities against it. The survey is conducted annually to help multinational companies determine compensation allowances for their expatriate workers.

On a global basis, the cost of living in Beirut is higher than Bangladesh's capital Dhaka, Brussels in Belgium and Frankfurt in Germany; and is lower than in Dakar in Senegal, Accra in Ghana and the Spanish capital Madrid. Also, the survey considered Beirut to be more expensive than Buenos Aires in Argentina, Rio de Janeiro in Brazil, and Panama City in Panama; while it is less costly than Saint Petersburg in Russia, Bangkok in Thailand and Sao Paulo in Brazil among UMICs.

Cost of Living Rankings in 2018

	Arab Rank	Global Rank	Change in Global Rank*
Dubai	1	26	-6
Abu Dhabi	2	40	-17
Riyadh	3	45	7
Beirut	**4**	**65**	**-13**
Djibouti	5	73	-24
Manama	6	77	-22
Amman	7	94	-35
Doha	8	115	-34
Jeddah	9	117	-
Muscat	9	117	-25
Kuwait City	11	121	-10
Casablanca	12	128	2
Rabat	13	165	4
Cairo	14	188	-5
Nouakchott	15	194	-5
Algiers	16	195	-8
Tunis	17	208	1

** (+) reflects a relative increase in the cost of living*
Source: Mercer, Byblos Research

Beirut's ranking is mainly due to the high cost of unfurnished housing (lower than New York City), personal leisure and sports (higher than New York City), transportation cost (higher than New York City) and the cost of utilities (higher than New York City). Mercer indicated that it compares the cost of high-end items that are important to expatriates and their employers, such as upscale residential areas and entertainment venues.

The rankings of 12 out of the 17 Arab cities regressed in the 2018 survey, while those of four cities in the region improved and the ranking of one Arab city remained unchanged from last year's survey. In parallel, the rankings included two non-Arab cities from the region, as Istanbul came in 163rd place relative to 142nd place in 2017, while Limassol ranked in the 153rd spot compared to 173nd in 2017. Hong Kong is the world's most expensive city, while Tashkent in Uzbekistan is the least costly city worldwide.

World Bank approves $400m project to support job creation

The World Bank's Board of Directors approved a new $400m project that aims to support job creation in Lebanon through enhancing the business environment, promoting skill development and improving the competitiveness of small- and medium-sized enterprises. In addition, it intends to promote the development of the telecommunications and financial sectors, support entrepreneurship and modernize relevant services in Lebanon, such as customs activities.

The financial package consists of a $330m soft loan from the World Bank, as well as a $70m grant from the Global Concessional Financing Facility, a World Bank-administered multinational fund that supports middle-income countries experiencing unusual social and economic pressure from refugee inflows. The soft loan carries an interest rate of 1.71%, has a six-year grace period and will be repaid over 22 years.

The disbursement of the funds is based on achieving three objectives that were established during consultations with Lebanese authorities. First, authorities need to develop a more favorable environment for private sector investment. In this context, the World Bank stressed the importance of reforming the customs system through simplified customs procedures, establishing public-private partnerships, and implementing reforms in the financial and telecommunications sectors.

The second objective requires authorities to promote job creation through trade and investment. Specifically, it expects authorities to support value-chain development in Lebanon in order to encourage investment in targeted sectors, such as agribusiness and information and communication technology. The second objective also targets the expansion of the current broadband network, as well as higher investments in the Tripoli Special Economic Zone project, in order to create employment opportunities for Syrian refugees. The third target stipulates that authorities strengthen and modernize active labor market programs, assist first-time job seekers to find employment, promote entrepreneurship opportunities for women and youth, and improve access to financing for start-ups. The new financing raises the total value of the World Bank’s commitments to Lebanon to $2.3bn.

Corporate Highlights

Stock market index down 16% in first half of 2018

Figures released by the Beirut Stock Exchange (BSE) indicate that trading volume reached 58,522,006 shares in the first half of 2018, constituting an increase of 42.1% from 41,187,432 shares traded in the same period of 2017; while aggregate turnover amounted to $425.7m, up by 22.9% from a turnover of $346.3m in the first half of 2017. Market capitalization regressed by 9.8% from the end of June 2017 to $10.4bn, with banking stocks accounting for 85.2% of the total, followed by real estate equities (11.3%), industrial shares (3.1%) and trading firms' equities (0.3%). The market liquidity ratio was 4.1% in the covered period compared to 3% in the first half of 2017.

Banking stocks accounted for 82.5% of the aggregate trading volume in the first half of 2018, followed by real estate equities with 14.7%, industrial shares with 2.3% and trading stocks with 0.4%. Also, banking stocks represented 78% of the aggregate value of shares traded, followed by real estate equities with 17.6%, industrial stocks with 4.2% and trading stocks with 0.2%. The average daily traded volume for the period was 495,949 shares for an average daily value of $3.6m. The figures reflect a rise of 44.5% in volume and an increase of 25% in value year-on-year in the first half of the year. In parallel, the Capital Markets Authority's Market Value-Weighted Index for stocks traded on the BSE dropped by 16.2% in the first half of 2018, while the CMA's Banks Market Value-Weighted Index regressed by 14.4% in the covered period.

Top five freight forwarders' import activity down 12% in first four months of 2018, export activity down 20%

Figures released by the Port of Beirut show that overall import shipping operations by the top five freight forwarders through the port reached 106,555 20-foot equivalent units (TEUs) in the first four months of 2018, constituting a decrease of 11.6% from 120,501 TEUs in the same period of 2017. The five freight forwarders accounted for 78% of imports to the Lebanese market and for 52.6% of the total import freight forwarding market in the first four months of 2018. Mediterranean Shipping Company (MSC) handled 40,414 TEUs in imports in the covered period, equivalent to a 20% share of the total freight forwarding import market. Merit Shipping followed with 22,427 TEUs (11.1%), then Sealine Group with 17,051 TEUs (8.4%), Metz Group with 15,118 TEUs (7.5%) and Tourism & Shipping with 11,545 TEUs (5.7%). Further, Tourism & Shipping registered a year-on-year increase of 171.1% in import shipping in the covered period, the highest growth among the top five freight forwarders, while Sealine Group posted a decrease of 25.8% in import shipping, the steepest decline in the first four months of 2018.

In parallel, export shipping operations by the top five freight forwarders through the Port of Beirut reached 22,511 TEUs in the first four months of 2018, constituting a decrease of 19.7% from 28,024 TEUs in the same period of 2017. The five freight forwarders accounted for 81.6% of exported Lebanese cargo and for 11% of the total export freight forwarding market in the first four months of 2018. Merit Shipping handled 9,303 TEUs of freight in the covered period, equivalent to 33.7% of the Lebanese cargo export market. Metz Group followed with 4,431 TEUs (16.1%), then Sealine Group with 4,088 TEUs (14.8%), MSC Shipping with 2,743 TEUs (8.8%) and Lotus Shipping with 1,946 (7.1%). Further, MSC posted a year-on-year increase of 47.7% in export shipping in the covered period, the highest rise among the top five freight forwarders, while Merit Shipping posted a drop of 40.2% in export shipping, the steepest decline among the top five freight forwarders.

Régie signs agreement to produce international cigarette brand

The Régie Libanaise des Tabacs & Tombacs signed a partnership agreement with Japan Tobacco International (JTI), a global tobacco company, to manufacture Winchester cigarettes in Lebanon. The agreement consists of the local production of 5,500 boxes of 100 millimeter (mm) and 83 mm Winchester cigarettes per month. Also, the Régie and JTI would start producing the first 2,200 boxes of Winchester cigarettes in June 2018. Following the agreement, the number of international cigarette boxes produced annually by the Régie would rise from 65,000 boxes in 2018 to 110,000 boxes of cigarettes in 2019.

In November 2017, the Régie signed a partnership agreement with Philip Morris International, an international tobacco company, to manufacture in Lebanon Marlboro Medium, Marlboro Next, Marlboro Soft, Marlboro Touch and Marlboro Gold. In November 2016, it signed an agreement with Imperial Tobacco, a subsidiary of British multinational company Imperial Brands plc, to manufacture Gitanes Blondes, Gauloises and West cigarette brands in Lebanon.

The Régie Libanaise des Tabacs & Tombacs is a public organization controlled by the Lebanese Ministry of Finance. It aims to manage the plantation, manufacturing, trade and transport of tobacco in Lebanon. Established in 1999, Japan Tobacco International manufactures over 100 cigarette brands, which include Winston, Glamour, Camel and Silk Cut.

Losses of affiliates of Lebanese banks in Syria at SYP14bn in 2017 when including foreign exchange losses on structural positions

Financial results issued by the affiliates of seven Lebanese banks operating in Syria show that their aggregate net losses reached SYP14.3bn in 2017 compared to net profits of SYP54.5bn in 2016. The deterioration in the banks' net earnings is due to the appreciation of the Syrian pound from SYP517.4 against the US dollar to SYP436 per US dollar during the covered period, which resulted in unrealized foreign exchange losses on the banks' structural positions of SYP25.7bn in 2017 compared to unrealized foreign exchange gains on structural positions of SYP54.6bn in 2016. In US dollar terms, the net losses of the seven banks reached $28.1m relative to profits of $116.6m in 2016. The aggregate net losses of the seven banks turn into profits of SYP11.4bn, or $22.5m, in 2017 when excluding foreign exchange losses on structural positions, relative to losses of SYP172.2m, or $368,537, in 2016. The earnings of Fransabank Syria deteriorated by SYP16.1bn, followed by a drop of SYP14.7bn in those of Bank Audi Syria, a decline of SYP12.4bn in the income of Banque BEMO Saudi Fransi, a decrease of SYP8.6bn in the profits of Bank of Syria & Overseas, a reduction of SYP7.9bn in the earnings of Bank Al-Sharq, the affiliate of Banque Libano-Française sal and a decline of SYP3.2bn in the income of Syria Gulf Bank the affiliate of First National Bank sal. In contrast, Byblos Bank Syria was the only bank to post net profits in 2017, despite a year-on-year drop of SYP5.9bn in its earnings.

The net interest income of the seven banks totaled SYP13.6bn in 2017, up 7.2% from SYP12.7bn in 2016; while their net fees & commission income dropped by 30.6% year-on-year to SYP3.2bn. In US dollar terms, the banks' net interest income totaled $26.7m in 2017, down by 1.4% from 2016; while their net fees & commission income stood at $6.3m, reflecting a drop of 36.1% from $9.9m in 2016. The seven banks' operating income shifted from profits of SYP75.1bn in 2016 to losses of SYP6.7bn in 2017, while their total operating expenses reached SYP6.6bn in 2017, down by 58.5% from SYP15.9bn 2016. In US dollar terms, the seven banks' operating losses totaled $13.2m in 2017 relative to operating profits of $160.7m in 2016; while their operating expenses stood at $12.9m, down by 61.8% from $33.9m in 2016. The banks' operating income becomes SYP19bn in 2017 when excluding foreign exchange losses on structural positions, relative to SYP20.45bn in 2016.

In parallel, the banks' aggregate assets reached SYP810.7bn at the end of 2017 and declined by 1.3% from SYP821.2bn at end-2016. In US dollar terms, the assets of the seven banks increased by 17.2% from $1.6bn at the end of 2016 to $1.86bn at the end of 2017, mainly due to the appreciation of the Syrian pound against the US dollar by 15.7% at the end of 2017. Also, the banks' total loans reached SYP109.8bn at end-2017, reflecting a growth of 10.1% from SYP99.7bn at the end of 2016. In US dollar terms, the aggregate loans of the seven banks reached $251.8m at the end of 2017 and rose by 30.7% from $192.7m at end-2016.

Further, the banks' customer deposits totaled SYP517.6bn at the end of 2017, constituting an increase of 7.1% from SYP483.3bn a year earlier. In US dollar terms, customer deposits at the seven banks reached $1.2bn at the end of 2017, and grew by 27.1% from $934m at the end of 2016. The ratio of the banks' loans-to-customer deposits stood at 21.2% at the end of 2017 relative to 20.6% at end-2016. Also, the aggregate shareholders' equity of the banks reached SYP130.8bn, or $299.9m, at the end of 2017, relative to SYP143.4bn, or $277.2bn, at end-2016.

Results of Affiliates of Lebanese Banks in Syria in 2017 ($USm)

	Banque BEMO Saudi Fransi	Bank of Syria & Overseas	Bank Audi Syria	Fransabank Syria	Byblos Bank Syria	Syria Gulf Bank	Bank Al-Sharq
Net Profits	-4.1	-1.5	-6.4	-9.2	1.9	-4.6	-4.2
Total Assets	575.8	411.7	256.3	240.1	155.0	115.4	105.1
% Change**	6.9%	-8.2%	6.2%	-10.6%	-8.6%	-14.0%	26.8%
Loans	98.4	9.1	22.6	48.5	34.2	13.9	25.2
% Change**	23.9%	-4.8%	-12.8%	8.8%	21.1%	-36.0%	30.3%
Customer Deposits	456.3	239.4	127.9	114.2	96.8	88.8	63.9
% Change**	7.2%	-4.2%	10.1%	12.1%	16.5%	-4.8%	65.2%

**Change from end-2016*
Source: Banks' financial statements

Saradar Bank's net earnings at $0.9m in first quarter of 2018

Saradar Bank sal, one of Lebanon's top 15 banks in terms of deposits, announced unaudited consolidated net profits of $868,325 in the first quarter of 2018, constituting a drop of 31.8% from net earnings of $1.3m in same quarter of 2017. Net operating income grew by 11.6% year-on-year to $14.1m in the covered quarter, with net interest income increasing by 8.7% to $7.1m and net fees & commissions receipts rising by 17.8% to $4.2m. Non-interest income accounted for 46% of total income in the first quarter of 2018, down from 48.6% in the same quarter last year; with net fees & commissions representing 69.5% of non-interest earnings relative to 57.8% in the first quarter of 2017. Further, the bank's interest margin was 1.14% in the first quarter of 2018 relative to 1.33% in the same quarter last year; while its spread reached 1.09% in the covered quarter of 2018 compared to 1.25% in the first quarter of 2017. Total operating expenditures grew by 20% to $13.3m year-on-year in first quarter of 2018, with staff expenses increasing by 7.1% to $6.5m and administrative & other operating expenditures rising by 37.3% to $6.1m. Also, the bank's return on average assets was 0.13% in March 2018 on an annualized basis relative to 0.25% in March 2017, while its return on average equity reached 1.41% on an annualized basis compared to 2.28% in March 2017. The bank's cost-to-income ratio increased from 87.4% in the first quarter of 2017 to 101.3% in the same quarter of 2018.

In parallel, total assets reached $2.6bn at the end of March 2018, up by 2.2% from end-2017, while loans & advances to customers, excluding those to related parties, grew by 5.3% from end-2017 to $803.4m. Also, customer deposits, excluding those from related parties, totaled $2bn at end-March 2018 and increased by 2% from the end of 2017. The loans-to-deposits ratio stood at 39.4% at the end of March 2018, compared to 39.7% at end-March 2017. Further, the bank's shareholders' equity reached $246.1m at end-March 2018, nearly unchanged from end-2017.

Ciments Blancs' net income up 1% to $4.44m in 2017

Société Libanaise des Ciments Blancs sal, an affiliate of Holcim Liban sal, declared audited net profits of $4.44m in 2017, constituting an increase of 1.3% from net earnings of $4.39m in 2016. The company generated total sales of $13.5m last year compared to $12.2m in 2016. The firm's gross profit margin reached 46.2% in 2017 relative to 47.3% in 2016.

Further, Ciments Blancs' assets totaled $26.3m at the end of 2017 and increased by 5.2% from $25m at end-2016. The firm's current ratio, which is a measure of the company's ability to meet its short-term obligations, was 2.4x at the end of 2017 compared to 2.9x at end-2016.

The company's total equity was $19m at the end of 2017, up marginally by 0.4% from $18.96m at end-2016. In parallel, the firm's return on average assets was 17.4% in 2017 compared to 17.7% in 2016, and its return on average equity reached 23.4% last year relative to 24.1% in 2016.The firm's debt-to-equity ratio was 38% at end-2017 relative to 31.6% at the end of 2016. The price of Ciments Blancs' nominal shares closed at $2.84 on June 29, 2018, up by 26.2% from $2.25 at end-2017.

Ratio Highlights

(in % unless specified)	2015	2016	2017e	Change*
Nominal GDP ($bn)	49.5	49.7	52.5	
Public Debt in Foreign Currency / GDP	54.7	56.6	57.9	1.30
Public Debt in Local Currency / GDP	87.4	94.1	93.6	(0.54)
Gross Public Debt / GDP	142.1	150.7	151.5	0.76
Total Gross External Debt / GDP	175.8	183.9	185.6	1.70
Trade Balance / GDP	(31.6)	(32.5)	(31.9)	0.60
Exports / Imports	15.9	15.6	14.5	(1.04)
Fiscal Revenues / GDP	19.3	20.0	22.1	2.17
Fiscal Expenditures / GDP	27.3	29.9	29.3	(0.62)
Fiscal Balance / GDP	(8.0)	(9.9)	(7.2)	2.79
Primary Balance / GDP	1.5	0.0	2.7	2.68
Gross Foreign Currency Reserves / M2	58.7	62.2	68.2	5.98
M3 / GDP	249.7	267.2	263.6	(3.61)
Commercial Banks Assets / GDP	375.7	411.1	418.8	7.69
Private Sector Deposits / GDP	306.2	327.0	321.3	(5.69)
Private Sector Loans / GDP	109.5	115.0	114.9	(0.16)
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	Nov 2016	Oct 2017	Nov 2017	Change**	Risk Level
Political Risk Rating	54.5	55.5	54.5	↔	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	57.5	▲	High

MENA Average*	Nov 2016	Oct 2017	Nov 2017	Change**	Risk Level
Political Risk Rating	57.6	57.9	58.0	▼	High
Financial Risk Rating	38.1	38.6	38.5	▼	Low
Economic Risk Rating	29.6	30.9	31.0	▼	Moderate
Composite Risk Rating	62.6	63.7	63.8	▼	Moderate

**excluding Lebanon*
***year-on-year change in risk*
Source: The PRS Group, Byblos Research
Note: Political & Composite Risk Ratings range from 0 to 100 (where 100 indicates the lowest risk)
Financial & Economic Risk ratings range from 0 to 50 (where 50 indicates the lowest risk)

Ratings & Outlook

Sovereign Ratings	Foreign Currency			Local Currency		
	LT	ST	Outlook	LT	ST	Outlook
Moody's	B3	NP	Stable	B3		Stable
Fitch Ratings	B-	B	Stable	B-		Stable
Standard & Poor's	B-	B	Stable	B-	B	Stable
Capital Intelligence Ratings	B	B	Stable	B	B	Stable

Source: Rating agencies

Banking Ratings	Outlook
Moody's	Stable

Source: Moody's Investor 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
www.byblosbank.com

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

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

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

UNITED ARAB EMIRATES

Byblos Bank Abu Dhabi Representative Office
Al Reem Island - Sky Tower - Office 2206
P.O.Box: 73893 Abu Dhabi - UAE
Phone: (+ 971) 2 6336050 - 2 6336400
Fax: (+ 971) 2 6338400
E-mail: 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

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

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

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

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

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

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