

## LEBANON THIS WEEK

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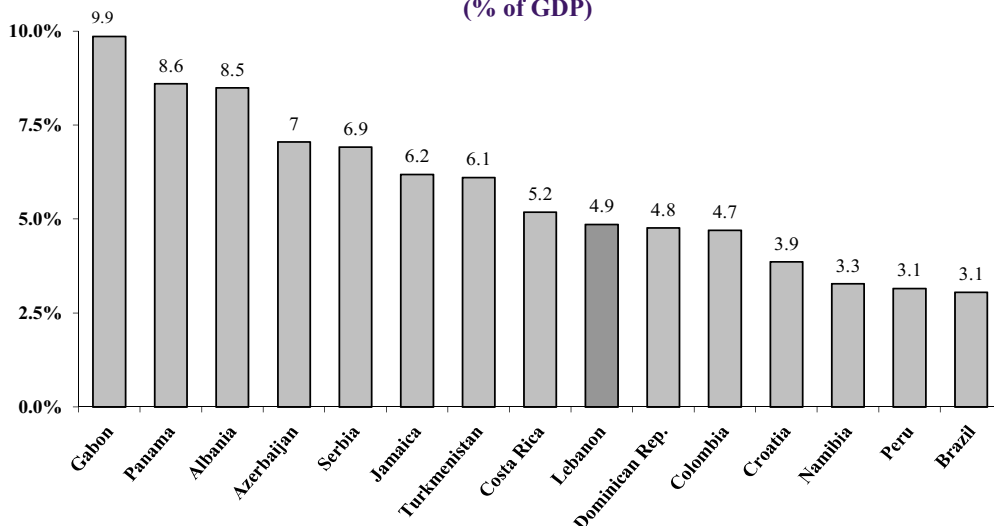
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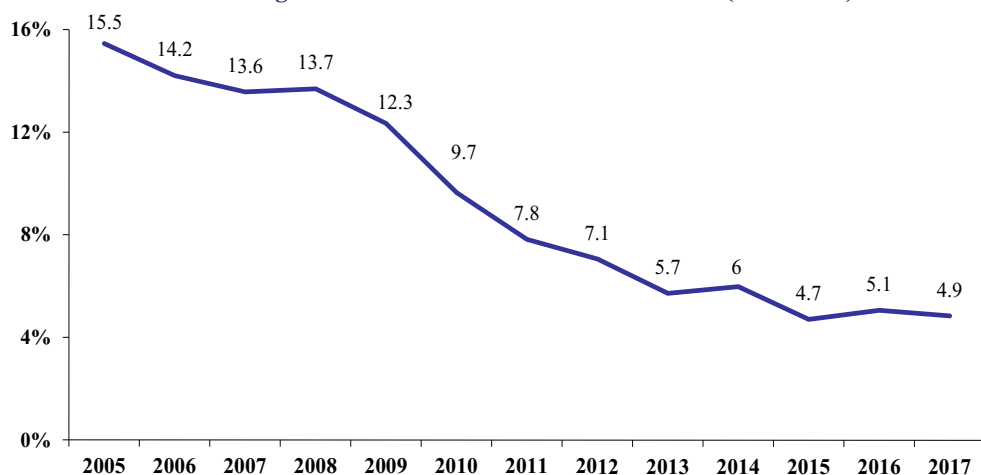
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### Charts of the Week

**Largest Recipients of FDI among Upper Middle-Income Countries in 2017\*  
(% of GDP)**



**Foreign Direct Investment Inflows to Lebanon (% of GDP)**



\*countries with a GDP of \$10bn or above

Source: United Nations Conference on Trade & Development, International Monetary Fund, Institute of International Finance, Byblos Bank

### Quote to Note

"It is the most urgent issue for the upcoming government."

*H.E. Mr. Bruno Foucher, Ambassador of France to Lebanon, on the importance of implementing structural reforms in Lebanon*

### Number of the Week

**38,000:** Approximate number of loan beneficiaries from Banque du Liban's stimulus packages since 2013

## Lebanon in the News

\$m (unless otherwise mentioned)	2017	Feb 2017	Nov 2017	Dec 2017	Jan 2018	Feb 2018	% Change*
Exports	2,844	226	229	251	283	248	9.73
Imports	23,130	1,648	1,726	2,278	1,705	1,436	-12.86
Trade Balance	(20,286)	(1,422)	(1,497)	(2,027)	(1,422)	(1,188)	-16.46
Balance of Payments	(156)	342	68	854	237	(80)	-123.32
Checks Cleared in LBP	21,677	1,676	1,880	2,131	1,733	1,686	0.59
Checks Cleared in FC	46,578	3,547	3,687	4,127	3,973	3,480	-1.89
Total Checks Cleared	68,255	5,223	5,567	6,258	5,706	5,166	-1.09
Budget Deficit/Surplus	(3,300.82)	(453.93)	(865.19)	(350.41)	(318.96)	(407.93)	-10.13
Budget Primary Balance	1,882.86	(189.09)	(119.74)	15.77	(46.38)	(145.03)	-23.30
Airport Passengers***	8,235,845	462,605	592,890	626,866	597,768	504,974	9.16

\$bn (unless otherwise mentioned)	2017	Feb 2017	Nov 2017	Dec 2017	Jan 2018	Feb 2018	% Change*
BdL FX Reserves	35.80	35.44	35.69	35.80	35.25	34.39	-2.97
In months of Imports	18.57	21.50	20.68	15.72	20.67	23.95	11.36
Public Debt	79.52	76.15	79.37	79.52	80.39	81.54	7.08
Bank Assets	219.86	204.93	216.21	219.86	219.86	223.07	8.85
Bank Deposits (Private Sector)	168.67	163.86	166.81	168.67	168.66	170.45	4.02
Bank Loans to Private Sector	60.32	56.49	59.55	60.32	59.69	59.03	4.49
Money Supply M2	52.48	54.96	51.96	52.48	52.88	53.44	-2.75
Money Supply M3	138.38	133.83	136.99	138.38	138.62	139.34	4.11
LBP Lending Rate (%)****	8.09	8.37	7.98	8.09	8.56	8.67	30bps
LBP Deposit Rate (%)	6.41	5.56	5.88	6.41	6.53	6.51	95bps
USD Lending Rate (%)	7.67	7.14	7.32	7.67	7.74	7.90	76bps
USD Deposit Rate (%)	3.89	3.57	3.80	3.89	3.91	3.96	39bps
Consumer Price Index**	4.40	4.90	4.80	5.00	5.60	5.20	30bps

\* Year-on-Year \*\* Year-on-Year percentage change \*\*\*includes arrivals, departures, transit

\*\*\*\* Starting January 2016, lending rates in Lebanese pounds are reported before any subsidy or facility from reserve requirements according to Intermediate Circular No 389, and as such they are not comparable year-on-year

Note: bps i.e. basis points

Source: Association of Banks in Lebanon, Banque du Liban, Ministry of Finance, Central Administration of Statistics, Byblos Research

## Capital Markets

Most Traded Stocks on BSE	Last Price (\$)	% Change*	Total Volume	Weight in Market Capitalization	Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
Solidere "A"	7.43	2.77	102,041	7.16%	Nov 2018	5.15	99.63	6.43
BLOM Listed	10.16	(0.49)	59,090	21.05%	May 2019	6.00	98.75	7.61
BLOM GDR	10.30	(1.90)	37,150	7.33%	Mar 2020	6.38	97.00	8.40
Solidere "B"	7.52	3.44	34,065	4.71%	Oct 2022	6.10	87.63	9.78
Byblos Common	1.48	4.96	16,060	8.07%	Jun 2025	6.25	82.50	9.81
Byblos Pref. 09	89.45	(0.61)	6,272	1.72%	Nov 2026	6.60	82.13	9.79
HOLCIM	15.93	6.20	4,833	3.00%	Feb 2030	6.65	80.00	9.54
Byblos Pref. 08	85.00	(2.30)	2,700	1.64%	Apr 2031	7.00	80.50	9.70
Audi Listed	5.08	0.00	1,200	19.57%	Nov 2035	7.05	79.38	9.50
Audi GDR	5.31	0.00	-	6.14%	Mar 2037	7.25	80.50	9.50

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

Source: Byblos Bank Capital Markets

	Jul 23-27	Jul 16-20	% Change	June 2018	June 2017	% Change
Total shares traded	269,286	591,049	(54.4)	5,778,738	4,057,384	42.4
Total value traded	\$3,136,871	\$6,339,989	(50.5)	\$39,079,304	\$45,447,025	(14.0)
Market capitalization	\$10.38bn	\$10.31bn	0.64	\$10.43bn	\$11.57bn	(9.8)

Source: Beirut Stock Exchange (BSE)



### Parliamentary elections lift consumer confidence in second quarter of 2018

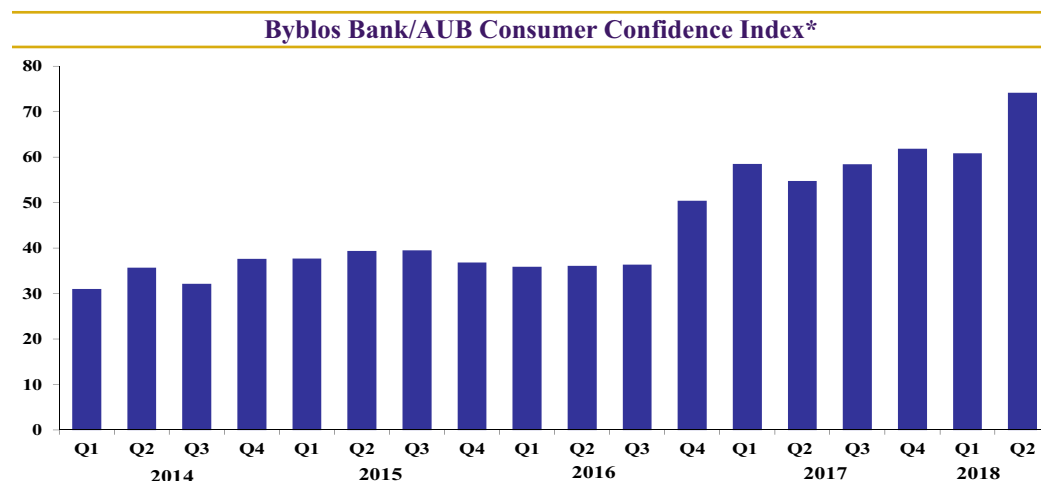
The results of the Byblos Bank/AUB Consumer Confidence Index for the second quarter of 2018 show that the Index increased by 5% in April from the preceding month, surged by 34% in May and decreased by 2% in June 2018. The Index averaged 74.2 in the second quarter of 2018, constituting an increase of 22% from 60.8 in the first quarter of the year and a rise of 35.4% from 54.8 in the second quarter of 2017. In addition, the Byblos Bank/AUB Present Situation Index averaged 67.5 in the second quarter of 2018 and increased by 14% from the preceding quarter, while the Byblos Bank/AUB Expectations Index averaged 78.6 and surged by 27% from the first quarter of 2018. Still, the average monthly score of the Index in the second quarter of 2018 was 30% lower than the quarterly peak of 105.8 registered in the fourth quarter of 2008, and remained 23.3% below the annual peak of 96.7 reached in full year 2009.

The successful holding of Lebanon's long-delayed parliamentary elections in May 2018, as well as the outcome of the elections, had a positive impact on household sentiment in the second quarter of 2018. The anticipation by Lebanese citizens that the elections would take place as scheduled, rather than being postponed once again, led the Present Situation Index to improve by 7% and the Expectations Index to increase by nearly 4% in April 2018. The parliamentary elections constituted the first opportunity in nine years for Lebanese citizens to exercise their constitutional right to choose their representatives in Parliament, which gave them a sense of empowerment and raised their expectations for better governance at the national level. As a result, household confidence in May reached its highest level since July 2010. Also, the outcome of the elections led the Present Situation Index to grow by 12.5% and the Expectations Index to jump by 48% in May. In addition, the voters' general satisfaction with the election results improved the Present Situation Index by 10% in June 2018, while the subsiding post-elections euphoria contributed to dragging down the Expectations Index by 8% in June.

The second-quarter results showed a modest improvement in the level of optimism among Lebanese households, as 11.9% of the Lebanese polled expected their financial conditions to improve in the coming six months compared to 10.4% in the preceding quarter, while 58% of respondents believed that their financial situation will deteriorate, compared to 63% in the first quarter of 2018. In addition, 11.2% of the Lebanese surveyed in June 2018 expected business conditions in Lebanon to improve in the coming six months compared to 7.4% in March 2018, while 67.8% of respondents in June 2018 anticipated business conditions to deteriorate relative to 68.3% in March 2018.

The results of the Byblos Bank/AUB Consumer Confidence Index for the second quarter of 2018 show that male consumers had a higher level of confidence than their female counterparts, and consumers in the 21 to 29 year-old bracket posted the highest confidence level relative to citizens in other age brackets during the covered quarter. Households with an income of \$2,500 or more per month continued to be more confident than those earning less. Moreover, public sector employees were more optimistic than the self-employed, housewives, private sector employees and the unemployed in the covered quarter. In addition, the confidence level of residents in the Bekaa region increased by 111% in the second quarter of 2018 from the preceding quarter, followed by households in the South (+41%), the North (+35.5%) and Beirut (+13%); while the sentiment of residents in Mount Lebanon regressed by 8% in the covered quarter. Further, the confidence level of Shiite households surged by 60.2% quarter-on-quarter in the second quarter of 2018, followed by Sunni consumers (+27%) and Christian households (+14.2%); while the sentiment of Druze households retreated by 12% from the first quarter of 2018. However, Druze consumers had a higher level of confidence during the covered quarter than their counterparts among other religious affiliations, followed by Christian, Shiite and Sunni consumers.

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



\* Quarterly Average Score

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

### Broadband Internet speed in Lebanon is 160th fastest globally, 11th fastest among Arab countries in 2018

A report published by Cable.co.uk ranked Lebanon in 160th place among 200 countries around the world and in 11th place among 21 countries in the Arab region in terms of broadband Internet speed in 2018. Lebanon's rank improved by three spots from 163rd place globally in the 2017 survey, and by six spots from 17th place regionally in the previous year. Lebanon also came in 42nd place among 49 upper middle-income countries (UMICs) included in the 2018 survey. The data for the survey was collected between June 2017 and May 2018 by research group M-Lab, Google Open Source Research and Princeton University's PlanetLab, and was compiled by Cable.co.uk.

Globally, broadband Internet speed in Lebanon is faster than in Mongolia, Sudan and Kyrgyzstan, while it is slower than in Côte d'Ivoire, Liberia and Sierra Leone. Also, broadband Internet speed in Lebanon is faster than only in Botswana, Libya, Algeria, Venezuela, Iraq, Gabon and Turkmenistan among UMICs.

The survey noted that it takes seven hours, six minutes and one second to download a 5 gigabyte (GB) high-definition video in Lebanon in 2018. In addition, it takes two hours, 15 minutes and four seconds to download a 5GB video in Bahrain, the fastest rate among Arab countries, while it takes 17 minutes and 41 seconds to download such a video in Romania, the fastest rate among UMICs.

Also, broadband Internet speed in Lebanon was 1.6 megabytes per second (mbps), up from 1.07 mbps in the previous year, but was significantly below the simple average broadband Internet speed of 9.1 mbps worldwide, of 5.8 mbps among UMICs and of 2.3 mbps in Arab countries. Further, the country's broadband Internet speed lagged the Gulf Cooperation Council (GCC) countries' average of 4 mbps and the non-GCC Arab countries' average of 1.7 mbps.

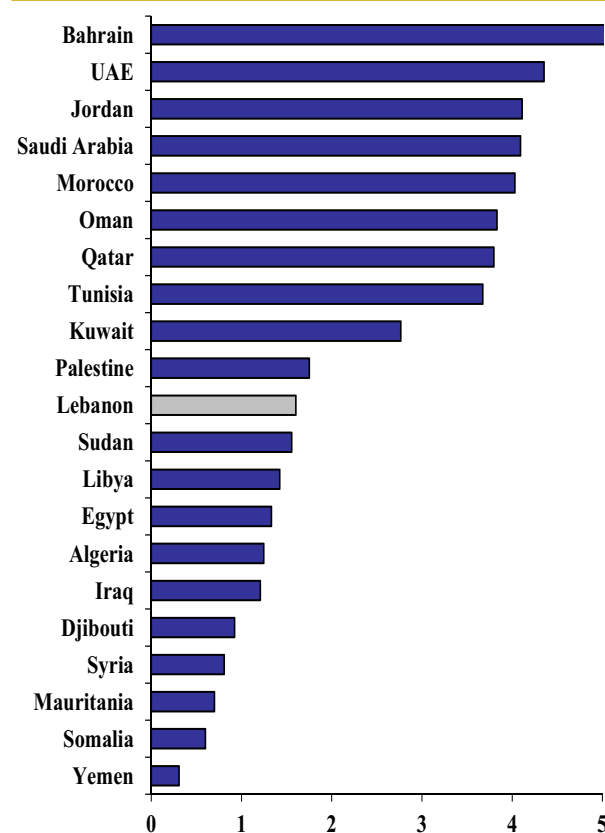
Singapore has the fastest broadband Internet speed among countries included in the survey with a speed of 60.39 mbps, as the time required to download a 5GB video in the country stood at 11 minutes and 18 seconds. In contrast, Yemen has the slowest broadband Internet speed worldwide with an average speed of 0.31 mbps, as it takes 36 hours, 52 minutes and 20 seconds to download a 5GB video in the country.

### Treasury transfers to Electricité du Liban up 3.4% to \$212m in first two months of 2018

Figures released by the Ministry of Finance show that Treasury transfers to Electricité du Liban (EdL) totaled \$212.1m in the first two months of 2018, constituting an increase of 3.4% from \$205m in the same period of 2017. The ministry said that reimbursements to the Kuwait Petroleum Corporation (KPC) and to the Algerian energy conglomerate Sonatrach totaled \$208.4m, or 98.3% of transfers, in the covered period. It added that EdL's debt servicing represented the balance of \$3.7m, or 1.7% of the total. It attributed the rise in transfers mainly to an increase of \$7.8m, or 3.9%, in payments to KPC and Sonatrach in the first two months of 2018. In contrast, debt servicing decreased by \$0.8m or 18%, in the first two months of 2018.

The ministry said that the rise in payments to KPC and Sonatrach was due to a 23.7% year-on-year increase in oil prices at the time the oil contracts were executed, and an expansion of 0.4% in the quantity of imported fuel oil, which were partly offset by a decrease of 22.7% in the quantity of imported gas. Also, it pointed out that EdL contributed 0.3% of the repayments to the two oil suppliers in the first two months of 2018, down from 2.5% in the same period of 2017. Treasury transfers to EdL accounted for 9.3% of budgetary primary expenditures in the first two months of 2018, compared to 13.5% in the same period of 2017. They constituted the third largest expenditures item after public sector salaries & wages and debt servicing in overall fiscal spending. Treasury transfers to EdL were equivalent to 5.2% of GDP in 2012, 4.4% of GDP in 2013 and 2014, 2.3% of GDP in 2015, 1.9% of GDP in 2016, and 2.6% of GDP in 2017.

**Broadband Internet Speed in Arab countries in 2018 (megabytes per second)**



Source: Cable.co.uk, Byblos Research

### **Lebanon is 70th largest market for U.S. exports, key exports include mineral fuel & oil products, vehicles and pharmaceuticals in 2017**

The United States Department of Commerce's 2018 Country Commercial Guide (CCG) for Lebanon indicated that Lebanon has many investment strengths that have encouraged foreign companies to set up offices in the country. It said that Lebanon's key advantages include a free-market economy, the absence of controls on the movement of capital and foreign exchange, a well-developed banking sector linked to the international financial system, strong financial soundness indicators, a stable exchange rate, limited government intervention in foreign trade, a highly educated labor force, good quality of living and limited restrictions on investors. It added that payments for business transactions are often made in US dollars, and that nearly all Lebanese banks have American correspondent banking relationships that facilitate financial transactions between U.S. exporters and Lebanese importers. But it noted that some issues continue to cause frustration among local and foreign businesses. It pointed out that impediments include bureaucratic over-regulation and institutionalized corruption, political risks, arbitrary licensing decisions, complex customs procedures, outdated legislation, an ineffectual judicial system, high taxes and fees, high telecommunication charges and slow Internet speed, poor electricity provision, inconsistent interpretation of laws, lack of transparency, opaque procurement processes, as well as the weak enforcement of intellectual property rights. It expected the business climate to remain sensitive to domestic and regional political and security developments. It anticipated that spillovers from the Syrian conflict would continue to strain the already weak public infrastructure and poor public service delivery.

The U.S. Department of Commerce said that Lebanon was the 70th largest market for U.S. exports in 2017, while it was the 72nd largest market in 2016. It added that the U.S. exported \$1.44bn worth of goods to Lebanon last year, which accounted for 7.4% of total Lebanese imports, compared to U.S. exports of \$1.2bn or 6.3% of total Lebanese imports in 2016. It noted that the U.S. was the third largest source of imports for Lebanon in 2017, behind China and Italy. It said that major U.S. exports to Lebanon in 2017 were mineral fuel & oil (\$452m), vehicles (\$362m), chemical products (\$199m), pharmaceuticals (\$143m), machinery & electrical instruments (\$112m), prepared foodstuff, beverages & tobacco as well as vegetable products (\$56m each). Further, it indicated that leading Lebanese sectors for U.S. exports and investment consist of the automotive market, the pharmaceuticals sector, medical equipment, the apparel sector, as well as the agricultural sector.

The CCG estimated U.S. automotive exports to Lebanon at \$362m in 2017, up by 11% from \$326m in 2016. It noted that the size of the automotive market in Lebanon grew by 8.3% to \$1.9bn in 2017. It estimated the U.S. share of the local auto market at 19.5% in 2017. It added that demand for U.S. sport utility vehicles in Lebanon has been growing due to their ability to withstand the country's poor road conditions, while demand for U.S. automotive products such as brakes, clutches, engine lubricants and safety accessories is increasing because of their quality advantage over foreign competitors. It projected U.S. automotive exports to Lebanon at \$315m in each of 2018 and 2019. In parallel, it said that U.S. agricultural exports to Lebanon totaled \$125m in 2017 and accounted for 3.6% of Lebanon's total agricultural imports.

Further, the CCG said that U.S. pharmaceutical exports to Lebanon increased from \$139m in 2016 to \$143m in 2017 and accounted for 11.1% of the country's total pharmaceutical imports. It added that U.S. pharmaceutical products have an advantage over their European and Asian counterparts in the biotechnology, high-tech, anti-cancer and cardiovascular fields. It indicated that Lebanon is the leading market for imported pharmaceutical drugs in the Levant, while the Lebanese pharmaceuticals market is valued at \$1.3bn, with potential growth of more than 5% annually. However, the U.S. Department of Commerce noted that the sector faces several challenges, such as the high production cost of pharmaceuticals as well as the registration of counterfeit products. It added that the regulatory framework governing pharmaceuticals is weak. It projected U.S. pharmaceutical exports to Lebanon at \$147m in each of 2018 and 2019.

In addition, the CCG indicated that the exports of U.S. medical equipment to Lebanon grew from \$63m in 2016 to \$74m in 2017 and accounted for 21% of the country's total medical equipment imports last year. It forecast such exports at \$72m in each of 2018 and 2019. It considered that the sustained demand for U.S. medical equipment reflects their high quality and competitive value. In parallel, the Commercial Guide said that U.S. apparel exports to Lebanon dropped from \$15m in 2016 to \$11m in 2017 and accounted for 2.1% of the country's total apparel imports last year. It projected such exports at \$9m in 2018 and 2019.

### **Banque du Liban modifies provisioning terms for repossessed assets**

Banque du Liban (BdL) issued Intermediate Circular 499 on July 20, 2018 that amends Basic Circular 78 issued on December 21, 2000 about the liquidation process of repossessed real estate, shares and participations, which was required in accordance with Article 154 of the Law of Money and Credit, to recover outstanding or doubtful debt.

Intermediate Circular 499 allows banks to allocate provisions over a 20-year period against repossessed real estate, shares and participations, provided that the two-year period for the bank to liquidate the repossessed asset expires after July 20, 2018. Previously, banks had to build provisions over a five-year period in case they failed to liquidate the acquired assets within two years from the latter's repossession.

Prior to Intermediate Circular 499, other circulars issued by BdL, such as Basic Circular 73 and Basic Circular 135, allowed banks to build provisions over a 20-year period against repossessed assets, provided that the bank, the client and the asset meet specific conditions. However, Intermediate Circular 499 eliminated the conditionality imposed on banks to allow them to build provisions over 20 years.





### Lebanon ranks 99th globally, ninth among Arab countries in electronic government

The United Nations' E-Government Development Index for 2018 ranked Lebanon in 99th place among 193 countries worldwide and in ninth place among 19 Arab countries. Lebanon also came in 32nd place among 55 upper middle-income countries (UMICs) included in the survey. Lebanon's global rank regressed by 26 spots from 73rd place, while its regional rank regressed by one spot from eighth place in the 2016 survey.

The index is a benchmark that provides a numerical ranking about the development of electronic government across member states of the United Nations. It is a composite indicator that measures the willingness and capacity of national administrations to use information and communication technology to deliver public services. The index is a weighted average of three sub-indices that reflect the most important dimensions of e-government, which are the Online Service Index, the Telecommunication Infrastructure Index and the Human Capital Index. A country's overall score ranges between zero and one, with a higher score reflecting a more developed electronic government system.

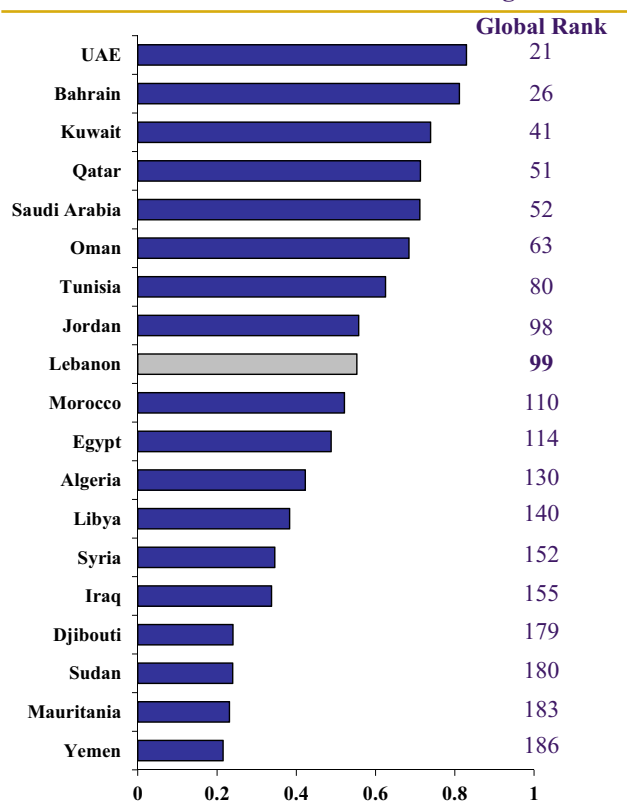
Globally, Lebanon has a more developed e-government system than El Salvador, Ghana and Bolivia, and a less advanced one than the Dominican Republic, India and Jordan among economies with a GDP of \$10bn or more. It ranked ahead of Bosnia & Herzegovina and behind the Dominican Republic among UMICs. Lebanon received a score of 0.553 points on the overall index, down from 2.1% from 0.5646 points in the 2016 survey, and constituting the 10th steepest decline globally. Also, Lebanon's score is higher than the global average of 0.549 points and the Arab average of 0.5079 points, while it is lower than the UMICs' average of 0.5655 points. Lebanon's score is also lower than the Gulf Cooperation Council (GCC) countries' average score of 0.7483 points, but is higher than the average score of non-GCC Arab countries of 0.397 points. Denmark has the world's most developed e-government system, while Somalia is last globally.

In parallel, Lebanon ranked ahead of Cameroon and came behind Senegal on the Online Service Sub-Index. This category assesses a country's national websites, including the national statistics portal, the e-services portal and the e-participation portal; as well as the websites of the ministries of education, environment, finance, health, labor and social services. Lebanon came behind the UAE, Oman, Tunisia, Bahrain, Kuwait, Qatar, Saudi Arabia, Morocco, Egypt and Jordan among Arab countries on this category.

Further, Lebanon ranked ahead of Azerbaijan and came behind Brazil globally on the Telecommunications Infrastructure Sub-Index. This category covers the number of Internet users per 100 inhabitants, the number of main fixed telephone lines per 100 inhabitants, mobile phone penetration rates, the number of wireless broadband subscriptions per 100 inhabitants and fixed broadband penetration rates. Lebanon came behind the UAE, Bahrain, Kuwait, Qatar, Oman and Saudi Arabia regionally on this category.

Finally, Lebanon came ahead of Tunisia and ranked behind Qatar globally on the Human Capital Sub-Index. This category covers the adult literacy rate, the combined primary, secondary and tertiary school gross enrolment ratios, the expected years of schooling and the average years of schooling. Lebanon ranked behind Saudi Arabia, Bahrain, Jordan, Libya, Oman, the UAE, Kuwait and Qatar regionally on this category.

**E-government Development Index for 2018  
Arab Countries Scores & Rankings**



Source: United Nations, Byblos Research

**Components of 2018 E-Government Development Index for Lebanon**

Sub-Index	Global Rank	Change in Rank*	Arab Rank	UMICs Rank	Lebanon Score	Global Average Score	Arab Average Score	UMICs Average Score
Online Service	121	-38	11	32	0.4722	0.5691	0.5018	0.5479
Telecom Infrastructure	70	-7	7	15	0.5219	0.4155	0.4224	0.4256
Human Capital	115	-19	9	45	0.6649	0.6627	0.5996	0.7231

\*change in global rank from 2016; (+) reflects an improvement in rank

Source: United Nations, Byblos Research

### Government claims progress in several UN sustainability goals

Lebanon published its first Voluntary National Review of Sustainable Development Goals, which details the country's progress in implementing the 17 sustainable development goals (SDGs) that are part of the UN 2030 Agenda for Sustainable Development. The 17 SDGs are universal goals set by the United Nations and are based on five categories, which are "People", "Planet", "Prosperity", "Peace, Justice and Strong Institutions" and "Partnership". In September 2015, 193 Member States of the United Nations adopted the 2030 Agenda for Sustainable Development, and committed to a set of goals that seek to achieve sustainability.

The review indicated that Lebanon made advancements on the "People" category through improvements in healthcare and education. The "People" category includes six SDGs that are reduced poverty, zero hunger, good health, quality education, gender equality and reduced inequalities. According to the Lebanese government, the country has controlled and prevented disease outbreaks, and ensured universal access to healthcare. It claimed that the Ministry of Education & Higher Education has continued to promote quality education and inclusion amid the influx of Syrian refugees. Also, the country is expected to launch the Education 2030 Strategy by the end of 2018, which aims to improve the students' learning outcomes and skills. In terms of gender equality, the Parliament passed legislation to combat domestic violence and protect women and children. Also, women now hold six parliamentary seats following the 2018 elections, compared to four previously.

Further, the review pointed out that Lebanese authorities are working on making progress on the goals under the "Planet" category. This category has six SDGs that include clean water & sanitation and affordable & clean energy, among others. The review claimed that the national water distribution network provides almost full coverage for Lebanon. It added that the Lebanese government approved the Capital Investment Program (CIP), which includes infrastructure projects to increase water supply and improve existing water systems. Further, it considered that Lebanon is slowly raising its reliance on renewable resources, and plans to have legislation to address climate change. In addition, Lebanon started planning in 2017 its first offshore petroleum resources exploration.

Also, the country outlined its Vision for Stabilization, Growth and Employment during the CEDRE conference, which the Lebanese government claims is in support of the "Prosperity" pillar that includes three SDGs. The vision aims to promote growth, create jobs and provide a favorable environment for private sector investment. The government claims that it is also working on a labor strategy to improve the protection of workers, especially in the informal sector. According to the review, the country's ecosystem for entrepreneurship and SMEs has been developing over the past decade through legislation and increased access to financing. Also, authorities claim that they have been enacting strategies that support the traditional productive sectors, such as agriculture and industry, in order to increase productivity while minimizing environmental degradation.

In addition, the review noted that Lebanese authorities are committed to domestic and global peacekeeping initiatives under the "Peace, Justice and Strong Institutions" category. As such, the country adopted a new parliamentary electoral law to ensure a more accurate parliamentary representation, as well as ratified the public-private partnership law in 2017, in an effort to improve institutional strength. Finally, the review highlighted that Lebanon is determined to mobilize the funding it needs to promote the "Partnership" pillar in the 2030 Agenda through partnerships with the international community, as reflected by the recent CEDRE conference. During the conference, Lebanon secured around \$11bn in pledges from the international community, which would finance the first phase of the CIP.

### Consumer Price Index up 6% in first half of 2018

The Central Administration of Statistics' Consumer Price Index increased by 6% year on-year in the first half of 2018 compared to a growth of 4.4% in the same period of 2017. The CPI increased by 7.6% in June 2018 from the same month of 2017. The prices of water, electricity, gas & other fuels grew by 16.5% year-on-year in June 2018, followed by the prices of clothing & footwear (+16.3%), transportation costs (+11.9%), recreation & entertainment costs (+8%), healthcare costs (+6.3%), the prices of food & non-alcoholic beverages (+5.9%), actual rents (+5.8%), the cost of education (+4.1%), prices of furnishings & household equipment (+3.9%), imputed rents (+3.8%), prices at restaurants & hotels (+3.3%), miscellaneous goods & services costs (+3%), prices of alcoholic beverages & tobacco (+2%), and communication costs (+1%). The distribution of actual rents shows that old rents grew by 9.5% annually in June 2018, while new rents increased by 3.3% year-on-year.

Further, the CPI grew by 0.9% in June 2018 from the preceding month compared to a month-on-month increase of 0.6% in May 2018. The cost of water, electricity, gas & other fuels increased by 6% month-on-month in June 2018, followed by transportation costs (+1.7%), recreation & entertainment costs (+0.9%), actual rents (+0.4%), the prices of furnishings & household equipment (+0.3%), the prices of alcoholic beverages & tobacco, miscellaneous goods & services and imputed rents (+0.2% each), and the cost of food & non-alcoholic beverages (+0.1%). In contrast, healthcare costs decreased by 0.9% month-on-month in June 2018, followed by the prices of clothing & footwear (-0.5%) and the cost of food & non-alcoholic beverages (-0.1%), while prices at restaurants & hotels, as well as the cost of communication and education were unchanged in the covered month. The CPI increased by 2.1% month-on-month in June 2018 in the North, by 0.9% in the South, by 0.8% in Mount Lebanon, by 0.4% in Beirut, by 0.3% in Nabatieh and by 0.2% in Bekaa. In parallel, the Fuel Price Index increased by 2.6% month-on-month in June 2018, while the Education Price Index was unchanged from May.



## Lebanon ranks 79th globally, eighth in Arab world on Logistics Performance Index

The World Bank's Logistics Performance Index (LPI) for 2018 ranked Lebanon in 79th place among 160 countries worldwide and in eighth place among 19 Arab countries. In comparison, Lebanon came in 82nd place globally and in 10th place among 18 Arab countries in the 2016 survey, and ranked in 85th place globally and in ninth place regionally in the 2014 survey. Also, Lebanon ranked in 24th place among 41 upper middle-income countries (UMICs) in the current survey. Based on the same set of countries in the 2016 and 2018 survey, Lebanon's rank improved by one spot globally and by two spots among Arab countries.

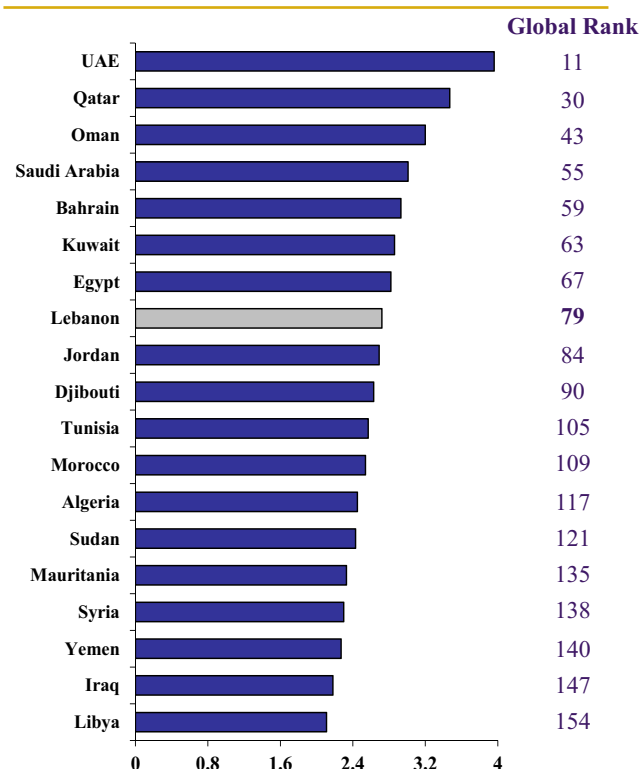
The LPI provides a cross-country assessment of the logistics gap among countries. It aims to help countries identify the challenges and opportunities they face in the quality and development of trade-related logistics. The index is based on a survey of trade operators worldwide who provide feedback on the logistics "friendliness" of the countries where they operate and trade. The LPI is a composite of six sub-indices of supply chain performance that cover customs procedures, logistics costs, infrastructure quality, ability to track and trace shipments, and timeliness in reaching a destination. The survey assigned scores to the main index and its sub-indices that range from one to five points, with a score of five points reflecting the best performance.

Globally, Lebanon has a better logistics environment than Brunei Darussalam, Macedonia and Laos, and a less favorable logistics climate than Russia, Benin and Mauritius among economies with a GDP of \$10bn or more. It ranked ahead of Macedonia and Peru and came behind Russia and Mauritius among UMICs. Lebanon received a score of 2.72 points, unchanged from the 2016 survey. Lebanon's score is lower than the global average of 2.87 points and the UMICs' average of 2.76 points, but is higher than the Arab average of 2.71 points. Also, Lebanon's score is lower than the Gulf Cooperation Council's (GCC) average score of 3.24 points, but higher than the average score of non-GCC Arab countries of 2.46 points.

Lebanon ranked ahead of Tunisia and the Democratic Republic of Congo while it came behind the Dominican Republic and Yemen globally on the Customs Sub-Index, which reflects the efficiency and effectiveness of customs and other border procedures. In addition, Lebanon came ahead of Serbia and Cameroon, while it trailed Jordan and Colombia on the Infrastructure Sub-Index. This category measures the quality of trade- and transport-related infrastructure. Further, Lebanon ranked ahead of Nepal and Burkina Faso, while it trailed Bangladesh and Zambia on the Logistics Quality & Competence Sub-Index. This category reflects the competence and quality of logistics services, such as transport operators and customs brokers.

Further, Lebanon ranked ahead of Malta and Serbia, and came behind Bosnia & Herzegovina and Tunisia on the Tracking & Tracing Sub-Index, which measures the ability to track and trace shipments. Finally, Lebanon ranked ahead of Belarus and Kenya, and trailed Ecuador and Jordan on the Timeliness Sub-Index. This category assesses the number of times that shipments reach the consignee within the scheduled or expected delivery time.

## Logistics Performance Index for 2018 Arab Countries Scores & Rankings



Source: World Bank, Byblos Research

## Logistics Performance Indicators for Lebanon

Indicator	Arab Rank	Global Rank	Change in Rank*
Customs	10	106	-38
Infrastructure	10	73	-1
International Shipments	6	70	+2
Logistics Quality & Comp.	11	104	+2
Tracking and Tracing	8	74	+4
Timeliness	10	77	+30

\*change in global rank from 2016, based on the same set of countries, (+) reflects an improvement in rank

Source: World Bank, Byblos Research

## Logistics Performance Scores by Category

Indicator	Lebanon Score	Arab Average	Global Average
Customs	2.38	2.45	2.67
Infrastructure	2.64	2.67	2.72
International Shipments	2.80	2.69	2.83
Logistics Quality & Comp.	2.47	2.60	2.82
Tracking and Tracing	2.80	2.73	2.90
Timeliness	3.18	3.11	3.24

Source: World Bank, Byblos Research



### **Banque Libano-Française's net earnings at \$36.6m in first quarter of 2018**

Banque Libano-Française (BLF) sal, one of Lebanon's top 15 banks in terms of deposits, announced unaudited consolidated net profits of \$36.6m in the first quarter of 2018, constituting an increase of 13.9% from net earnings of \$32.1m in the same quarter of 2017. Net operating income grew by 7.1% year-on-year to \$72.9m in the covered quarter, with net interest income improving by 24.5% to \$60.6m and net fees & commissions receipts increasing by 1.5% to \$10.1m. Non-interest income accounted for 20.2% of total income in the first quarter of 2018, down from 25.5% in the same quarter last year; with net fees & commissions representing 64% of non-interest earnings relative to 57.4% in the first quarter of 2017.

Further, the bank's interest margin was 1.88% in the first quarter of 2018 relative to 1.65% in the same quarter last year; while its spread reached 1.81% in the covered quarter compared to 1.6% in the first quarter of 2017. Total operating expenditures regressed by 1.1% to \$31.9m year-on-year in the first quarter of 2018, with staff expenses increasing by 1.6% to \$21m and administrative & other operating expenditures declining by 7.1% to \$9m. Also, the bank's return on average assets was 1.07% in March 2018 on an annualized basis relative to 1.02% in March 2017, while its return on average equity reached 11.42% on an annualized basis compared to 10.88% in March 2017. The bank's cost-to-income ratio decreased from 47.61% in the first quarter of 2017 to 40.99% in the same quarter of 2018.

In parallel, total assets reached \$13.8bn at the end of March 2018, up by 1.6% from end-2017, while loans & advances to customers, excluding those to related parties, regressed by 3.6% from end-2017 to \$4.2bn. Also, customer deposits, excluding those from related parties, totaled \$10.6bn at end-March 2018 and regressed by 1.2% from the end of 2017. The loans-to-deposits ratio stood at 38.9% at the end of March 2018, compared to 39.66% at end-March 2017. Further, the bank's shareholders' equity reached \$1.3bn at end-March 2018, up by 2.9% from end-2017.

### **SGBL insurance's net profits at \$15.2m in 2017**

SGBL insurance sal, the insurance affiliate of Société Générale de Banque au Liban sal, announced audited net profits of \$15.2m in 2017, constituting an increase of 60.5% from net earnings of \$9.5m in 2016. Its audited balance sheet shows total assets of \$166.1m at the end of 2017, up by 16% from \$143.2m at end-2016. On the assets side, general company investments totaled \$130m and grew by 15.8% from a year earlier. They included \$102.9m in cash & cash equivalents, \$25m in fixed income investments, \$0.8m in blocked bank deposits in favor of the Ministry of Economy & Trade as guarantees, and \$0.54m in land and real estate.

Also, unit-linked contract investments totaled \$33.5m at end-2017, constituting a rise of 18% from \$28.4m a year earlier. They included \$17.7m in cash & similar investments that grew by 19.2% year-on-year, and \$15.7m in variable income investments that increased by 16.4% from end-2016. The reinsurance share in technical reserves for the life category amounted to \$1.08m, constituting a decrease of 3.7% from \$1.12m at end-2016.

On the liabilities side, technical reserves for the life segment grew by 3.9% year-on-year to \$79m in 2017. Provisions for risks and charges reached \$1.9m in 2017 and improved by 47.9% from the previous year. Also, the firm's shareholders' equity totaled \$49.2m at end-2017, up by 40.5% from a year earlier.

Al-Bayan magazine's annual survey of the life insurance sector in Lebanon ranked SGBL Insurance in seventh place in 2017 in terms of life premiums. The firm's life premiums reached \$36.1m last year, up 8% from \$33.4m in 2016. It had a 6.9% share of the life market in 2017.

### **Arab Bank's net income in Lebanon down 8% to \$17.5m in 2017**

The Jordan-based Arab Bank plc announced audited net profits of \$17.5m in 2017 for its branches in Lebanon, constituting a decrease of 8% from net earnings of \$19m in 2016. The bank's net operating income regressed by 5% to \$54.2m in 2017, with net interest income increasing by a marginal 0.6% to \$47.4m and net fees & commissions receipts declining by 18.1% to \$6.9m.

Total operating expenditures rose by 2.5% to \$33.2m in 2017, with staff expenses nearly unchanged at \$17.3m and administrative & other operating expenditures increasing by 6.2% to \$14m. The bank's cost-to-income ratio increased to 56.5% in 2017 from 54% in 2016. The Arab Bank's return on assets in Lebanon dropped to 1.3% in 2017 from 1.4% in 2016, while its return on equity reached 15.3% last year, down from 16.6% in 2016.

In parallel, total assets reached \$1.38bn at the end of 2017, constituting an increase of 2.3% from \$1.34bn at end-2016; while loans & advances to customers, excluding loans & advances to related parties, regressed by 3.4% to \$673.3m. Also, customer deposits, excluding deposits from related parties, totaled \$1.07bn at end-2017 down by 4.7% from a year earlier. The loans-to-deposits ratio increased from 61.8% at end-2016 to 62.7% at end-2017. The bank's shareholders' equity reached \$114.7m at end-2017, nearly unchanged from a year earlier.

### **BLC Bank approves redemption and cancellation of preferred shares**

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BLC Bank approved on June 20, 2018 the redemption and cancellation of 350,000 Series 'C' Preferred Shares at a premium call price of \$103 per share. The Series 'C' Preferred Shares were issued in April 2013, carried an annual dividend rate of 6.75% per share of the issue price and were redeemable, non-cumulative and perpetual. Concurrently, the bank noted that it would cover the LBP350,000,000 (\$0.23m) deficit in the capital account from the redemption and cancellation of the Series 'C' Preferred Shares through the issuance of 350,000 new common shares at a par value of LBP1,000 (\$0.66) per share. The new shares would be distributed gratis to existing shareholders in a proportion equivalent to the percentage of common shares they own, while the bank would cover the cost of the newly-issued shares through an internal transfer from its general reserves account to its capital account. Following the cancellation of the Series 'C' Preferred Shares and the issuance of 350,000 new common shares, the bank's share capital would consist of 214,000,000 common shares, as well as 750,000 Series 'D' Preferred Shares.

BLC Bank posted unaudited consolidated net profits of \$19.6m in the first half of 2018, down by 21.2% from \$24.9m in the same period last year. Its assets reached \$5.9bn at the end of June 2018, with loans & advances to customers, excluding loans & advances to related parties, at \$1.6bn at end-June 2018. Also, customer deposits, excluding deposits from related parties, totaled \$4bn at the end of June 2018.



## 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	Dec 2016	Nov 2017	Dec 2017	Change**	Risk Level
Political Risk Rating	55	54.5	55	➔	High
Financial Risk Rating	36.5	33.0	33.0	▲	Moderate
Economic Risk Rating	30.5	27.5	28.5	▲	High
Composite Risk Rating	61.0	57.5	58.25	▲	High

MENA Average*	Dec 2016	Nov 2017	Dec 2017	Change**	Risk Level
Political Risk Rating	57.6	58.0	58.2	▼	High
Financial Risk Rating	38.3	38.5	38.5	▼	Low
Economic Risk Rating	29.6	31.0	30.9	▼	Moderate
Composite Risk Rating	62.8	63.8	63.9	▼	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



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