

## LEBANON THIS WEEK

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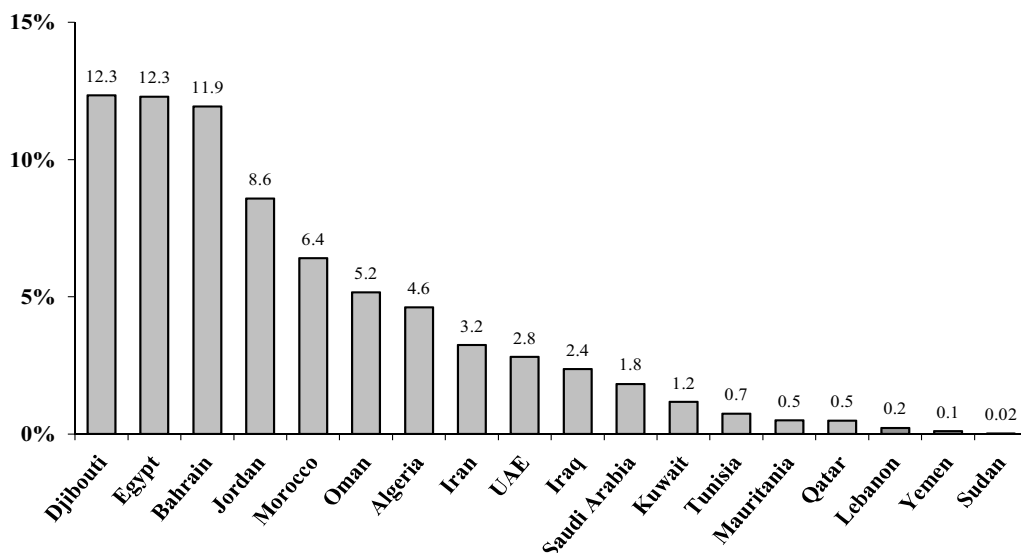
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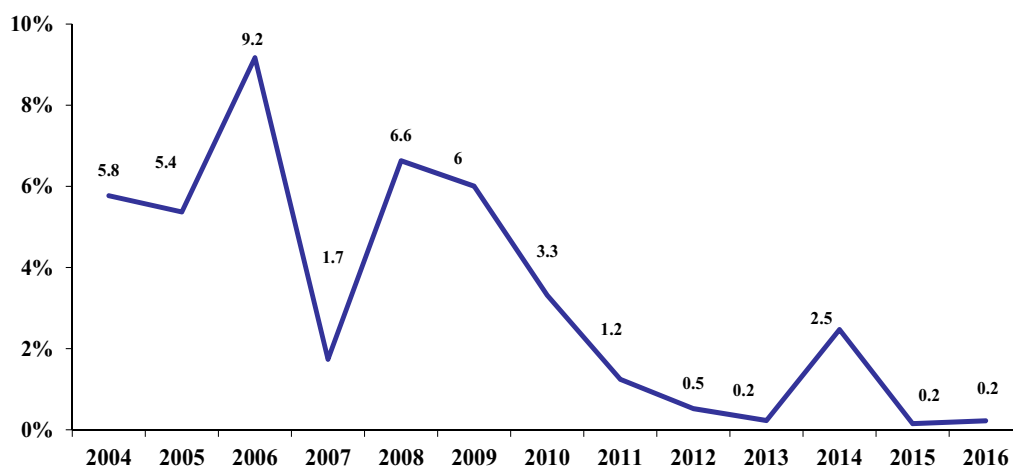
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### Charts of the Week

New Greenfield Foreign Direct Investment projects in Arab Countries in 2016 (% of GDP)



Greenfield Foreign Direct Investment Projects in Lebanon (% of GDP)



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

### Quote to Note

“Weak revenue collection and continued delays in tax reforms have eroded the government’s revenue base.”

*Moody’s Investor Services, on the urgent need for Lebanese authorities to fight tax evasion and improve fee collection*

### Number of the Week

**12,615:** Number of stories published in 500 issues of the *Country Risk Weekly Bulletin*, the emerging markets publication of the Byblos Bank Group

## Lebanon in the News

\$m (unless otherwise mentioned)	2015	Dec 2015	Sep 2016	Oct 2016	Nov 2016	Dec 2016	% Change*
Exports	2,952	236	254	257	247	244	3.4
Imports	18,069	1,841	1,448	1,479	1,450	1,536	(16.6)
Trade Balance	(15,117)	(1,605)	(1,194)	(1,222)	(1,203)	(1,292)	(19.5)
Balance of Payments	(3,354)	(372)	189	(680)	453	910	-
Checks Cleared in LBP	18,714	1,709	1,722	1,780	1,684	1,879	10.0
Checks Cleared in FC	50,845	4,265	4,054	4,216	3,968	3,880	(9.0)
Total Checks Cleared	69,559	5,974	5,776	5,996	5,652	5,759	(3.6)
Budget Deficit/Surplus	(3,952)	(711.58)	(548.00)	(163.91)	(706.12)	(513.35)	(27.86)
Primary Balance	724.40	(338.61)	(29.21)	281.60	(40.58)	(111.56)	(67.05)
Airport Passengers***	7,240,397	616,258	819,886	554,122	555,931	598,009	(3.0)

\$bn (unless otherwise mentioned)	2015	Dec 2015	Sep 2016	Oct 2016	Nov 2016	Dec 2016	% Change*
BdL Gross FX Reserves	30.64	30.64	34.17	34.74	34.38	34.03	11.06
<i>In months of Imports</i>	20.35	16.64	23.60	23.49	23.71	22.15	33.1
Public Debt	70.33	70.33	74.73	74.52	74.55	74.89	6.48
Bank Assets	185.99	185.99	198.07	199.67	200.95	204.3	9.85
Bank Deposits (Private Sector)	151.59	151.59	158.15	157.66	159.19	162.5	7.20
Bank Loans to Private Sector	54.22	54.22	56.65	56.69	56.49	57.18	5.45
Money Supply M2	52.15	52.15	54.17	53.83	54.12	54.68	4.84
Money Supply M3	123.62	123.62	129.12	128.74	130.04	132.8	7.42
LBP Lending Rate (%)****	7.45	7.45	8.44	8.35	8.26	8.23	78bps
LBP Deposit Rate (%)	5.56	5.56	5.58	5.53	5.54	5.56	-
USD Lending Rate (%)	7.06	7.06	7.20	7.06	7.16	7.35	29bps
USD Deposit Rate (%)	3.17	3.17	3.43	3.43	3.48	3.52	35bps
Consumer Price Index**	(3.75)	(3.40)	1.03	1.13	1.78	3.14	-

\* 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
Solidere "A"	7.90	(2.59)	1,834,323	6.92%
Solidere "B"	7.73	(2.52)	106,189	4.40%
BLOM GDR	12.30	0.00	61,366	7.96%
Byblos Common	1.64	1.23	46,701	8.13%
BLOM Listed	11.30	0.00	27,413	21.29%
Audi Listed	6.10	1.50	23,000	21.36%
Audi GDR	6.10	0.00	7,850	6.41%
HOLCIM	13.00	(7.21)	4,778	2.22%
Byblos Pref. 08	101.10	0.00	125	1.77%
Byblos Pref. 09	101.20	0.10	100	1.77%

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

Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
Dec 2017	4.00	99.63	4.90
Nov 2018	5.15	100.38	4.84
May 2019	6.00	100.88	5.48
Mar 2020	6.38	101.63	5.70
Oct 2022	6.10	99.38	6.24
Jun 2025	6.25	98.63	6.50
Nov 2026	6.60	99.75	6.64
Feb 2030	6.65	98.13	6.87
Apr 2031	7.00	100.25	6.97
Nov 2035	7.05	99.13	7.14

Source: Byblos Bank Capital Markets

	Jul 24-28	Jul 17-21	% Change	June 2017	June 2016	% Change
Total shares traded	2,179,715	940,803	131.7	4,057,384	2,859,053	41.9
Total value traded	\$20,660,447	\$7,240,559	185.3	\$45,447,025	\$22,365,431	103.2
Market capitalization	\$11.41bn	\$11.63bn	(1.84)	\$11.57bn	\$11.03bn	4.8

Source: Beirut Stock Exchange (BSE)



### Lebanese Greenfield direct investment in Arab countries at \$8bn between 2003 and 2016, Iraq attracted 48% of the total

Figures compiled by fDi Markets show that the cumulative amount of Lebanese greenfield foreign direct investment (FDI) in Arab countries totaled \$7.81bn between 2003 and 2016. Lebanon was the seventh largest source of inter-Arab greenfield FDI among 19 Arab countries during the covered period, behind the UAE (\$160.9bn), Bahrain (\$38.5bn), Kuwait (\$38bn), Qatar (\$31.1bn), Saudi Arabia (\$23.3bn) and Egypt (\$13.6bn). The amount of outward greenfield FDI from Lebanon to Arab countries accounted for 2.4% of total inter-Arab greenfield FDI between 2003 and 2016.

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 hydrocarbon sector in Arab countries attracted \$3bn in Lebanese greenfield FDI, or 38.4% of the total, between 2003 and 2016. The food & tobacco industries followed with \$1.82bn (23.3%), then the real estate sector with \$1.22bn (15.7%), the financial services industry with \$1.18bn (15.1%), the information technology sector with \$171.7m (2.2%), the telecommunications industry with \$150m (1.9%) and the textiles sector with \$138.1m (1.8%), while other sectors attracted \$126.5m, or 1.6% of the total during the covered period.

Iraq was the main destination of greenfield FDI from Lebanon with \$3.7bn or 48% of the total during the 2003-16 period, followed by Egypt with \$1.75bn (22.4%), the UAE with \$1.15bn (14.8%), Syria with \$298.2m (3.8%), Sudan with \$228.1m (2.9%), Jordan with \$194.8m (2.5%), Saudi Arabia with \$133.2m (1.7%), Qatar with \$79.9m and Oman with \$78.8m (1% each), Algeria with \$62.7m (0.8%), Bahrain with \$28.3m (0.4%), Kuwait with \$21.5m (0.3%), and Libya, Tunisia and Morocco with \$11m each (0.1% each).

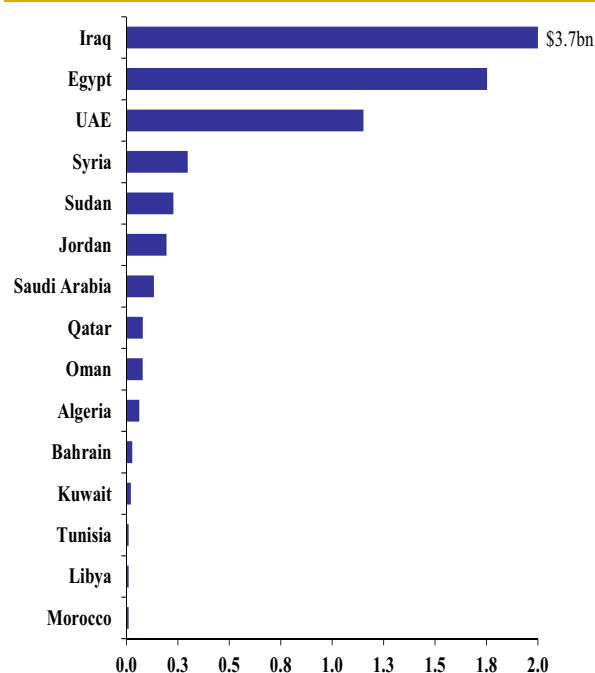
In parallel, there were 136 Lebanese greenfield FDI projects in Arab countries between 2003 and 2016, constituting the fifth highest number of projects among 19 Arab countries, behind the UAE (1,232 projects), Saudi Arabia (284 projects), Kuwait (274 projects) and Qatar (150 projects). Also, the number of Lebanese greenfield FDI projects in Arab countries accounted for 5.3% of inter-Arab greenfield FDI projects over the covered period. Overall, Egypt, Iraq and the UAE were the recipients of 45.6% of the number of Lebanese FDI projects in Arab countries and 85.2% of their value.

### ESFD guaranteed 293 loans in first half of 2017

The Economic & Social Fund for Development (ESFD) indicated that it guaranteed 293 loans for a total of LBP7.9bn, or \$5.2m, to small- and medium-sized enterprises in the first half of 2017. The ESFD guaranteed 144 loans for an aggregate value of LBP3.7bn, or \$2.45m, in the first quarter and 149 projects for a total value of LBP4.2bn, or \$2.8m, in the second quarter of 2017. Overall, the ESFD guaranteed 9,685 loans for an aggregate value of LBP176.7bn, or \$117.2m, between 2003 and June 2017. Mount Lebanon accounted for 29.1% of the total number of loans guaranteed by the ESFD since 2003, followed by Nabatieh (22.2%), the North (17.8%), the South (13.5%), the Bekaa (12.6%) and Beirut (4.8%). The ESFD has guaranteed 3,762 loans, or 38.8% of the total, to the services sector, followed by the trade sector with 3,508 loans (36.2%), the industrial sector with 1,417 loans (14.6%) and the agricultural sector with 998 loans (10.3%). It claims that it has helped create 7,859 new jobs since 2003.

The ESFD guarantees 50% of the loan principal and accrued interest for 120 days. It provides financial and technical support to small and medium-sized enterprises, through financial intermediaries, to finance projects in poor regions of the country. The ESFD was established in November 2000 based on the signing of a financing agreement between the European Commission and the Lebanese government through the Council for Development & Reconstruction. The ESFD is funded by the European Union and the Lebanese government.

**Greenfield FDI Outflows from Lebanon to Arab Countries\* (US\$bn)**



\*between 2003 and 2016

Source: fDi Markets, Byblos Research

## Occupancy rate at Beirut hotels at 61.6%, room yields up 19% in first half of 2017

EY's benchmark survey of the hotel sector in the Middle East indicated that the average occupancy rate at hotels in Beirut was 61.6% in the first half of 2017, up from 55.1% in the same period of 2016 and compared to an average rate of 62.1% in 14 Arab markets included in the survey. The occupancy rate at Beirut hotels was the sixth lowest in the region in the first half of 2017, while it was the fifth lowest in the same period of 2016. But the occupancy rate at hotels in Beirut rose by 6.6 percentage points year-on-year, constituting the largest increase among the 14 Arab markets. In comparison, the average occupancy rate in Arab markets decreased by 0.8 percentage points year-on-year in the covered period. Occupancy rates at Beirut hotels were 56.7% in January, 66.7% in February, 62% in March, 68.8% in April, 70% in May and 45.3% in June 2017 compared to 55.7% in January, 57% in February, 51.1% in March, 55.6% in April, 66.8% in May and 44.1% in June 2016. The survey attributed the year-on-year increase in Beirut's hotel occupancy in the first half of 2017 to a more stable political environment in Lebanon, enhanced security conditions and an increase in inbound travel.

The average rate per room at Beirut hotels was \$145 in the first half of 2017, ranking the capital's hotels as the third least expensive in the region relative to Cairo (\$85) and Abu Dhabi (\$121). The average rate per room at Beirut hotels increased by 6.6% year-on-year in the covered period. Beirut, along with Cairo, Makkah and Ras Al-Khaimah, were the only markets to post an increase in their average rate per room in the first half of the year. The average rate per room in Beirut came below the regional average of \$192.3 that regressed by a marginal 0.4% from the same period of 2016.

Further, revenues per available room (RevPAR) were \$89 in Beirut in the first half of 2017, up from \$75 in the same period of 2016. They were the third lowest in the region relative to Cairo (\$54) and Amman (\$69). However, Beirut's RevPAR grew by 19.3% year-on-year and posted the third highest increase among Arab markets behind Cairo (+101.7%) and Makkah (+24.3%). Beirut posted RevPARs of \$82 in January, \$91 in February, \$86 in March, \$102 in April, \$101 in May and \$73 in June 2017, compared to \$79 in each of January and February, \$68 in March, \$72 in April, \$95 in May and \$55 in June 2016. Makkah posted the highest average rate per room in the region at \$344, while Dubai posted the highest RevPAR at \$209 and the highest occupancy rate at 79.3% in the first half of 2017.

## Tourist arrivals up 14% in first half of 2017

The number of incoming visitors to Lebanon totaled 826,129 in the first half of 2017, constituting an increase of 14.2% from 723,105 tourists in the same period of 2016, and a decline of 14.3% from 964,067 visitors in the first half of 2010. Also, the number of incoming visitors reached 176,288 in June 2017, up by 20% from 147,063 in June 2016 and down by 24% from 231,212 in June 2010. Visitors from European countries accounted for 32.4% of the total in the first half of 2017, followed by those from Arab economies with 32.1%, the Americas with 17.4%, Asia with 8.1%, Africa with 6.2% and Oceania with 3.7%. Further, tourists from Iraq accounted for 13.9% of total visitors in the covered period, followed by visitors from the U.S. (9.1%), France (8.1%), Canada (5.8%), Jordan (4.8%), Egypt (4.5%), Germany (4.4%), and Saudi Arabia and the United Kingdom (3.6% each).

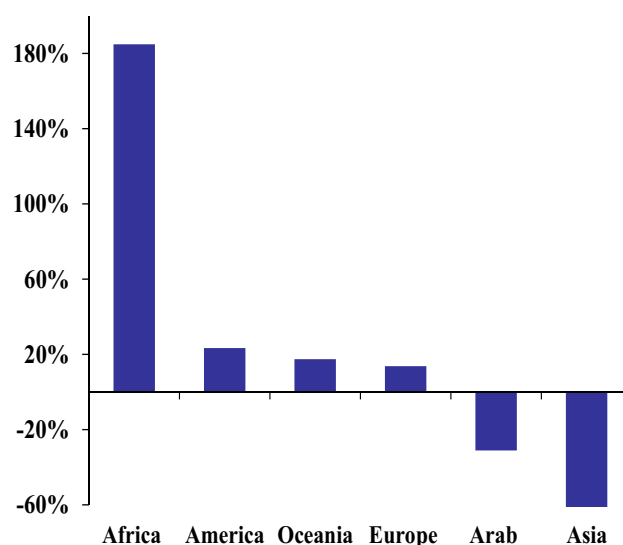
In parallel, the number of visitors from the Arab region increased by 21.5% year-on-year in the first half of 2017, followed by those from Europe (+12.4%), Oceania (+11.4%), Asia (+11.2%), the Americas (+11.1%) and African countries (+4.7%). On a country basis, the number of tourists from Kuwait and Saudi Arabia increased by 2.1 times each in the first half of 2017, followed by visitors from Turkey (+26.4%), Brazil (+23.6%), Iraq (+16%), Germany (+12.5%), Sweden (+12.3%), the U.S. (+12.1%), France (+10%), Italy (+9.3%), the United Kingdom (+9.2%), Canada (+7.4%), Jordan (+7.2%) and Egypt (+0.3%). In contrast, the number of visitors from the UAE fell by 20.5% and arrivals from Venezuela were almost unchanged year-on-year.

## Hotel Sector Performance in First Half of 2017

	Occupancy Rate (%)	RevPAR (US\$)	RevPAR % change
Dubai	79.3%	209	(2.0)
Madina	49.6%	171	24.3
Jeddah	63.8%	167	(18.4)
Riyadh	62.6%	127	(11.2)
Kuwait City	51.5%	120	6.0
Ras Al Khaimah	74.6%	119	4.3
Doha	64.4%	117	(8.8)
Muscat	69.0%	113	(13.1)
Manama	50.4%	104	(7.3)
Makkah	56.0%	98	(22.0)
Abu Dhabi	76.0%	92	(6.9)
<b>Beirut</b>	<b>61.6%</b>	<b>89</b>	<b>19.3</b>
Amman	46.6%	69	(11.9)
Cairo City	63.4%	54	101.7

Source: EY, Byblos Research

## Change in the Number of Tourist Arrivals from Main Sources in First Half of 2017\*



\*from the same period of 2010

Source: Ministry of Tourism, Byblos Research

### Lebanon ranks 103rd globally, 11th among Arab countries in terms of property rights

The Property Rights Alliance ranked Lebanon in 103rd place among 127 countries around the world and in 11th place among 14 Arab countries on its 2017 International Property Rights Index. Lebanon also came in 27th place among 35 upper middle-income countries (UMICs) included in the survey. Based on the same set of countries in the 2016 and 2017 surveys, Lebanon's rank improved by 13 spots from 115th place in 2016 to 102nd in 2017, constituting the sixth highest increase globally.

The index measures the strength and protection of physical and intellectual property rights in a given country. It is a composite of 10 factors that are grouped into three equally weighted sub-indices, which are the Legal & Political Environment Sub-Index, the Physical Property Rights Sub-Index and the Intellectual Property Rights Sub-Index. The index rates the property rights level of each country on a scale from zero to 10, with a score of 10 reflecting the highest level of property rights.

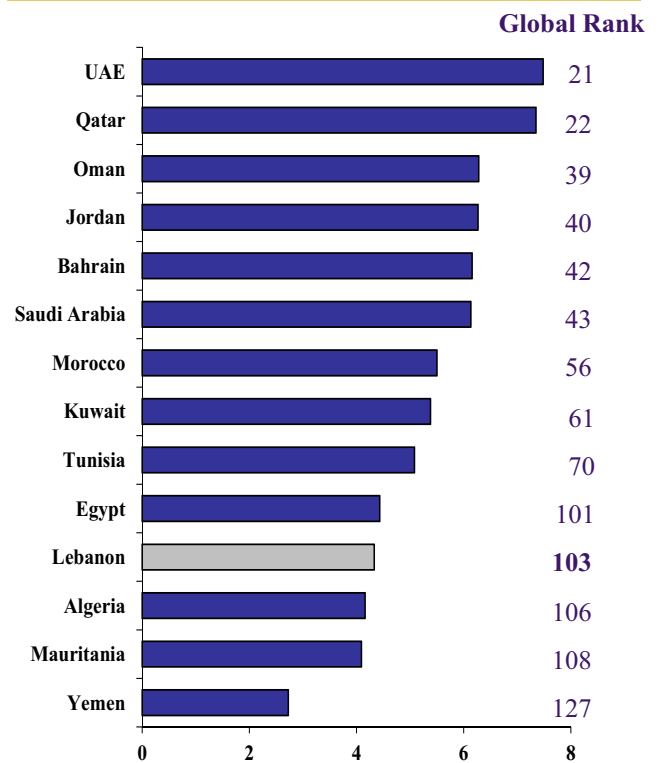
Globally, Lebanon has a stronger level of property rights than Cameroon, Algeria and Armenia, while it has a weaker level of property rights than Paraguay, Egypt and Kazakhstan among economies with a GDP of \$10bn or more. Also, Lebanon's property rights system was better than Algeria and worse than Kazakhstan among UMICs. Lebanon received a score of 4.3 points, up from 3.8 points on the 2016 Index, constituting the second annual increase since 2011 and the fifth largest increase globally. Lebanon's score in 2017 came below the global average of 5.6 points, the Arab average of 5.4 points and the UMICs' average of 5 points. New Zealand has the highest property rights level worldwide, while Yemen has the lowest level globally.

In parallel, Lebanon ranked ahead of Nepal, Spain and Jamaica, while it came behind Korea, Portugal and Uruguay on the Physical Property Rights Sub-Index. This component examines the quality of the judicial protection of private property, the complexity of registering a property and the ease of access to loans. Lebanon ranked behind Qatar, the UAE, Oman, Jordan, Bahrain and Saudi Arabia in the region, while it came ahead of Jamaica and behind Peru among UMICs.

Also, Lebanon ranked ahead of only Pakistan, Albania, Armenia, Georgia, Venezuela, Bangladesh and Yemen globally on the Intellectual Property Rights Sub-Index. This category examines the level of protection of intellectual property, the strength of a country's patent laws and the prevailing piracy rates. Lebanon ranked ahead of only Yemen in the region, while it came ahead of only Albania, Georgia and Venezuela among UMICs.

Further, Lebanon ranked ahead of only Nigeria, Pakistan, Ukraine, the Democratic Republic of Congo, Yemen and Venezuela globally on the Legal & Political Environment Sub-Index. This category examines the judiciary's independence from the influence of political and business groups, the extent that residents have confidence in and abide by the rules of society, the stability of the political system and the control of corruption. Lebanon ranked ahead of only Yemen regionally, while it came ahead of only Venezuela among UMICs.

**International Property Rights Index 2017  
Arab Countries Scores & Rankings**



Source: Property Rights Alliance, Byblos Research

**Components of the 2017 International Property Rights Index for Lebanon**

	Global Rank	Arab Rank	UMICs Rank	Lebanon Score	Global Average	Arab Average	UMICs Average
Legal and Political Environment	119	13	34	3.0	5.2	4.7	4.4
Physical Property Rights	49	7	10	6.7	6.2	6.5	5.8
Intellectual Property Rights	117	13	31	3.4	5.5	4.9	4.7

Source: Property Rights Alliance, Byblos Research



### Payment cards reach 2.7 million at the end of March 2017, ATMs total 1,813

Figures released by the Banque du Liban show that the number of payment cards issued in Lebanon reached 2,720,420 cards at the end of March 2017, constituting a decrease of 1.6% from the end of 2016 and from end-March 2016. Cards held by residents accounted for 97% of total cards issued in Lebanon at end-March 2017. The distribution of payment cards by type shows that debit cards with residents reached 1,392,120 and accounted for 51.2% of the total, followed by prepaid cards with residents at 566,132 (20.8%), credit cards with residents at 541,288 (19.9%), charge cards with residents at 139,020 (5.1%), debit cards held by non-residents at 53,848 (2%), credit cards with non-residents at 17,893 (0.7%), charge cards held by non-residents at 8,214 (0.3%) and prepaid cards with non-residents at 1,905 (0.1%).

Further, the aggregate number of points-of-sales accepting payment cards reached 39,622 at the end of March 2017, constituting a rise of 2.5% from end-2016 and a marginal increase of 0.3% from end-March 2016. As a result, there were 3.79 points-of-sales per square kilometer in Lebanon at the end of March 2017.

Further, the aggregate number of points-of-sales accepting payment cards reached 39,622 at the end of March 2017, constituting a rise of 2.5% from end-2016 and a marginal increase of 0.3% from end-March 2016. As a result, there were 3.79 points-of-sales per square kilometer in Lebanon at the end of March 2017.

### Term savings attract 89% of customer deposits at end-March 2017

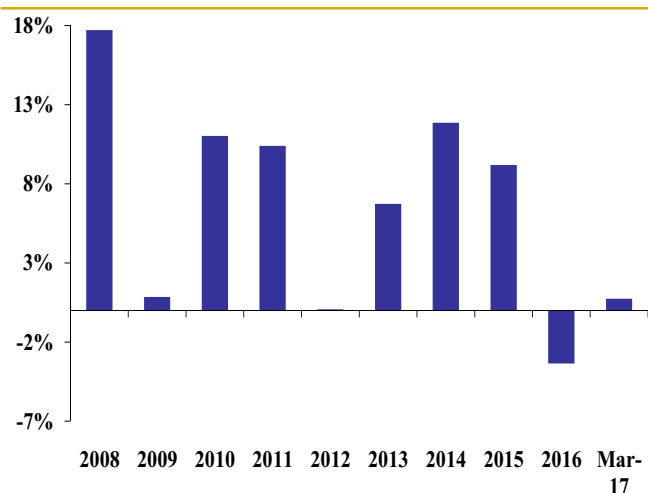
Figures issued by Banque du Liban about the distribution of bank deposits show that term savings was the preferred type of account for resident and non-resident depositors in Lebanese pounds and in foreign currencies at the end of March 2017. Term saving deposits in all currencies reached \$146.45bn at the end of March 2017, constituting an increase of 8.6% from \$134.9bn at end-March 2016. Also, they accounted for 89.1% of deposits in Lebanese pounds and foreign currencies at end-March 2017 relative to an 88.5% share a year earlier.

In parallel, term saving deposits in foreign currencies totaled \$68.1bn and accounted for 86.3% of resident deposits in foreign currencies at end-March 2017. They were followed by checking and current accounts with \$9.4bn (11.9%), sight saving accounts with \$1.3bn (1.6%) and other creditor accounts with \$172.1m (0.2%). Further, term saving accounts attracted the equivalent of \$47bn, or 91.7% of resident deposits in Lebanese pounds, followed by checking and current accounts with \$3.5bn (6.8%), then sight saving accounts with \$629.4m (1.2%) and other creditor accounts with \$90.7m (0.2%).

Non-residents also favored term saving accounts, as their term deposits in foreign currencies totaled \$27.1bn and accounted for 91% of their deposits in foreign currencies at the end of March 2017. Current accounts followed with \$2.1bn (7.1%), then other creditor accounts with \$314.7m (1.1%) and sight saving accounts with \$273.3m (0.9%). Further, term saving accounts attracted the equivalent of \$4.3bn, or 96.9% of non-resident deposits in Lebanese pounds. Checking and current accounts followed with \$102.4m (2.3%), sight saving accounts with the equivalent of \$33.7m (0.8%) and other creditor accounts with \$1.1m (0.02%).

Beirut and its suburbs attracted 69.2% of private sector deposits and 48.1% of depositors at the end of March 2017. Mount Lebanon followed with 13.9% of deposits and 18.5% of beneficiaries; then South Lebanon with 6.5% of deposits and 12.5% of depositors; North Lebanon with 5.7% of deposits and 12.1% of depositors; and the Bekaa with 4.7% of deposits and 8.7% of depositors.

### Growth in the Number of Credit Cards Held by Residents\*



\*at year-end

Source: Central Bank of Lebanon, Byblos Research

### **Council of Ministers approves construction of three wind farms with total capacity of 200MW**

The Council of Ministers approved the construction of three wind farms by three different consortiums in Akkar in the North, with an aggregate capacity of 200 megawatts (MW). The approval to build the wind farms is based on Law 288 dated April 2014, as well as law 54 dated October 2015, which extended the duration of Law 288 until April 2018. The two laws allow the Council of Ministers to issue permits and licenses to the private sector to generate electricity in the renewable energy sector and transport it through the national grid.

The consortiums are expected to sign the Power Purchase Agreements (PPA) in the coming three months, which include information on the starting date of the project, a schedule for the delivery of electricity, penalties for under-delivery, as well as payment and termination terms. Upon signing the PPA, the three companies will have 18 months to complete the Environmental Impact Assessment and other safety checks.

The Ministry of Energy & Water initially called on the private sector to submit proposals for the construction of the wind farms in 2011. Following a detailed tendering process, an inter-ministerial committee, which consists of the Prime Minister's Office, the Ministry of Energy & Water, the Ministry of Finance, the Ministry of Justice, the Ministry of Environment, Electricité du Liban and the Lebanese Center for Energy Conservation (LCEC) approved the offers of the three consortiums. Then, the inter-ministerial committee and the Ministry of Energy & Water each conducted a round of negotiations with each of the three consortiums.

The construction of the wind farms, which is expected to be completed by 2020, would support Lebanon's National Energy Efficiency Action Plan (NEEAP) for 2016-20. The national strategy aims to produce about 767 kilotons of oil equivalent, or 12% of the projected electricity and thermal supply in Lebanon by 2020. It builds on the 14 energy efficiency initiatives proposed in the NEEAP 2011-2015. The NEEAP initiatives consist of promoting electricity generation from solar and wind power, the use of solar water heaters, the adoption of the energy conservation law, the banning of the import of incandescent lamps to Lebanon and spreading the use of compact fluorescent lamps, along with developing an energy efficient code for new buildings, among others.

### **Value of real estate transactions up 10% in first half of 2017**

Figures released by the Ministry of Finance indicate that there were 33,584 real estate transactions in the first half of 2017, constituting an increase of 12% from 29,988 deals in the same period of 2016. In comparison, the number of real estate transactions rose by 4.4% year-on-year in the first half of 2016, while it decreased by 15.8% in the first half of 2015. There were 4,816 real estate transactions in June 2017, constituting a decrease of 17% from 5,802 deals in May 2017 and a decline of 2% from 4,909 deals in June 2016. Further, there were 7,067 real estate transactions in the Baabda area in the first half of 2017, representing 21% of the total. The North followed with 5,534 transactions (16.5%), then the Zahlé region with 3,875 deals (11.5%), the Metn district with 3,632 transactions (10.8%), the South with 3,449 deals (10.3%), the Keserwan area with 3,416 transactions (10.2%), Nabatieh with 3,084 deals (9.2%) and Beirut with 2,437 transactions (7.3%).

Also, the aggregate value of real estate transactions reached \$4.5bn in the first half of 2017 and increased by 10.1% from \$4.1bn in the same period of 2016. In comparison, the value of real estate deals increased by 14% in the first half of 2016 relative to the same period of 2015, while it declined by 20% year-on-year in the first half of 2015. The value of real estate transactions reached \$684.6m in June 2017, down by 9.2% from \$754m in May 2017 and up by 3.4% from \$662.1m in the same month last year. Further, the value of real estate transactions in Beirut reached \$1.2bn and accounted for 26% of the total in the first half of 2017. The Baabda district followed with \$966.8m (21.5%), then the Metn region with \$830.1m (18.4%), the Keserwan area with \$468.3m (10.4%), the North with \$382.2m (8.5%), the South with \$339.1m (7.5%), the Zahlé area with \$167.6m (3.7%) and Nabatieh with \$134.7m (3%).

In parallel, the average value per real estate transaction was \$134,105 in the first half of 2017, down by 1.7% from an average value of \$136,358 in the same period of 2016 and relative to \$124,905 in the first half of 2015. Further, there were 599 real estate transactions executed by foreigners in the first half of 2017, an increase of 25.6% from 477 deals in the same period of 2016, and compared to an annual decrease of 28.7% in the first half of 2016 and a rise of 31.2% in the same period of 2015.

The number of real estate transactions by foreigners accounted for 1.8% of total real estate deals in the first half of 2017 compared to 1.6% of deals in the same period of 2016 and to 2.3% of deals in the first half of 2015. Further, 28.5% of the real estate transactions executed by foreigners were in the Baabda district in the first half of 2017, followed by the Metn region (15.4%), Beirut (14.2%), the South (13.9%), the North and Zahlé (9% each), the Keserwan area (8.7%) and Nabatieh (1.3%).

### Real estate prices vary significantly across Beirut

Figures released by property advisory firm RAMCO show that the asking price for first floor apartments in buildings under construction in Beirut ranges from a low of \$2,000 per square meter (sqm) in the Salim Salam area to a high of \$8,500 per sqm in the Manara area.

The asking price for first floor apartments in buildings under construction in Beirut is the highest in the Manara area, followed by Saifi Village (\$7,133 per sqm), Wadi Abou Jamil area (\$7,100 per sqm), the Minet El Hosn region (\$6,883 per sqm), the Foch/Allenby street (\$6,500 per sqm), Raouché region (\$6,100 per sqm), Ramlet el Baida (\$5,412 per sqm), Ain el Mreisseh (\$5,367 per sqm), Saifi neighborhood (\$5,133 per sqm) and Sursock street (\$5,000 per sqm).

In contrast, the asking price for first floor apartments in buildings under construction in Beirut is the lowest in the Salim Salam area, followed by the Rawas area (\$2,100 per sqm), Basta region (\$2,160 per sqm), Hamad and the Beirut Arab University areas (\$2,180 per sqm each), the Makassed area (\$2,212 per sqm), Borj Abi Haidar (\$2,277 per sqm), Barbour region (\$2,310 per sqm), Noueiri neighborhood (\$2,333 per sqm), Bachoura region (\$2,371 per sqm) and the Malaab Baladi area (\$2,381 per sqm). The survey covered buildings that are currently under construction in 67 neighborhoods in Beirut.

RAMCO indicated in its 2017 survey that the asking price for first floor apartments in buildings under construction fell in 50% of Beirut's neighborhoods from the preceding year, while it increased in 34% of them.

### Commercial activity improves year-on-year in first quarter of 2017

Banque du Liban's quarterly business survey of the opinions of business managers shows that the volume of commercial sales improved in relative terms during the first quarter of 2017, with the balance of opinions standing at -12 compared to -24 in the first quarter of 2016, but activity regressed quarter-on-quarter as the balance of opinion was zero in the fourth quarter of 2016. The business survey reflects the opinions of enterprise managers about their business activity in order to depict the evolution of a number of key economic variables. The balance of opinions was the highest in the South at +35, followed by the Bekaa region (+3), Beirut & Mount Lebanon (-20) and the North (-30).

The survey shows that the balance of opinions about the sales of food items was +2 in the first quarter of 2017 relative to +17 in the preceding quarter and to -16 in the same quarter of 2016. The balance of opinions about the sales of non-food products was -12 in the first quarter of the year compared to -2 in the previous quarter and to -30 in the first quarter of 2016; while it was -29 for inter-industrial goods relative to -15 in the preceding quarter and to -22 in the first quarter of 2016. Also, the balance of opinions for inventory levels in all commercial sub-sectors was -10 in the first quarter of 2017, compared to -4 in the previous quarter and to zero in the first quarter of 2016. Opinions about the level of inventories were the highest in Beirut & Mount Lebanon as they reached +3, followed by the Bekaa (-7), the North (-32) and the South (-44). The balance of opinions is the difference between the proportion of surveyed managers who consider that there was an improvement in an indicator and the proportion of those who reported a decline in the same indicator.

Commercial Activity: year-on-year evolution of opinions				
Aggregate results	Q1-14	Q1-15	Q1-16	Q1-17
Sales volume	-11	-20	-24	-12
Number of employees	-4	-1	-1	-8
Inventories of finished goods	-5	-12	0	-10
Q1-16 Regional results	Beirut / Mount Lebanon	North	South	Bekaa
Sales volume	-20	-30	+35	+3
Inventories of finished goods	+3	-32	-44	-7

Source: Central Bank business survey for first quarter of 2017



### **Byblos Bank's net profits at \$66.3m in first half of 2017, capital adequacy ratio at 18%**

Byblos Bank sal, one of the top banking and financial services groups in Lebanon, declared unaudited net profits of \$66.3m in the first half of 2017 compared to \$72.9m in the first half of 2016. The Bank attributed the decline in profits mainly to the deconsolidation of Byblos Bank Syria and Byblos Bank Africa (the Sudan subsidiary) from the overall balance sheet of Byblos Bank sal, as well as to the adoption of a conservative strategy amid uncertainties in the region and in markets where the Bank operates. The strategy consists of a prudent lending policy, elevated liquidity levels and lower risk appetite in some overseas markets.

The Bank's net interest income reached \$143.5m in the first half of 2017, up by 4% from \$138m in the same period of 2016; while net fees & commissions income stood at \$41.4m relative to \$40.1m in the first half of last year. Net operating income totaled \$200.3m in the first half of 2017 relative to \$217.8m in the same period of 2016. In parallel, total operating expenses reached \$120.1m in the first half of 2017, down by 7.2% from \$129.5m in the same period last year, with personnel expenditures accounting for 56.8% of the total.

The Bank's aggregate assets reached \$21.79bn at the end of June 2017 and grew by 4.7% from \$20.81bn at end-2016. Also, net loans & advances to customers totaled \$5.27bn at the end of June and improved by 2% from end-2016, while net loans & advances to related parties stood at \$14.5m. The Bank's total deposits reached \$17.57bn at the end of June 2017 and grew by 4.2% from the end of 2016, with deposits from related parties standing at \$263.5m. In parallel, the Bank's total equity stood at \$2.05bn at end-June 2017.

Byblos Bank maintained strong financial buffers to mitigate unexpected risks and to counter economic volatility. The Bank's Basel III capital adequacy ratio was above 18% at the end of March 2017, significantly above the Banque du Liban's regulatory requirement of 15% for end-2018 and one of the highest such ratios in the Lebanese banking sector. It also maintained a high level of immediate foreign-currency liquidity, equivalent to 15% of overall liquidity in foreign currency at the end of June 2017, in the form of short-term placements with investment- and above investment-grade institutions, at levels exceeding each of the local and international benchmarks. The Byblos Bank Group has a direct presence in Belgium, France, the United Kingdom, Cyprus, the United Arab Emirates, Nigeria, Armenia, the Democratic Republic of Congo and Iraq.

### **Sogecap's net income at \$9.5m in 2016**

Sogecap Liban sal, the insurance affiliate of Société Générale de Banque au Liban sal, announced audited net profits of \$9.52m in 2016, nearly unchanged from net earnings of \$9.5m the previous year. Its audited balance sheet shows total assets of \$143.2m at the end of 2016, constituting an increase of 11.3% from end-2015. On the assets side, general company investments totaled \$112.2m and increased by 11.8% from \$100.4m at end-2015. They included \$109.6m in cash & cash equivalents, \$1.09m in fixed income investments, \$0.8m in blocked bank deposits in favor of the Ministry of Economy & Trade as guarantees and \$0.6m in land and real estate.

Also, unit-linked contract investments totaled \$28.4m at end-2016, constituting a rise of 10.8% from \$25.6m a year earlier. They included \$14.9m in cash & similar investments that grew by 11.6% year-on-year, and \$13.5m in variable income investments that increased by 9.9% from end-2015. The reinsurance share in technical reserves for the life category amounted to \$1.1m, constituting an increase of 30.5% from \$0.9m at end-2015.

In parallel, technical reserves for the life segment grew by 11.2% year-on-year to \$76.1m. Provisions for risks and charges reached \$1.3m and decreased by 5.4% from the previous year. Also, the firm's shareholders' equity totaled \$35.1m at end-2016 and rose by 12.2% from \$31.3m a year earlier.

*Al-Bayan* magazine's annual survey of the life insurance sector in Lebanon ranked Sogecap Liban in seventh place in 2015 in terms of life premiums. The firm's life premiums reached \$33.4m last year, constituting a rise of 8.3% from \$30.8m in 2014. It had a 6.6% share of the life market in 2015.

### **Arab Bank's net income in Lebanon down 11% to \$19m in 2016**

The Jordan-based Arab Bank plc announced audited net profits of \$19m in 2016 for its branches in Lebanon, constituting a decrease of 11.1% from net earnings of \$21.4m in 2015. The bank's net operating income fell by 2.8% to \$57m in 2016, with net interest income decreasing by 1.6% to \$47.2m and net fees & commissions receipts growing by 13.8% to \$8.4m. Total operating expenditures rose by 5% to \$32.4m in 2016, with staff expenses growing by 3.4% to \$17.2m and administrative & other operating expenses increasing by 3.2% to \$13.2m. The bank's cost-to-income ratio increased to 54% in 2016 from 51.6% in 2015. The Arab Bank's return on assets in Lebanon reached 1.4% in 2016 relative to 1.3% in 2015, while its return on equity reached 16.6% last year, down from 20.2% in 2015.

In parallel, total assets reached \$1.34bn at the end of 2016, reflecting a decrease of 18.6% from \$1.65bn at end-2015; while loans & advances to customers, excluding loans & advances to related parties, fell by 6.4% to \$696.7m. Also, customer deposits, excluding deposits from related parties, totaled \$1.15bn at end-2016, down by 16.5% from a year earlier. The loans-to-deposits ratio increased from 58.1% at end-2015 to 61% at end-2016. The bank's shareholders' equity reached \$114.5m at end-2016 and grew by 7.9% from a year earlier.



## Ratio Highlights

(in % unless specified)	2014	2015	2016e	Change*
Nominal GDP (\$bn)	50.0	51.1	52.0	
Public Debt in Foreign Currency / GDP	51.2	53.0	54.2	1.26
Public Debt in Local Currency / GDP	81.9	84.6	89.6	4.98
Gross Public Debt / GDP	133.1	137.6	144.0	6.42
Total Gross External Debt / GDP**	170.0	174.7	176.6	1.90
Trade Balance / GDP	(34.4)	(29.5)	(30.0)	(0.47)
Exports / Imports	16.2	16.6	16.1	(0.49)
Fiscal Revenues / GDP	21.8	18.7	19.1	0.30
Fiscal Expenditures / GDP	27.9	26.5	28.6	2.1
Fiscal Balance / GDP	(6.1)	(7.7)	(9.5)	(1.8)
Primary Balance / GDP	2.6	1.4	0.04	(1.4)
Gross Foreign Currency Reserves / M2	66.5	58.7	62.7	3.94
M3 / GDP	235.4	241.9	250.0	8.11
Commercial Banks Assets / GDP	351.4	364.0	392.9	28.9
Private Sector Deposits / GDP	288.9	296.6	312.5	15.8
Private Sector Loans / GDP	101.8	106.1	108.7	3.85
Private Sector Deposits Dollarization Rate	65.7	64.9	65.0	0.10
Private Sector Lending Dollarization Rate	75.6	74.8	73.6	(1.23)

\*Change in percentage points 15/16

\*\*Includes portion of public debt owed to non-residents, liabilities to non-resident banks, non-resident deposits (estimated by the IMF), Bank for International Settlements' claims on Lebanese non-banks

Source: Association of Banks in Lebanon, Institute of International Finance, International Monetary Fund, World Bank, Byblos Research Estimates & Calculations

Note: M2 includes money in circulation and deposits in LBP, M3 includes M2 plus Deposits in FC and bonds

## Risk Metrics

Lebanon	Aug 2015	July 2016	Aug 2016	Change**	Risk Level
Political Risk Rating	54.5	55.0	54.5	➔	High
Financial Risk Rating	39.0	36.5	36.5	▲	Low
Economic Risk Rating	33.0	30.5	30.5	▲	Moderate
Composite Risk Rating	63.25	61.0	60.75	▲	Moderate

MENA Average*	Aug 2015	July 2016	Aug 2016	Change**	Risk Level
Political Risk Rating	57.6	57.5	57.4	▲	High
Financial Risk Rating	39.4	38.8	38.8	▲	Low
Economic Risk Rating	32.1	29.7	29.7	▲	High
Composite Risk Rating	64.5	63.0	62.9	▲	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	B2	NP	Negative	B2		Negative
Fitch Ratings	B-	B	Stable	B-		Stable
Standard & Poor's	B-	B	Stable	B-	B	Stable
Capital Intelligence	B	B	Stable	B	B	Stable

Source: Rating agencies

Banking Ratings	Banks' Financial Strength	Banking Sector Risk	Outlook
Moody's	E+		Negative



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