

LEBANON THIS WEEK

In This Issue

Economic Indicators.....	1
Capital Markets.....	1
Lebanon in the News.....	2

International Monetary Fund calls for urgent and wide-ranging structural reforms

Coincident Indicator up by 6% in 2017

Lebanon ranks in 95th place globally, last place regionally in terms of energy performance

Association of Banks amends reference rate on US dollar and Lebanese pound lending

External debt posts fourth highest return in emerging markets in January 2018

Regional competition for deposits and liquidity on the rise

Gross public debt at \$79.5bn at end-2017

Average value per real estate transaction down 2.4% in January 2018

Lebanon lacks processes for public participation in budget preparation and oversight

Value of cleared checks up 4%, returned checks up 11% in January 2018

International support for Lebanon at \$1.68bn in 2017

Corporate Highlights9

New car sales up 3% in January 2018

Kafalat loan guarantees down 13% to \$4.7m in January 2018

Three companies awarded \$283m fiber optic project

Lebanon's banking sector indicators favorable compared to emerging markets

Balance sheet of investment banks up 10% in 2017

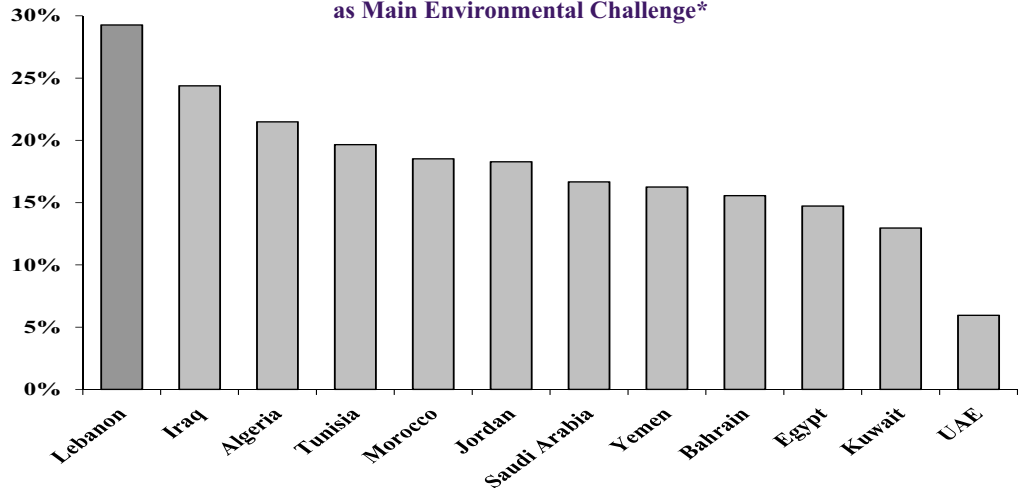
Ratio Highlights.....10

Risk Outlook10

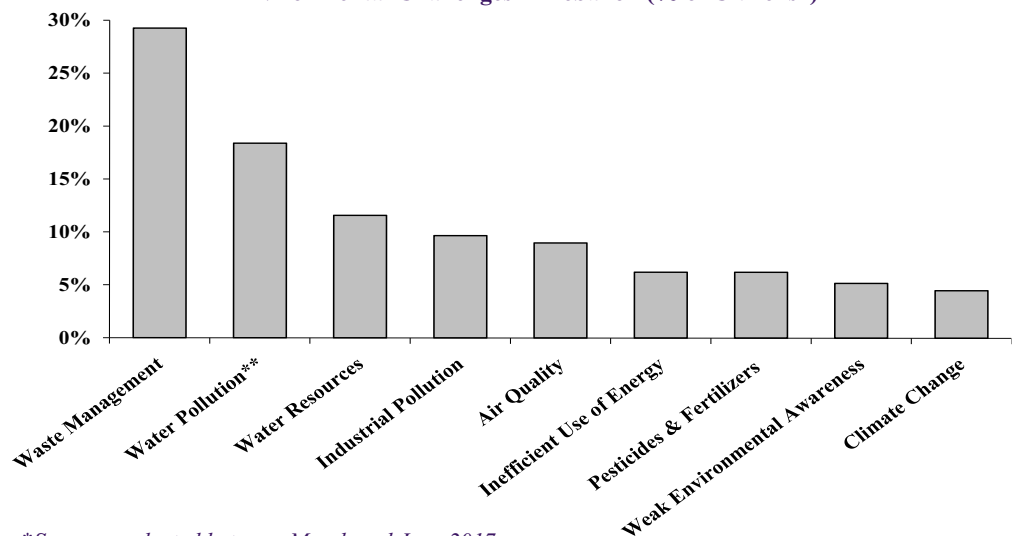
Ratings & Outlook.....10

Charts of the Week

Percentage of Citizens in Arab Countries who Consider Waste Management as Main Environmental Challenge*



Environmental Challenges in Lebanon (% of Citizens*)



*Survey conducted between March and June 2017

**Sea, beaches and lakes

Source: Arab Forum for Environment and Development, Byblos Bank

Quote to Note

“Data on employment, unemployment and wages need to be frequently collected and published.”

The International Monetary Fund, on the absence of figures about the labor market in Lebanon

Number of the Week

1.05%: The spread between the weighted average cost of funds and the weighted return on the uses of funds in Lebanese pounds at commercial banks in Lebanon as at December 2017, according to the Association of Banks in Lebanon

Lebanon in the News

\$m (unless otherwise mentioned)	2016	Oct 2016	Jul 2017	Aug 2017	Sep 2017	Oct 2017	% Change*
Exports	2,977	257	217	251	210	251	(2.02)
Imports	18,705	1,479	1,619	1,594	1,297	1,690	14.26
Trade Balance	(15,728)	(1,222)	(1,402)	(1,343)	(1,087)	(1,439)	17.68
Balance of Payments	1,238	(680)	100	368	457	(888)	30.52
Checks Cleared in LBP	19,892	1,780	1,845	1,869	1,475	1,993	12.00
Checks Cleared in FC	48,160	4,216	4,310	4,100	3,010	4,147	(1.64)
Total Checks Cleared	68,052	5,996	6,155	5,969	4,485	6,140	2.41
Budget Deficit/Surplus	(3,667.15)	(163.91)	31.76	(513.46)	(651.25)	(273.18)	66.67
Primary Balance	1,297.65	281.60	300.34	(192.77)	(145.72)	166.63	(40.83)
Airport Passengers***	7,610,231	554,122	975,003	1,067,441	861,828	616,742	11.30

\$bn (unless otherwise mentioned)	2016	Oct 2016	Jul 2017	Aug 2017	Sep 2017	Oct 2017	% Change*
BdL FX Reserves	34.03	34.74	33.04	34.03	35.06	36.77	5.83
In months of Imports	21.83	23.49	20.41	21.35	27.03	21.76	(7.38)
Public Debt	74.89	74.52	76.89	77.27	78.15	78.47	5.31
Bank Assets	204.31	199.67	208.48	209.39	213.42	215.79	8.07
Bank Deposits (Private Sector)	162.50	157.70	168.39	169.16	169.09	169.40	7.42
Bank Loans to Private Sector	57.18	56.69	58.61	58.67	58.93	59.13	4.31
Money Supply M2	54.68	53.83	55.02	55.59	55.50	55.07	2.30
Money Supply M3	132.80	128.74	138.01	138.92	138.87	138.68	7.72
LBP Lending Rate (%)****	8.23	8.35	8.33	8.10	8.31	8.24	(11bps)
LBP Deposit Rate (%)	5.56	5.53	5.56	5.55	5.53	5.56	3bps
USD Lending Rate (%)	7.35	7.06	7.25	7.29	7.53	7.39	33bps
USD Deposit Rate (%)	3.52	3.43	3.64	3.63	3.65	3.72	29bps
Consumer Price Index**	(0.80)	9.60	3.10	5.10	4.10	4.60	(500bps)

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

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

Note: bps i.e. basis points

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

Capital Markets

Most Traded Stocks on BSE	Last Price (\$)	% Change*	Total Volume	Weight in Market Capitalization
Solidere "A"	8.34	(1.30)	77,689	7.15%
Solidere "B"	8.30	(0.24)	56,666	4.63%
Audi Listed	5.90	0.00	56,102	20.23%
Byblos Common	1.62	0.00	37,350	7.86%
BLOM Listed	11.80	(1.67)	27,842	21.76%
BLOM GDR	12.75	0.79	4,210	8.08%
Audi GDR	5.93	2.24	20	6.10%
HOLCIM	14.57	0.00	-	2.44%
Byblos Pref. 09	103.00	0.00	-	1.77%
Byblos Pref. 08	102.10	0.00	-	1.75%

Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
Nov 2018	5.15	99.50	5.85
May 2019	6.00	99.50	6.41
Mar 2020	6.38	99.38	6.70
Oct 2022	6.10	95.70	7.21
Jun 2025	6.25	91.75	7.75
Nov 2026	6.60	92.00	7.88
Feb 2030	6.65	88.38	8.19
Apr 2031	7.00	90.00	8.26
Nov 2035	7.05	89.00	8.24
Mar 2037	7.25	89.13	8.40

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

Source: Byblos Bank Capital Markets

	Feb 12-16	Feb 5-8	% Change	January 2018	January 2017	% Change
Total shares traded	273,849	2,098,627	(87)	5,509,441	7,195,986	(23.4)
Total value traded	\$3,285,516	\$26,710,651	(87.7)	\$45,845,113	\$46,829,082	(2.1)
Market capitalization	\$11.66bn	\$11.69bn	(0.28)	\$11.77bn	\$12.21bn	(3.6)

Source: Beirut Stock Exchange (BSE)



International Monetary Fund calls for urgent and wide-ranging structural reforms

In the concluding statement of its Article IV Mission for Lebanon, the International Monetary Fund indicated that the economic outlook is challenging in the absence of reforms. It projected real GDP growth at between 1% and 1.5% during the 2017-18 period and at about 3% over the medium term in case external demand picks up. Also, it forecast the fiscal deficit to exceed 10% of GDP, mainly due to higher personnel and debt servicing costs, which would push the public debt level from 150% of GDP at end-2017 to close to 180% of GDP by 2023. In addition, it expected the current account deficit to remain wide at above 20% of GDP and for Lebanon's reserve adequacy position to deteriorate, in case authorities do not implement reforms or raise interest rates. It noted that downside risks to the outlook include increased regional tensions that could have adverse spillovers on Lebanon, higher global oil prices that could increase Lebanon's funding needs, and a slowdown in deposit inflows that could weigh on foreign currency reserves. In contrast, it said that a resolution of the Syrian conflict in the near term would be positive for Lebanon, as the latter is well placed to benefit from reconstruction efforts, the re-establishment of trade routes and an improvement in regional investor confidence.

The Fund considered that Lebanon has maintained over the past several years a policy mix of loose fiscal policy, high real rates on bank deposits and low-cost private sector credit through quasi-fiscal subsidy schemes. However, it indicated that the increase in vulnerabilities, especially following the November 2017 political crisis, requires urgent reform actions. In this context, the IMF called on authorities to implement fiscal, financial and structural reforms in order to preserve confidence and take advantage of international support.

First, the IMF cautioned, that in the absence of fiscal reforms, the government's financing needs will continue to rise, the co-dependence between banks and the sovereign will increase and Lebanon's growing reliance on deposit inflows will further expose the economy to shifts in depositors' confidence. As such, it recommended the implementation of a significant fiscal adjustment in order to maintain the current economic policy framework of a fixed exchange rate that is sustained by high deposit inflows. It estimated that authorities need to implement a combination of tax measures and current spending cuts equivalent to about 5% of GDP over the medium term, in order to stabilize the public debt ratio and gradually reduce it afterwards. It recommended that authorities raise the value-added tax rate, reinstate gasoline excises and fuel taxes and gradually eliminate the electricity subsidies. It added that authorities should contain the public sector wage bill and reform the civil service, which would help reduce spending rigidity. It cautioned that the fiscal adjustment by itself does not guarantee debt sustainability. In addition, the Fund called on authorities to strengthen the public investment management framework before undertaking large investment projects, and to contain the risks and fiscal costs that could arise from any public-private partnerships. It considered that a gradual increase in public investment would help limit fiscal and implementation risks. Overall, the IMF said that Lebanon's capital investment program could support economic activity over the short term, but it would increase the public debt and borrowing costs in the absence of reforms.

Second, the IMF called on Banque du Liban (BdL) to rely on conventional interest rate policies instead of unorthodox financial operations. It said that BdL should maintain tight liquidity and increase interest rates in case foreign currency inflows slow down. It considered that conventional policies would help improve BdL's foreign currency position, encourage banks to rebuild their liquidity buffers and reduce the risk of a further rise in dollarization rates. Further, they would help contain the increase in the private sector's debt, ease inflationary pressure and limit an additional deterioration in BdL's balance sheet. It pointed out that the implementation of fiscal measures would reduce gross financing needs, which would offset the negative impact of higher interest rates on debt dynamics. In addition, it called on banks to strengthen their capital and liquidity buffers and to address the increase in credit risks.

Third, the Fund indicated that the implementation of structural reforms, such as reducing the cost of doing business and improving the quality of public services, is crucial to improving the economy's competitiveness, promoting growth and reducing the external sector's vulnerabilities. Further, it called on authorities to enhance and enforce the regulatory framework to fight corruption, such as ensuring the protection of whistleblowers. Also, it recommended to make the illicit wealth law more effective by mandating senior public officials to release to the public their asset declaration, to allow banks to control and report suspicious activities related to politically-exposed persons, as well as to establish the planned anti-corruption body and to equip it with sufficient enforcement powers. It also called on authorities to enhance fiscal transparency by strengthening governance in the revenue and customs administrations, improving revenue compliance, making the procurement system transparent, and introducing an external audit agency.

Coincident Indicator up by 6% in 2017

Banque du Liban's Coincident Indicator, an index of economic activity in Lebanon, reached 317.8 points in December 2017 compared to 323.9 in November 2017 and 292.2 in December 2016. The Coincident Indicator, an average of 8 weighted economic indicators, decreased by 1.9% month-on-month and increased by 8.8% year-on-year in December 2017. Also, the indicator averaged 305.8 in 2017 compared to 303.7 in the 12 months ending November 2017 and to 289.5 points in 2016. As a result, the 12-month average coincident indicator grew by 0.7% month-on-month and by 5.6% year-on-year. In parallel, the indicator regressed 13 times and improved 12 times on a monthly basis in the month of December since 1993. It averaged 249.5 points in 2010, 255.7 points in 2011, 256.6 points in 2012, 264.7 points in 2013, 273.2 points in 2014 and 278.6 points in 2015.

Lebanon ranks in 95th place globally, last place regionally in terms of energy performance

The World Energy Council ranked Lebanon in 95th place among 125 countries globally and in last place among 15 countries in the Middle East & North Africa (MENA) region on its Energy Trilemma Index for 2017. Lebanon also ranked in 33rd place among 35 upper middle-income countries (UMICs) included in the survey. Lebanon's global rank declined by nine spots from 86th place in the 2016 survey, while its regional rank regressed by one spot year-on-year.

The index measures a country's ability to provide a secure, affordable and environmentally-sustainable energy system. It assesses a country's energy performance based on three dimensions that are Energy Security, Energy Equity and Environmental Sustainability. The index assigns each country a rating of A, B, C or D on each dimension, with an 'A' rating reflecting the best performance. As such, a country's overall rating is a combination of its performance on each dimension, where the best performing country across all three dimensions receives a 'AAA' rating. In contrast, lower ratings point to an imbalance in a country's energy performance, which reflects current or future challenges in its energy policy.

Globally, Lebanon's energy performance was better than that of Ghana, Namibia and Botswana, and worse than that of India, Gabon and Moldova. Also, Lebanon ranked ahead of only Namibia and Botswana among UMICs. Lebanon received a balance rating of 'DBC', which reflects the country's good performance in energy equity and poor performance in energy security.

In parallel, Lebanon ranked ahead of only Malta, Niger and Nepal, while it came in last place among UMICs and MENA countries on the Energy Security indicator, which measures a country's ability to meet current and future energy demand. Further, Lebanon came in 75th place globally, in 22nd place among UMICs and in last place regionally on the Energy Equity indicator, which assesses a country's ability to provide access to reliable and affordable energy for domestic and commercial use. Globally, Lebanon ranked ahead of China, the Dominican Republic and Venezuela, and came behind Moldova, Mexico and Brazil.

In addition, Lebanon ranked in 71st place globally, in 20th place among UMICs and in fourth place regionally on the Environmental Sustainability indicator, which measures a country's ability to mitigate the depletion of natural resources and the degradation of the environment. Globally, Lebanon ranked ahead of Argentina, Thailand and Morocco, while it came behind Indonesia, Tajikistan and Bangladesh. Also, it came behind only Israel, Egypt and Tunisia regionally.

In addition, the World Energy Council assessed a country's "contextual energy performance", which reflects the authorities' ability to effectively develop and implement their energy policy and achieve their energy goals. It ranked Lebanon in 95th place on this indicator, ahead of Paraguay, Swaziland and Côte d'Ivoire, and behind Argentina, Sri Lanka and Tanzania.

Association of Banks amends reference rate on US dollar and Lebanese pound lending

The Association of Banks in Lebanon (ABL) recommended to its member banks to raise the Beirut Reference Rate (BRR) in US dollars to 7.23% in March 2018 from 7.03% in February 2018. The rate, considered as the reference rate for lending in foreign currency, replaced the London Interbank Offered Rate (LIBOR) in 2009, as the ABL decided that the LIBOR does not reflect the cost of funding and lending in Lebanon. In addition, the ABL recommended to its member banks to increase the BRR in Lebanese pounds to 10.7% in March 2018 from the February 2018 rate of 9.11%. The BRR in US dollars and Lebanese pounds were adopted in March and May 2009, respectively. The ABL considers that the BRR does not replace the Beirut Prime Lending Rate in each currency, but constitutes the basis to calculate the prime rate after adding the cost of liquidity and refinancing, credit risk and the profitability of banks.

Energy Trilemma Index for 2017 MENA Countries' Rankings & Ratings		
	Rank	Rating
Israel	26	BBA
UAE	40	AAD
Kuwait	42	BAD
Qatar	51	BAD
Saudi Arabia	53	BAD
Tunisia	59	DBB
Bahrain	62	CAD
Algeria	65	CBC
Egypt	69	CBB
Oman	72	CAD
Morocco	77	DBC
Iraq	80	CBD
Iran	81	CBD
Jordan	87	DBC
Lebanon	95	DBC

Source: World Energy Council, Byblos Research

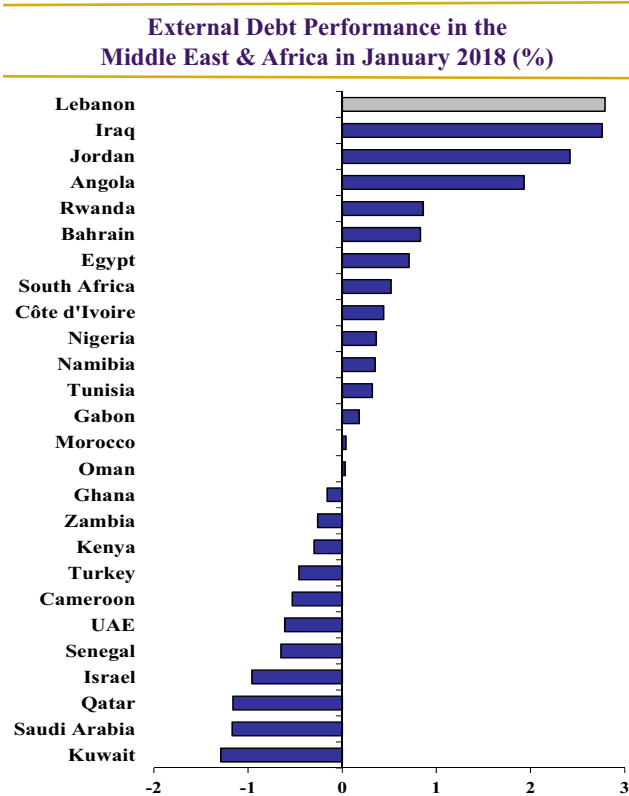
External debt posts fourth highest return in emerging markets in January 2018

Figures issued by Intercontinental Exchange, Inc. (ICE) indicate that Lebanon's external debt posted a return of 2.79% in January 2018, constituting the third highest return among 43 markets in the Central & Eastern Europe and the Middle East & Africa (CEEMEA) region, as well as the fourth highest return among 75 emerging markets included in ICE's External Debt EM Sovereign Index.

Lebanon outperformed the emerging markets' return of -0.28% in January 2018. Also, Lebanon's external debt posted the highest return among 26 countries in the Middle East & Africa region in the covered month.

In parallel, ICE indicated that the option-adjusted spread on Lebanese Eurobonds was 411 basis points at the end of January 2018 compared to 433 basis points at end-January 2017. The spread on Lebanese Eurobonds was the second widest in the CEEMEA region, behind Zambia (414 basis points), and the sixth widest among emerging markets. It was wider than the emerging markets' overall spread of 202 basis points at the end of January 2018.

Lebanon has a weight of 2.4% on ICE's External Debt EM Sovereign Index, the sixth largest weight in the CEEMEA universe and the 12th largest among emerging economies. Lebanon accounted for 4.5% of allocations in the CEEMEA region.



Source: ICE, Byblos Research

Regional competition for deposits and liquidity on the rise

In the monthly meeting between Banque du Liban (BdL), the Banking Control Commission of Lebanon (BCCL) and the Association of Banks in Lebanon (ABL), Governor Riad Salamé indicated that the currency market and interest rates in Lebanon are stable. He noted that global interest rates are rising and that competition for deposits is increasing across the region as well as from international financial institutions. He added that Lebanese banks should take these conditions into account in order to maintain sufficient liquidity to finance both the private sector and the government's needs. Further, he pointed out that foreign delegations visiting Lebanon focused on the importance of compliance with laws and regulations, as well as on maintaining stability in the country, including monetary stability. In addition, he said that the success of the three international conferences for Lebanon that are scheduled to take place in coming months is contingent on the international response to their objectives.

In parallel, the ABL reiterated that the banks' main concern is the tax on their interbank operations and on their deposits at BdL. It added that taxing interbank operations is unprecedented by international standards and will have a significantly adverse impact on the banks' performance. The ABL said that its meetings with the President of the Republic, the Speaker of Parliament and the Finance Minister were positive and that they promised to address the tax on the interbank interest rates issue in the 2018 budget that is expected to be finalized prior to the May elections, or alternatively in a separate law. Governor Salamé also noted that he will follow up with the relevant parties on this issue and that BdL will release the tax on interbank rates that it has been withholding, in case the tax is revoked.

Further, the ABL indicated that banks did not suspend housing loans as it was falsely reported in the media. It noted that banks continue to provide housing loans directly or through all available schemes, such as through the Public Housing Corporation and Banque de l'Habitat. In addition, Governor Salamé pointed out that BdL amended in mid-January 2018 the mechanism that was previously used by banks to extend housing loans. He said that, following the amendments, banks started using their own liquidity to provide housing loans and that BdL would only subsidize the interest on mortgages and has allocated up to LBP750bn for this subsidy.

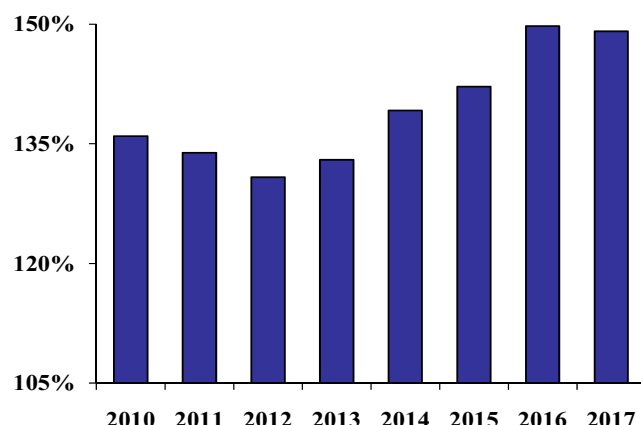
In parallel, Governor Salamé considered that the recent report by the International Monetary Fund is stricter than reports issued by international rating agencies. He said that the IMF mission to Lebanon did not take into account several aspects of the Lebanese economy, such as the increase in imports and the presence of Syrian refugees. He added that an increase in imports contradicts the IMF's projections of a deceleration in economic activity in the country. Also, he indicated that the IMF focused on the increase in the public debt level and did not take into account that BdL holds about 30% of the debt stock. He added that it is not uncommon for central banks to hold a large share of government debt, as this share could reach between 40% and 50%. In addition, Governor Salamé considered that the suggested fiscal measures by the IMF are unrealistic, as it is unlikely that Lebanon will be able to reduce spending by 5% of GDP and increase revenues by 5% of GDP in a short period of time.

Gross public debt at \$79.5bn at end-2017

Lebanon's gross public debt reached \$79.5bn at the end of 2017, constituting an increase of 6.2% from \$74.9bn at end-2016 and compared to increases of 6.5% in 2016, 5.6% in 2015, 4.9% in 2014, 10.1% in 2013, 7.5% in 2012, 2% in 2011 and 3% in 2010. In nominal terms, the gross public debt grew by \$4.62bn in 2017, relative to increases of \$4.56bn in 2016, \$3.75bn in 2015, \$3.1bn in 2014, \$5.8bn in 2013, \$4bn in 2012, \$1.1bn in 2011 and \$1.5bn in 2010.

Debt denominated in Lebanese pounds totaled \$49.1bn at the end of 2017, growing by 5% from end-2016; while debt denominated in foreign currency stood at \$30.4bn, constituting a rise of 8.1% from end-2016. Local currency debt accounted for 61.8% of the gross public debt at the end of 2017 compared to 62.5% a year earlier, while foreign currency denominated debt represented the balance of 38.2% relative to 37.5% at end-2016. The weighted interest rate on outstanding Treasury bills was 6.65% and the rate on Eurobonds was 6.49% in December 2017. Further, the weighted life on Eurobonds was 7.07 years, while that on Treasury bills was 1,420 days.

Lebanon's Gross Public Debt (% of GDP)



Source: Association of Banks in Lebanon, Institute of International Finance, Byblos Research

Commercial banks held 40.2% of the public debt as at end-2017 relative to 46.4% of the total at end-2016. Banque du Liban (BdL) held 48% of the Lebanese pound-denominated public debt at the end of 2017, up from 42.7% a year earlier; followed by commercial banks with 37.5% of the local debt, down from 41.9% at end-2016. Also, public agencies, financial institutions and the public held 14.5% of local debt at end-2016, down from 15.3% a year earlier. In parallel, holders of Eurobonds and special T-bills in foreign currencies accounted for 92.7% of foreign currency-denominated debt holders at the end of 2017, followed by multilateral institutions with 4.4% and foreign governments with 2.9%. In addition, the net public debt, which excludes public sector deposits at BdL and at commercial banks from overall debt figures, grew by 6% annually to \$69.3bn at end-2017. Further, the gross market debt accounted for about 58.2% of the total public debt. Gross market debt is the total public debt less the BdL's portfolios, the National Social Security Fund, bilateral and multilateral loans, as well as Paris II related debt.

In parallel, S&P Global Ratings rates Lebanon's long-term foreign and local currency sovereign credit ratings at 'B-'. Also, the agency's Credit Default Swap Market Derived Signal Score, an indicator of risk appetite by foreign investors, shows that Lebanon's sovereign debt is considered by the market to have a 'B-' risk level as at February 15, 2018, which is similar to the S&P sovereign rating.

Average value per real estate transaction down 2.4% in January 2018

Figures released by the Ministry of Finance indicate that there were 5,346 real estate transactions in January 2018, constituting an increase of 22.9% from 4,350 deals in the same month of 2017. In comparison, the number of real estate transactions grew by 1.3% year-on-year in January 2017, while it increased by 21% in the same month of 2016. There were 1,091 real estate transactions in the Baabda area in January 2018, representing 20.4% of the total. The North followed with 902 transactions (16.9%), then the Zahlé region with 725 deals (13.6%), the South with 608 deals (11.4%), the Metn district with 570 transactions (10.7%), the Keserwan area with 496 transactions (9.3%), the Nabatieh region with 479 deals (9%) and Beirut with 344 transactions (6.4%).

Also, the aggregate value of real estate transactions reached \$684.4m in January 2018 and increased by 20% from \$570.8m in the same month of 2017. In comparison, the value of real estate deals increased by 8.8% in January 2017 from the same month of 2016, while it was unchanged year-on-year in January 2016. Further, the value of real estate transactions in Beirut reached \$216.3m and accounted for 31.6% of the total in January 2018. The Baabda district followed with \$135.5m (19.8%), then the Metn region with \$116.9m (17.1%), the Keserwan area with \$64.3m (9.4%), the North with \$51.3m (7.5%), the South with \$45m (6.6%), the Zahlé area with \$30.7m (4.5%) and the Nabatieh region with \$17.5m (2.6%).

In parallel, the average value per real estate transaction was \$128,018 in January 2018, down by 2.4% from an average value of \$131,227 in the same month of 2017 and relative to \$122,192 in January 2016. Further, there were 91 real estate transactions executed by foreigners in January 2018, up by 7.1% from 85 deals in the same month of 2017, and compared to a rise of 11.8% year-on-year in January 2017, and a decrease of 14.6% in the same month of 2016. The number of real estate deals executed by foreigners accounted for 1.7% of total real estate transactions in the covered month compared to 2% of deals in January 2017 and to 1.8% of deals in January 2016. Further, 22% of the real estate transactions executed by foreigners were in the Baabda district in January 2018, followed by Beirut (19.8%), the South (17.6%), the North (15.4%), the Metn region (9.9%), Zahlé (7.7%), Keserwan (6.6%), and the Nabatieh region (1.1%).

Lebanon lacks processes for public participation in budget preparation and oversight

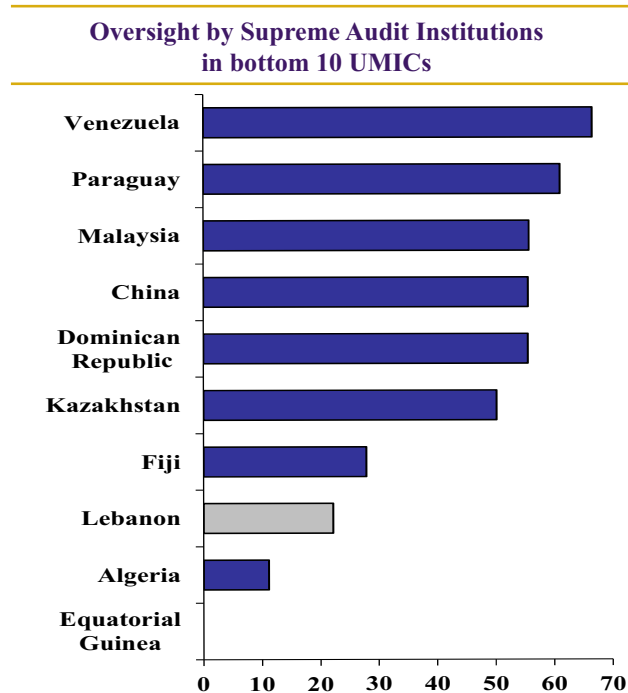
The International Budget Partnership's Open Budget survey for 2017 provided information about the level of participation by civil society and members of the public in the budget process, and about the strength of the legislative and audit institutions responsible for overseeing the management of public funds. It grouped the information in three categories that are Public Participation, Oversight by the Legislature and Oversight by Supreme Audit Institutions (SAIs). It assigned to each country a score between zero and 100, with 100 representing the best performance. The survey reflects events, activities or developments that occurred between September 2016 and the end of December 2016.

Lebanon came in last place among 115 countries worldwide, which included 32 upper middle-income countries (UMICs) and 11 Arab countries, on the Public Participation category. This category evaluates the extent that the executive, legislature and SAIs provide space for public participation in the budget process. Globally, Lebanon tied with 20 other countries that include Algeria, Iraq, Saudi Arabia, Côte d'Ivoire and Turkey, among others, on this category. Lebanon received a score of zero compared to the global average score of 12.2 points, the UMICs' average of 11.3 points and the Arab region's average score of 2.3 points. The survey noted that Lebanon's score reflects the lack of opportunities for the public to participate in the budget process.

In addition, Lebanon came in 112th place globally, in last place among UMICs and in eighth place among Arab countries on the Oversight by the Legislature category. This category examines the Parliament's involvement in the budget process prior to the submission of the budget proposal, its access to research and analytical capacity, its amendment powers and the time to discuss amendments before approving the budget proposal, as well as the extent that the executive branch can circumvent the legislature in making changes to the enacted budget during its implementation. Globally, Lebanon tied with Yemen, and ranked ahead of only Qatar and Saudi Arabia on this category. Lebanon posted a score of 5.5 points on this category, significantly lower than the global average score of 48.3 points, the UMICs' average of 47.6 points and the Arab region's average score of 27 points. The survey noted that Lebanon was among 36 countries worldwide with weak legislative oversight.

Further, Lebanon ranked in 105th place globally, in 30th place among UMICs and in sixth place among Arab countries in terms of Oversight by Supreme Audit Institutions. This category assesses the independence of the SAI from the executive branch, the availability of an independent quality control system to assess the quality of produced audit reports, and the extent that the SAI has adequate resources to fulfill its mandate. Globally, Lebanon tied with Cameroon, Morocco, Swaziland and Tunisia, while it ranked ahead of Burkina Faso and Yemen and came behind Fiji and Jordan on this category. It also ranked ahead of only Algeria and Equatorial Guinea among UMICs, while it tied with Morocco and Tunisia, and came ahead of only Yemen, Algeria and Qatar in the region. Lebanon posted a score of 22.17 points on this category, significantly lower than the global average score of 63 points, the UMICs' average of 68.13 points and the Arab region's average score of 29.77 points. The survey noted that Lebanon was among 24 countries worldwide that have weak SAI.

Finally, the survey noted that Lebanon was among 87 countries worldwide that did not have any independent fiscal institutions (IFIs), compared to 18 countries that had independent and well-resourced IFIs and 10 countries that had IFIs that were not legally independent or not well-resourced, or both. IFIs are government-financed technical agencies that engage in independent and objective analysis of the economy and budget, in order to enhance the credibility of a country's public finances. Specifically, IFIs prepare economic forecasts, evaluate the forecasts prepared by executives, estimate the costs of policy proposals, monitor compliance with fiscal rules and provide direct budget analysis support to legislators.



Source: International Budget Partnership, Byblos Research

Value of cleared checks up 4%, returned checks up 11% in January 2018

The value of cleared checks reached \$5.9bn in January 2018, constituting an increase of 3.8% from \$5.7bn in January 2017. In comparison, the value of cleared checks regressed by 1.2%, year-on-year in the first month of 2017 and by a marginal 0.8% in the same month of 2016. The value of cleared checks in Lebanese pounds grew by 13.6% year-on-year to the equivalent of \$2bn in January 2018, while the value of cleared checks in US dollars declined by 0.5% to \$3.95bn in the covered month. The dollarization rate of cleared checks regressed from 69.6% in the first month of 2017 to 66.7% in January 2018. Further, there were 1.02 million cleared checks in January 2018, up by 3.1% from 988,843 in the same month last year.

In parallel, the value of returned checks in domestic and foreign currency was \$121.4m in January 2018 compared to \$109.5m in the same month of 2017 and to \$126.7m in the first month of 2016. This constituted a rise of 10.9% year-on-year in January 2018 relative to a decline of 13.6% in the same month of 2017 and a drop of 23% in January 2016. Also, there were 22,028 returned checks in the covered month of 2018, up by 20.3% from 18,304 returned checks in the first month of 2017.

International support for Lebanon at \$1.68bn in 2017

The United Nations indicated that aggregate international contributions to Lebanon reached \$1.68bn at the end of 2017, which includes \$1.37bn in disbursed funds in 2017 and \$309.6m carried over from 2016. In comparison, international support for Lebanon reached \$1.9bn at end-2016, with \$1.57bn in funds disbursed during 2016 and \$344m carried over from 2015. On a country basis, it noted that the U.S. contributed \$450m in 2017, equivalent to 32.7% of total contributions, followed by the European Union with \$235m (17.1%), Germany with \$214.8m (15.6%), the United Kingdom with \$132.2m (9.6%), Norway with \$73.7m (5.4%), Canada with \$55.4m (4%), France with \$52.3m (3.8%), the Netherlands with \$41.1m (3%), Japan with \$23.1m (1.7%) and Switzerland with \$21.6m (1.6%). It added that the largest 10 donors to Lebanon in 2017 represented 95% of total contributions. Further, it said that donors reported a total of \$652.7m in commitments to Lebanon starting in 2018.

Also, the United Nations said that international contributions to the Lebanon Crisis Response Plan reached \$1.24bn in 2017 and represented 45% of the appealed funds. It added that contributions to food security totaled \$311m in 2017, or 25% of total contributions to the plan, followed by the education sector with \$259.9m (20.9%), basic assistance with \$185.6m (15%), healthcare with \$99.8m (8%), the water sector \$86.2 (6.9%), social protection with \$64m (5.2%), livelihoods with \$63.9m (5.1%), social stability with \$48.8m (3.9%), shelter with \$38.6m (3.1%), child protection with \$28.9m (2.3%), sexual and gender-based violence with \$18.8m (1.5%) and the energy sector with \$2.6m (0.2%). The Lebanon Crisis Response Plan 2017-2020 is a joint initiative between the Lebanese government and international and national partners that aims to address challenges posed by the large presence of Syrian refugees in the country.

In addition, the United Nations noted that contributions to the Global Concessional Financing Facility totaled \$357.2m, relative to \$512.7m in pledged funds, since 2016, with Denmark, Japan, the United Kingdom, Sweden and the Netherlands contributing 73.7% of the total. The Global Concessional Financing Facility is a multinational fund that supports middle-income countries experiencing unusual social and economic pressure from refugee inflows.

Further, the United Nations indicated that the international contributions provided access to safe water to more than 1.3 million individuals across Lebanon, allowed 870,000 people to buy food in local shops and markets, and supported the enrollment of 400,000 children in public schools. However, it pointed out that the funding support has not been enough to alleviate poverty and to address other vulnerabilities affecting Lebanese host communities and refugees. In this context, it indicated that 76% of Syrian refugee households are below the poverty line, while 50% of Syrian households live in extreme poverty.

New car sales up 3% in January 2018

Figures released by the Association of Automobile Importers in Lebanon show that dealers sold 2,489 new passenger cars in January 2018, constituting an increase of 2.9% from 2,420 cars sold in the same month of 2017.

Japanese cars accounted for 38% of total sales in January 2018, followed by Korean vehicles with a 28.8% share, European automobiles (24.5%), American cars (6.4%) and Chinese vehicles (2.3%). The sales of new Chinese cars jumped by 4.1 times year-on-year in the covered month, demand for European automobiles rose by 20.6% and the number of Japanese vehicles sold increased by a marginal 0.3%; while the number of American cars sold dropped by 28.6% and the sales of Korean vehicles declined by 2.5% year-on-year in January 2018.

Kia is the leading brand in the Lebanese market with 436 vehicles sold in January 2018; followed by Hyundai and Nissan (277 each), Toyota (276), Mercedes (109); Suzuki (102) and Chevrolet (95). In parallel, 147 new commercial vehicles were sold January 2018, down by 2.6% from 151 commercial vehicles purchased in the same month last year. Overall, car dealers sold 2,636 new passenger automobiles and commercial vehicles in January 2018, up by 2.5% from 2,571 vehicles sold in January 2017.

The number of new vehicles sold by Lebanon's top five distributors reached 1,589 in January 2018 and accounted for 60.3% of new car sales. NATCO sal sold 441 vehicles, equivalent to 16.7% of the total, followed by Rasamny Younis Motor Co. sal with 370 cars (14%), Boustany United Machineries sal with 305 vehicles (11.6%), Century Motor Co. sal with 282 automobiles (10.7%), and Bassoul Heneiné sal with 191 cars (7.2%).

Kafalat loan guarantees down 13% to \$4.7m in January 2018

Figures released by the Kafalat Corporation show that loans extended to small- and medium-sized enterprises (SMEs) under the guarantee of Kafalat reached \$4.7m in January 2018, constituting a decrease of 12.8% from \$5.3m in the same month of 2017. Kafalat provided 39 loan guarantees in the covered month, down by 17% from 47 guarantees in January 2017. The average loan size was \$119,438 in January 2018 compared to \$113,630 in the same month of 2017. Mount Lebanon accounted for 54% of the total number of guarantees, followed by the Bekaa with 15.4%, Nabatieh with 10.3%, Beirut and the South with 7.7% each, and the North with 5.1%. Also, the industrial sector accounted for 48.7% of the total number of guarantees in January 2018, followed by the agricultural sector with 43.6%, tourism with 5.1% and handicraft with 2.6%.

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

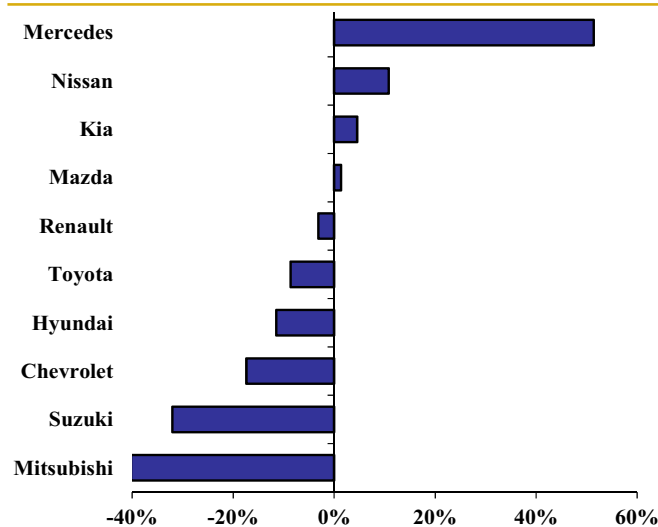
Three companies awarded \$283m fiber optic project

Lebanon's state-owned telecommunications services provider Ogero awarded a \$283m project to the Finland-based Nokia Corporation, to Chinese firm Huawei and to the U.S.-based Calix Inc. to replace existing copper cables with fiber optic ones. Huawei, Nokia and Calix will implement the fiber optic cable project in partnership with local companies Serta Channels, PowerTech and BMB, respectively, which are three providers of information and communication technology solutions.

Following a detailed tendering process, the three companies were selected among five pre-qualified firms based on their technical capacity and financial eligibility. Overall, the four-year project is expected to increase Internet speed to more than 50 megabits per second (Mb/s), which constitutes a significant increase from the current Internet speed of between 2 Mb/s and 4 Mb/s.

The fiber optic cable project is part of the five-year "Lebanon 2020 Digital Telecom Vision" that the Ministry of Telecommunications launched in July 2015 to develop the country's telecommunication infrastructure by replacing copper wire infrastructure with fiber optic cables, in order to boost Internet speed. The use of fiber optic cables, instead of copper cables, would reduce by 50% the quantity of cables needed to connect the same number of households.

Sales of Top 10 Car Brands in January 2018
(% change*)



* year-on-year

Source: ALA, Byblos Research

Lebanon's banking sector indicators favorable compared to emerging markets

Merrill Lynch estimated credit to the resident private sector in Lebanon to be equivalent to 101.7% of GDP at the end of 2017, which is similar to the ratio in Asia, and is significantly higher than the Emerging Europe, the Middle East & Africa region's (EEMEA) ratio of 45.2% of GDP and Latin America's ratio of 43% of GDP. Lebanon has the seventh highest credit-to-GDP ratio among 66 emerging markets with available figures, the third highest such ratio among 52 economies in the EEMEA region and the second highest ratio among 12 Arab countries included in the survey.

In addition, Merrill Lynch estimated the non-performing loans (NPLs) ratio in the Lebanese banking sector at 5.4%, lower than the EEMEA's NPLs ratio of 8.1%, and compared to NPLs ratios of 2.9% for Latin America and of 1.8% for Asia. The Lebanese banking sector, along with the Hungarian banking system, has the 24th lowest NPLs ratio among 47 banking sectors, the 12th lowest such ratio among 34 economies in the EEMEA region and the second lowest among three Arab countries with available figures.

Further, Merrill Lynch estimated money supply in Lebanon to be equivalent to 266.4% of GDP at end-2017, significantly higher than Asia's ratio of 130% of GDP, Latin America's ratio of 78.7% of GDP and the EEMEA's ratio of 56.8% of GDP. Also, Lebanon has the second highest level of money supply relative to its GDP among 67 emerging markets.

In parallel, Merrill Lynch noted that foreign claims reported to the Bank for International Settlements (BIS) against Lebanese banks are equivalent to 3.1% of Lebanon's GDP, higher than the ratio of 1.9% of GDP for Latin America and of 1.1% of GDP for the EEMEA region, and lower than the ratio of 3.3% of GDP for Asia. The Lebanese banking sector has the 15th highest ratio of foreign claims of BIS-reporting banks among 68 banking sectors, the ninth highest ratio among 53 economies in the EEMEA region and the fifth highest among 13 Arab countries.

Further, Merrill Lynch estimated the annual private sector credit growth in Lebanon at 6.1% based on the year-on-year three-month moving average, which is similar to Asia's rate, but is higher than the EEMEA's growth rate of 4.8% and lower than Latin America's growth rate of 8.3%. As such, Lebanon had the 27th highest level of annual private sector credit growth among 64 emerging markets, the 20th highest among 50 economies in the EEMEA region and the seventh highest rate among 12 Arab countries.

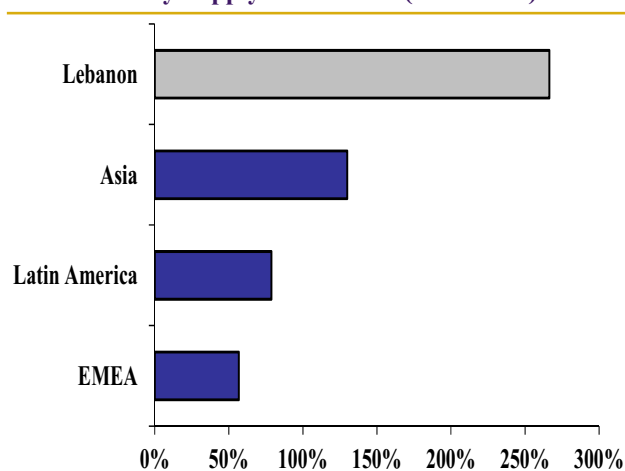
In addition, the survey indicated that the Lebanese banking sector's capital-to-risk weighted assets ratio stood at 16.6%, higher than Latin America's ratio of 16.1% and Asia's ratio of 15.4%, but lower than the EEMEA's ratio of 17.8%.

Balance sheet of investment banks up 10% in 2017

Figures released by Banque du Liban show that the consolidated balance sheet of investment banks in Lebanon reached LBP7,807bn, or \$5.18bn at the end of 2017, constituting an increase of 10% from end-2016 and compared to a growth of 3.3% in 2016. The cash balance and deposits of investment banks at commercial banks reached \$2.2bn at end-2017, up by 1.3% from a year earlier and relative to a decline of 5.1% in 2016. Also, claims on the private sector totaled \$1.7bn, constituting a rise of 17.4% in 2017 and compared to an increase of 4.4% in 2016. Investments in government securities reached \$827.9m at the end of 2017, up by 17.7% from a year earlier and compared to growth of 35% in 2016.

On the liabilities side, private sector deposits totaled \$1.99bn at the end of 2017, up by 0.7% from \$1.98bn at end-2016 relative to a decline of 7.5% in 2016. Resident deposits in foreign currency stood at \$910.1m, followed by resident deposits in Lebanese pounds at \$776m, non-resident deposits in foreign currency at \$219.5m and non-resident deposits in Lebanese pounds at \$86.6m. Liabilities to the public sector reached \$187.5m at end-2017, constituting a decrease of 11.2% from the end of 2016 and compared to a decline of 2.9% in 2016. Also, commitments to the financial sector totaled \$1.1bn at the end of 2017, reflecting an increase of 25.1% from end-2016 relative to a rise of 22% in 2016. Further, the aggregate capital account of investment banks reached \$1.56bn at the end of 2017, up by 14.6% from a year earlier. There were 16 investment banks in Lebanon with a total of 21 branches as of September 2017.

Money Supply at end-2017 (% of GDP)



Source: Merrill Lynch, Byblos Research

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	Jun 2016	May 2017	Jun 2017	Change**	Risk Level
Political Risk Rating	55.0	55.5	55.5	▼	High
Financial Risk Rating	36.5	33.0	33.0	▲	Moderate
Economic Risk Rating	30.5	27.5	27.5	▲	High
Composite Risk Rating	61.0	58.0	58.0	▲	High

MENA Average*	Jun 2016	May 2017	Jun 2017	Change**	Risk Level
Political Risk Rating	57.6	58.0	57.9	▼	High
Financial Risk Rating	39.2	39.0	38.8	▲	Low
Economic Risk Rating	30.0	30.5	30.6	▼	Moderate
Composite Risk Rating	63.4	63.8	63.6	▼	Moderate

*excluding Lebanon

**year-on-year change in risk

Source: The PRS Group, Byblos Research

Note: Political & Composite Risk Ratings range from 0 to 100 (where 100 indicates the lowest risk)

Financial & Economic Risk ratings range from 0 to 50 (where 50 indicates the lowest risk)

Ratings & Outlook

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

Source: Rating agencies

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

Source: Moody's Investors Services



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

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

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

