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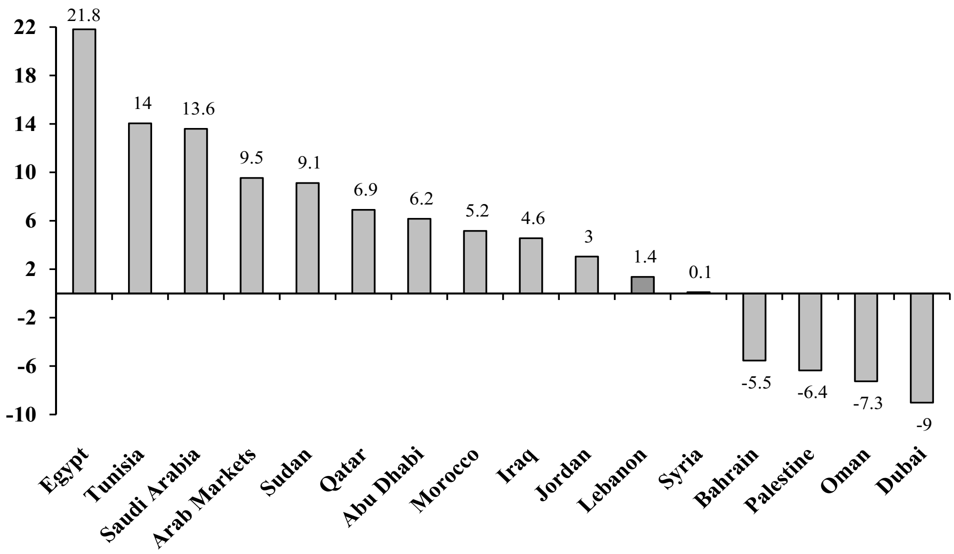
BYBLOS BANK SAL
Economic Research & Analysis Department

LEBANON THIS WEEK

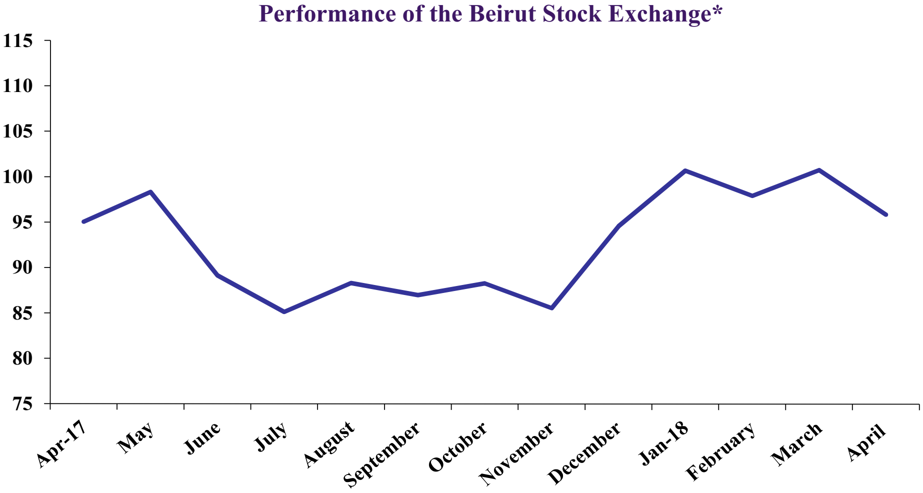
In This Issue

Charts of the Week

Performance of Arab Stock Markets in First Four Months of 2018 (% change)



Performance of the Beirut Stock Exchange*



**Capital Markets Authority Value Weighted Index end of month values*
Source: Local Stock Markets, Capital Markets Authority, S&P Dow Jones Indices, Arab Federation of Exchanges, Byblos Bank

Quote to Note

"It remains to be seen whether the PPP framework provides a transparent and predictable investment environment to attract private sector partners."

Moody's Investors Service, on a key requirement of the existing public-private partnership law

Number of the Week

59%: Percentage of registered Lebanese expatriates who voted in the parliamentary elections from their country of residence, according to the Ministry of Foreign Affairs & Emigrants

Lebanon in the News

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

$bn *(unless otherwise mentioned)*	2017	Dec 2016	Sep 2017	Oct 2017	Nov 2017	Dec 2017	% Change*
BdL FX Reserves	35.80	34.03	35.06	36.77	35.69	35.80	5.21
In months of Imports	18.57	22.15	27.03	21.76	20.68	6.15	(72.25)
Public Debt	79.52	74.90	78.16	78.47	79.37	79.52	6.17
Bank Assets	219.86	204.31	213.42	215.79	216.21	219.86	7.61
Bank Deposits (Private Sector)	168.67	162.50	169.09	169.40	166.81	168.67	3.80
Bank Loans to Private Sector	60.32	57.18	58.93	59.13	59.55	60.32	5.49
Money Supply M2	52.48	54.68	55.50	55.07	51.96	52.48	(4.02)
Money Supply M3	138.38	132.80	138.87	138.68	136.99	138.38	4.20
LBP Lending Rate (%)****	8.09	8.23	8.31	8.24	7.98	8.09	(14bps)
LBP Deposit Rate (%)	6.41	5.56	5.53	5.56	5.88	6.41	85 bps
USD Lending Rate (%)	7.67	7.35	7.53	7.39	7.32	7.67	32 bps
USD Deposit Rate (%)	3.89	3.52	3.65	3.72	3.80	3.89	37 bps
Consumer Price Index**	4.40	3.10	4.10	4.60	4.80	5.00	190 bps

** Year-on-Year ** Year-on-Year percentage change ***includes arrivals, departures, transit*
***** Starting January 2016, lending rates in Lebanese pounds are reported before any subsidy or facility from reserve requirements according to Intermediate Circular No 389, and as such they are not comparable year-on-year*
Note: bps i.e. basis points
Source: Association of Banks in Lebanon, Banque du Liban, Ministry of Finance, Central Administration of Statistics, Byblos Research

Capital Markets

Most Traded Stocks on BSE	Last Price ($)	% Change*	Total Volume	Weight in Market Capitalization
Byblos Common	1.51	0.67	161,839	7.59%
Solidere "A"	8.43	(1.17)	58,645	7.49%
Audi Listed	5.75	0.00	51,900	20.43%
Audi GDR	5.80	0.87	36,334	6.18%
BLOM GDR	11.51	0.52	36,151	7.56%
BLOM Listed	11.10	0.00	23,715	21.21%
Solidere "B"	8.44	0.72	19,054	4.88%
Byblos Pref. 09	99.90	(0.10)	3,903	1.78%
HOLCIM	14.86	0.75	2,397	2.58%
Byblos Pref. 08	99.00	(1.00)	1,650	1.76%

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

Sovereign Eurobonds	Coupon %	Mid Price $	Mid Yield %
Nov 2018	5.15	99.50	6.15
May 2019	6.00	99.25	6.76
Mar 2020	6.38	98.88	7.03
Oct 2022	6.10	93.75	7.80
Jun 2025	6.25	89.63	8.21
Nov 2026	6.60	88.38	8.54
Feb 2030	6.65	85.50	8.63
Apr 2031	7.00	87.38	8.64
Nov 2035	7.05	86.00	8.61
Mar 2037	7.25	86.75	8.69

Source: Byblos Bank Capital Markets

	Apr 30-May 3	Apr 23-27	% Change	April 2018	April 2017	% Change
Total shares traded	399,588	1,598,548	(75.0)	3,491,466	5,417,218	(35.5)
Total value traded	$3,062,313	$6,883,922	(55.5)	$19,769,834	$35,834,027	(44.8)
Market capitalization	$11.25bn	$11.24bn	0.09	$11.23bn	$11.77bn	(4.6)

Source: Beirut Stock Exchange (BSE)

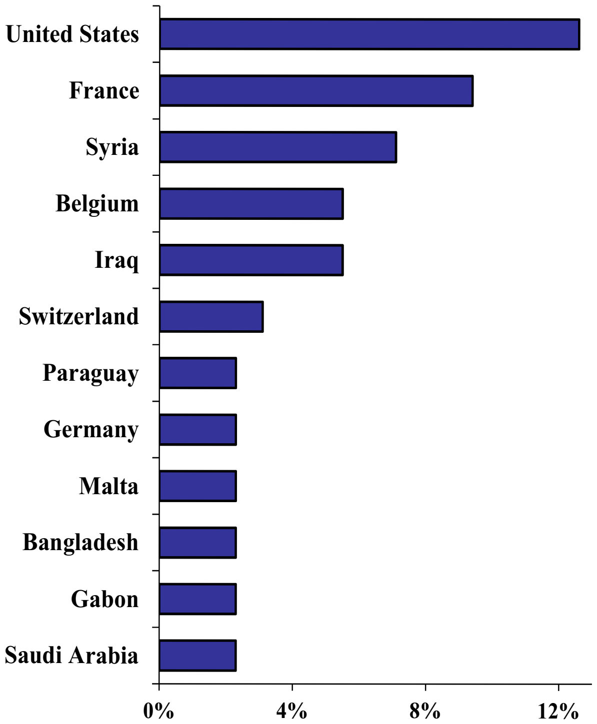
Banque du Liban lifts secrecy on 48 cases suspected of money laundering

The Special Investigation Commission (SIC) against money laundering and terrorism financing issued its annual report detailing its activities in tracing money from illegal activities in Lebanon in 2017. Established by Banque du Liban as an independent legal entity, the SIC's mandate is to investigate suspected money-laundering operations and to monitor compliance with the rules and procedures of Law 318, the anti-money laundering law that was enacted by the Lebanese Parliament in April 2001 and that was replaced by Law 44 in November 2015.

The report indicated that the SIC received 597 suspected cases in 2017. It received 479 cases, or 80.2% of the total from local sources, and 118 cases, or 19.8%, from abroad. In turn, the SIC referred 250 suspected cases to the judicial authorities, while 83 cases are still pending and the remaining 264 cases did not fall within the framework of Law 44. Further, authorities lifted the banking secrecy on 48 cases, with six of those cases referred from foreign governments and organizations and 42 cases from domestic sources. The remaining 202 cases were related to information requests. Overall, the SIC investigated 514 out of 597 cases or 86.1% of the total in 2017, relative to 84.9% of suspected cases in 2016, 77.5% of cases in 2015, 73.6% of cases in 2014, 84.7% of cases in 2013 and 67.3% of cases in 2012.

Embezzlement of private funds accounted for 32% of the cases that the SIC received in 2017; followed by counterfeiting & forgery with 17.6%; terrorism & terrorism financing with 8.2%; narcotics trafficking with 4.6%; fraud with 4.4%; tax evasion with 2.7%; corruption with 2.4%; the use of insider information with 1%; smuggling with 0.7%; sexual exploitation and murder with 0.3% each; and organized crimes, illegal arms trade, extortion and kidnapping with 0.2% each; while the remaining 25.1% of cases did not fall under a specific category.

Request for Assistance*
(from Foreign Countries and Organizations)



**% of total foreign requests*
Source: Special Investigation Commission, Byblos Research

In cases related to terrorism or terrorism financing, the SIC received 171 names (28 cases) from foreign sources and 69 names (20 cases) from domestic sources. Among foreign sources, financial investigation units supplied 123 names (24 cases), followed by the United Nations Security Council with 36 names (one case), foreign law enforcement authorities with six names (one case), foreign judicial authorities with five names (one case) and foreign ministries and embassies with one name (one case). Among local sources, the police provided 60 names (12 cases), banks reported five names (four cases), and money transfer operators supplied two names (two cases), while insurance companies and ministries provided one name each (one case each).

In addition, the SIC received 457 suspicious transaction reports, 245 requests of assistance, and eight other cases that were not categorized. Further, Lebanon received 127 foreign requests for assistance, of which 39.4% were from Europe, 18.9% from the Middle East & the Arabian Gulf, 14.2% from North America, 9.4% from Asia, 7.1% from each of Africa and Australia, 2.3% from South America and 1.6% from the United Nations.

In parallel, the SIC's Compliance Unit examined a number of institutions in order to ensure their full compliance with Law 44. It covered 20 specialized lending institutions, or *comptoirs*, equivalent to 95% of reporting *comptoirs* in Lebanon, seven money transfer operators (64%), 28 insurance companies (55%), 28 banks (43%), 18 financial institutions (35%), 83 money dealers (26%) and one brokerage firm (7%).

Lebanon provides incentives for eco-friendly cars

The Ministry of Environment announced that Lebanon would provide incentives for buyers of eco-friendly cars as part of Article 55 of the 2018 Budget Law that the Lebanese Parliament enacted in March 2018. Specifically, the law stipulates that customs and excise taxes on hybrid cars would be reduced to 20%, while electric vehicles would be completely exempt from customs and excise taxes. A hybrid vehicle typically operates on an internal-combustion engine as well as on an electric motor, while an electric vehicle runs on one or more electric or traction motors. Previously, imported electric vehicles and hybrid cars whose price exceeded LBP20bn were subject to customs and excise taxes of 50%, while vehicles with a price below LBP20bn were subject to customs and excise duties of 20%.

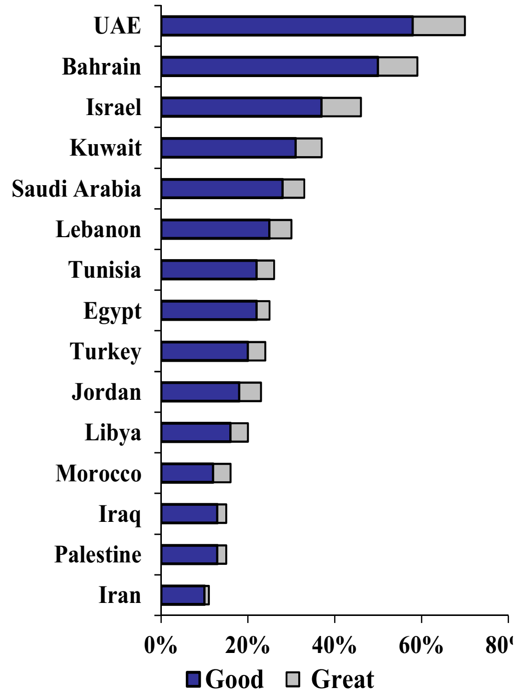
In addition, the law stipulates that customs and excise taxes on hybrid vehicles for public use, such as hybrid taxis, would be reduced to 10%, while electric vehicles for public use would be fully exempt from customs and excise taxes. It added that public hybrid cars and electric vehicles would be exempt from registration fees, as well as *mécanique* fees when registered for the first time.

Jobs satisfaction in Lebanon is sixth highest in MENA region

A survey conducted by opinion polling and consulting firm Gallup about job satisfaction in 128 countries shows that 30% of respondents in Lebanon said that they have a "good" or a "great" job, compared to 27% of respondents globally and 21% of surveyed participants in the Middle East & North Africa (MENA) region. The share of Lebanese who consider that they have a "good" or a "great" job is the 52nd highest globally, similar to the share in Chile, Germany, Mexico, Montenegro and Spain. Also, it is higher than the share in Argentina, China, India, Malaysia, Mongolia and Venezuela (29% each), and lower than that in Ireland, Moldova, Paraguay and Uruguay (32% each). In addition, the share of Lebanese who consider that they have a "good" or a "great" job is the sixth highest among 15 MENA countries.

Further, the survey indicated that 25% of respondents in Lebanon consider that they have a "good" job, higher than the global and regional averages of 23% and 18%, respectively. The share of Lebanese who consider that they have a "good" job is the 54th highest globally, similar to that in India and Kazakhstan. Also, it is higher than the share in Mexico and Montenegro (24% each), and lower than that in Germany and Romania (26% each). In addition, the share of Lebanese who consider that they have a "good" job is the sixth highest in the MENA countries, and is lower than in the UAE (58%), Bahrain (50%), Israel (37%), Kuwait (31%), and Saudi Arabia (28%).

% of Respondents in Arab Countries with a "Good" or a "Great" Job



Source: Gallup, Byblos Research

In parallel, the survey indicated that 5% of respondents in Lebanon consider that they have a "great" job, higher than the global and regional averages of 4% and 3%, respectively. The share of Lebanese who consider that they have a "great" job is the 47th highest globally, similar to that in Austria, Finland and Poland, among other countries. Also, it is higher than the share in Australia, Hungary and the United Kingdom (4% each), and lower than that in Cyprus, Denmark and Portugal (6% each). In addition, the share of Lebanese who consider that they have a "great" job is the fifth highest in the MENA region, similar to Jordan and Saudi Arabia, and lower than only in the UAE (12%), Bahrain and Israel (9% each), and Kuwait (6%). The survey indicated that the percentage of adults with "great" jobs rarely exceeds 10% in any country. It added that the share of respondents who have a "great" job ranges from 13% in the United States and in Russia to zero percent in South Sudan. The results are based on Gallup World Poll surveys that were conducted between 2015 and 2016. The survey in Lebanon was conducted through telephone and face-to-face interviews with 1,000 Lebanese residents who are 15 years or older.

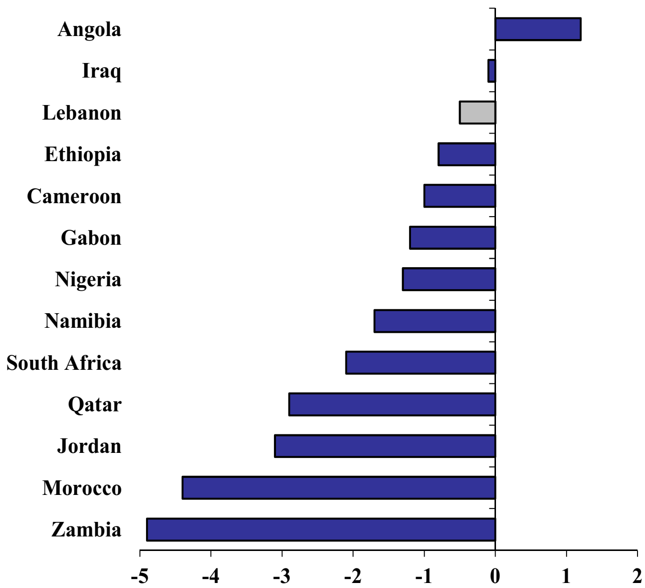
External bonds post seventh highest return in emerging markets in first four months of 2018

Figures issued by Citi Research indicate that Lebanon's external sovereign debt posted a return of -0.5% in the first four months of 2018, constituting, along with El Salvador, the seventh highest return, among 40 emerging markets included in the Citi EM Sovereign Bond Index. Lebanon's sovereign debt return was lower than that of Belize (+4.3%), Angola (+1.2%), Trinidad & Tobago (+0.5%), Costa Rica and Iraq (-0.1% each) and Jamaica (-0.2%) in the covered period.

Lebanon outperformed the overall emerging markets' return of -3.3%, the 'B'-rated sovereigns' return of -3% and the speculative grade sovereigns' return of -2.6% during the covered period. Also, Lebanon's sovereign debt posted the third highest return among 13 countries in the Middle East & Africa region in the first four months of 2018, behind only Angola and Iraq.

Further, Lebanon's sovereign debt posted a return of -1.8% in April 2018, constituting the fourth lowest return in emerging markets during the covered month. Lebanon's sovereign debt outperformed only Jordan (-2.1%) and Belize and Russia (-2.2% each) in April 2018. Lebanon underperformed the emerging markets' return of -0.9%, the 'B'-rated sovereigns' return of -0.7% and the speculative grade sovereigns' return of -0.5% during the covered month.

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

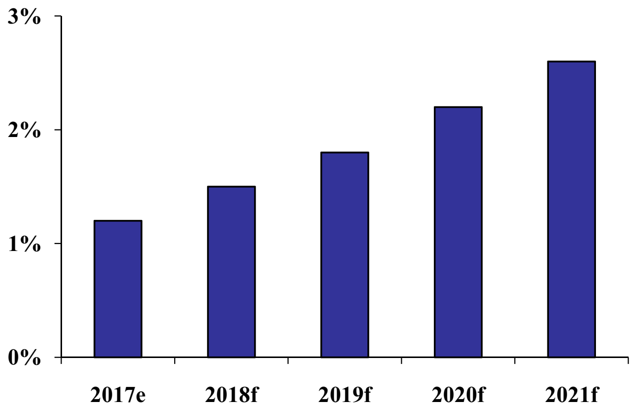


Source: Citi Research, Byblos Research

Structural reforms to support economic activity and public finances

The International Monetary Fund projected Lebanon's real GDP growth at 1.5% in 2018 and 1.8% in 2019, as it expected political and policy uncertainties to continue to weigh on the country's growth outlook. It added that the adverse impact of ongoing regional conflicts on confidence, trade, tourism, investment and real estate in Lebanon would prevent a stronger recovery in domestic economic activity.

Lebanon's Real GDP Growth* (%)



** Baseline scenario*
Source: International Monetary Fund, Byblos Research

The IMF considered that the Lebanese economy is not growing at a sufficient pace to narrow the wide fiscal deficit and address persistent challenges. It anticipated Lebanon's fiscal deficit to widen from 7.3% of GDP in 2017 to 10.6% of GDP in 2018, as it expected public spending to rise from 29.4% of GDP in 2017 to 33.6% of GDP in 2018, while public revenues would increase from 22.1% of GDP in 2017 to 23% of GDP this year. In addition, the IMF projected Lebanon's public debt level to grow from 152.8% of GDP at the end of 2017 to 157.3% of GDP at end-2018. It forecast Lebanon's gross external debt to increase from 198.4% of GDP at end-2017 to 202.3% of GDP at end-2018. According to the IMF's definition, the gross external debt includes deposits in foreign currency. The IMF estimated that a 200 basis point increase in global interest rates would raise financing costs for Lebanon by 0.9 percentage point of GDP. In this context, the Fund called on authorities to gradually narrow the fiscal deficit to 5% of GDP in coming years. It noted that Lebanese authorities should address the wide fiscal deficit and accelerate structural reforms to support economic activity and restructure key sectors, such as the electricity and telecommunication sectors. It said that the CEDRE conference that was held in Paris in April 2018 and the $11bn in pledges that it yielded constitute an opportunity for Lebanon to implement its Capital Investment Program, along with the right fiscal adjustment and the restructuring of some of the key sectors that are needed to support the economy.

In parallel, the IMF projected Lebanon's exports of goods & services to expand from $19.3bn in 2017 to $20.5bn this year; and for its imports of goods & services to reach $35.2bn in 2018 relative to $32.9bn in 2017. It expected the country's external current account to post a deficit of $13.9bn, or 25.8% of GDP, in 2018, compared to a deficit of $12.9bn, or 25% of GDP, last year. It forecast the country's gross official reserves to reach $37.5bn at the end of 2018 compared to $40.6bn at end-2017.

Goldman Sachs maintains its classification of Lebanon's Eurobonds as 'undervalued'

In its valuation of the sovereign credits of 60 emerging market countries, global investment bank Goldman Sachs indicated that Lebanon's Eurobonds that have a maturity of three to seven years are 'undervalued'. The bank used a model that estimates which sovereign bonds are 'undervalued', 'fair' or 'expensive' by comparing the difference between the actual spreads and its model-implied spreads. The difference between the actual spread of 487 basis points (bps) on Lebanon's Eurobonds and the Goldman Sachs' model-implied spread of 387 bps shows that the undervaluation is at 100 bps. The model-implied valuation metric is based on the current level of investor risk appetite, as well as on the current and expected future path of macroeconomic fundamentals in emerging markets. Goldman Sachs' valuations are as of April 30, 2018.

Lebanon's Eurobonds are the only 'undervalued' bonds among 24 'B'-rated sovereigns included in Goldman Sachs' universe. The bank noted that the actual spread on Lebanese Eurobonds is the third widest spread across the 24 'B'-rated sovereigns and among 60 emerging markets. In addition, Goldman Sachs considered as 'undervalued' the Eurobonds of five sovereigns in other rating categories. They consist of one 'A'-rated country, two 'BBB'-rated sovereigns and two 'B'-rated countries.

In parallel, Goldman Sachs classified Lebanon's Eurobonds that have a maturity of seven to 12 years as 'undervalued'. The difference between the actual spread of 558 bps on Lebanon's Eurobonds and the Goldman Sachs' model-implied spread of 414 bps shows that the undervaluation is at 144 bps. Further, Lebanon's long-term Eurobonds, along with those of Bahrain (33 bps), were the only 'undervalued' bonds among 21 'B'-rated sovereigns. Goldman Sachs indicated that the actual spread on long-term Lebanese Eurobonds constituted the third widest spread across the 21 'B'-rated countries and among 49 emerging markets. In comparison, it considered as 'undervalued' the Eurobonds of nine sovereigns in other rating categories. They consist of one 'AA'-rated country, one 'A' rated sovereign, four 'BBB'-rated countries and three 'BB'-rated sovereigns.

Further, Goldman Sachs classified Lebanon's Eurobonds that have a maturity of 12 years or higher as 'undervalued'. The difference between the actual spread of 537 bps on Lebanon’s Eurobonds and the Goldman Sachs' model-implied spread of 387 bps shows that the undervaluation is at 150bps. Lebanon's extra long-term Eurobonds, along with those of Kenya (158 bps) and Argentina (68 bps), were the only 'undervalued' bonds among 12 'B'-rated sovereigns. Goldman Sachs indicated that the actual spread on long-term Lebanese Eurobonds constituted the widest spread across the 12 'B'-rated countries and among 38 emerging markets. It considered as 'undervalued' the Eurobonds of 10 sovereigns in other rating categories. They consist of two 'AA'-rated countries, one 'A'-rated sovereign, five 'BBB'-rated countries and two 'BB'-rated sovereigns.

Capital Intelligence affirms Lebanon's sovereign ratings, outlook 'stable'

Capital Intelligence Ratings (CI) affirmed at 'B' Lebanon's long- and short-term foreign and local currency sovereign ratings, and maintained the 'stable' outlook on the long-term ratings. It attributed the affirmation of the sovereign ratings to Lebanon's improved medium- to long-term growth prospects following the CEDRE conference that was held in Paris in April 2018. It noted that the $11bn in commitments made at the CEDRE conference in the form of reform-conditional soft loans and grants are credit positive, as they would improve growth prospects, accelerate the pace of economic and fiscal reforms, and help the country cope better with the socio-economic toll of hosting the large number of Syrian refugees. Also, it said that its rating action takes into account the relative stabilization of domestic political risks and improved policy-making, as well as the country's stable buffer of foreign currency reserves that provides adequate coverage to the external debt.

The agency indicated that the ratings are supported by Lebanon's adequate external liquidity, supportive investor base and strong donor support, stable non-resident deposit flows even during episode of political and security shocks, as well as by the government's perfect track record of public debt repayment. But it said that the ratings are constrained by Lebanon's elevated public debt level, large financing needs, limited fiscal flexibility, socio-economic challenges, the slow pace of economic and fiscal reforms, as well as by persistent local and regional political risks.

CI projected Lebanon's real GDP growth to accelerate from 1.2% in 2017 to 1.7% annually during the 2018-19 period, mainly due to prospects of a more stable domestic political environment amid increased international support and higher foreign direct investment. However, it said that the Syrian conflict continues to weigh heavily on the Lebanese economy, with the large presence of refugees placing significant pressure on the country's limited resources and creating significant social challenges.

In parallel, the agency indicated that Lebanon's public finances are improving but remain weak. It estimated the fiscal deficit to have narrowed from 9.2% of GDP in 2016 to 7.3% of GDP in 2017 due in part to a decline in Treasury transfers to municipalities. It noted that the primary budget surplus increased from less than 0.4% of GDP in 2016 to 2.5% of GDP in 2017. It added that the public debt level remains elevated at about 148% of GDP at end-2017.

In parallel, the agency said that the government's gross financing requirements stood at about 30% of GDP in 2017 and expected them to decline marginally in the 2018-2019 period, reflecting the improved maturity structure of the public debt. It said that the government's reliance on the domestic banking system to finance most of its needs in local and foreign currency makes the economy vulnerable to a shock that would adversely affect the confidence of depositors. However, it considered that the government's gross financing needs are manageable in the short term in the absence of such a shock, given the soundness of the banking system and the sustained growth in deposits. It added that the government could borrow from Banque du Liban in case of a funding gap over the short term.

In addition, CI expected Lebanon's current account deficit at about 17% of GDP annually during the 2018-19 period. But it anticipated remittance inflows and tourism receipts from Lebanese expatriates, mainly in the GCC region, to increase due to higher oil prices and the improved domestic political environment. Also, it expected non-resident deposit inflows to continue to grow in the short to medium term. Finally, it noted that gross foreign currency and gold reserves at Banque du Liban remain adequate, as they stood at $42bn at the end of 2017.

Airport passengers up 10% in first four months of 2018

Figures released by the Beirut-Rafic Hariri International Airport show that 2,459,555 passengers utilized the airport (arrivals, departures and transit) in the first four months of 2018, constituting an increase of 9.8% from 2,240,970 passengers in the same period of 2017. The number of arriving passengers grew by 11.6% year-on-year to 1,215,112 in the first four months of 2018, compared to a rise of 8.2% in the same period of last year and to an increase of 5.5% in the first four months of 2016. Also, the number of departing passengers grew by 8% year-on-year to 1,243,089 in the first four months of 2018, relative to a rise of 7.6% in the same period of last year and to an increase of 5.3% in the first four months of 2016.

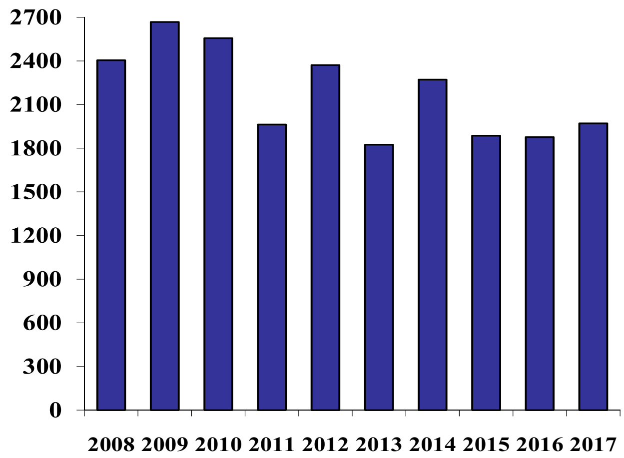
In parallel, the airport's aircraft activity increased by 2.2% year-on-year to 21,195 take-offs and landings in the first four months of 2018, compared to a decrease of 2.9% in the same period of 2017 and to a growth of 7.4% in the first four months of 2016. In addition, the HIA processed 29,996 metric tons of freight in the first four months of 2018 that consisted of 19,372 tons of import freight and 10,624 tons of export freight. Middle East Airlines had 7,552 flights in the first four months of 2018 and accounted for 35.6% of HIA's total aircraft activity.

FDI inflows up 5% to $2bn in first nine months of 2017

Figures released by Banque du Liban show that foreign direct investment (FDI) in Lebanon totaled $1.97bn in the first nine months of 2017, constituting an increase of 5% from $1.88bn in the same period of 2016. FDI inflows to Lebanon reached $766.4m in the first quarter of 2017, $527.1m in the second quarter and $677.5m in the third quarter of the year. The results reflect an increase of 21.2% in the first quarter of 2017 from the first quarter of 2016, a decline of 16.8% in the second quarter of 2017 from the same quarter last year, and a rise of 11% year-on-year in the third quarter of 2017.

In parallel, FDI inflows to Lebanon in the first three quarters of 2017 reached their ninth highest level for the first nine months of the year between 2002 and 2018. FDI inflows to the country averaged $2.17bn during the first nine months of each year between 2008 and 2017, and reached a high of $2.7bn in the first nine months of 2009. Overall, FDI inflows to Lebanon posted a compound annual growth rate (CAGR) of -2.2% between the first nine months of 2008 and the same period of 2017.

FDI Inflows to Lebanon* ($USm)



** In the first nine months of each year*
Source: Banque du Liban, Byblos Research

In parallel, FDI outflows from Lebanon amounted to $425.5m in the first nine months of 2017, down by 12.7% from $487.2m in the same period of 2016. FDI outflows totaled $170.8m in the first quarter of 2017, $146.5m in the second quarter, and $108.2m in the third quarter of the year. They averaged $739m during the first nine months of each year between 2008 and 2017, with a high of $1.4bn in the first nine months of 2013. As such, net FDI inflows to Lebanon reached $1.5bn in the first nine months of 2017, and represented a rise of 11.3% from $1.4bn in the first nine months of 2016.

Residential buildings generate 30% of demand for electricity in Lebanon

The Lebanese Center for Energy Conservation published its first "Energy Indicators Report", which includes data about energy production, consumption and efficiency in Lebanon. It added that the report provides data to monitor and control the progress towards meeting national targets conveyed in the "First National Energy Efficiency Action Plan (NEEAP) 2011-2015", "NEEAP 2016-2020" and the "National Renewable Energy Action Plan (NREAP) 2016-2020."

The survey indicated that the total power generated by Electricité du Liban (EdL), reached about 13,130 gigawatt hours (GWh) in 2016, up from 12,520 GWh in each of 2014 and 2015. Total electricity supply grew by a compounded annual growth rate (CAGR) of 0.9% during the 2010-16 period.

On the demand side, the survey noted that electricity demand by the building and industrial sectors in Lebanon reached about 19,580 GWh in 2014, of which buildings consumed 15,667 GWh or 81% of total demand. It defined the buildings sector as the total number of dwellings, commercial buildings, health & education buildings, hotels, offices and industrial buildings. It said that essential energy usage in buildings includes heating and humidification, cooling and dehumidification, ventilation, lighting, and domestic hot water systems.

The survey indicated that the residential sector was the largest consumer of electricity in Lebanon, as it represented about 30% of overall electricity demand in 2014. It noted that the commercial sector followed with 27% of electricity demand and health & education with about 16% of demand in 2014, while electricity used for industrial processes accounted for 19% of the total. It pointed out that demand for electricity by the residential sector increased by 86.7% from 3,080 GWh in 2009 to 5,751 GWh in 2014. It considered that the strong increase in the residential sector's demand could be attributed to the population increase caused by the influx of about 1.5 million Syrian refugees to Lebanon since 2012.

In parallel, the survey pointed out that the breakdown of electricity consumption in the industrial sector shows that machinery represented 59% of the sector's electricity demand in 2015, followed by refrigeration and process cooling (22%), lighting (11%), boilers (4%), auxiliaries and cooling (2% each), and air compressors (1%).

In addition, the survey indicated that the transport sector consumed 1.9 million metric tons of gasoline in 2015, up by 10.8% from 1.7 million tons in 2014. Also, it noted that the transportation sector utilized 513,900 tons of diesel oil, up by 12.9% from 455,250 tons in 2014.

Corporate Highlights

Aggregate net profits of listed banks up 2.6%to $324m in first quarter of 2018

Financial results issued by the six banks listed on the Beirut Stock Exchange show that their aggregate net profits reached $323.9m in the first quarter of 2018, constituting an increase of 2.6% from net earnings of $315.7m in the first quarter of 2017. Further, the banks' aggregate pre-tax profits increased by 3.9% year-on-year to $401.7m in the first quarter of 2018. The net interest income of the six banks, including net interest on financial instruments, totaled $665m in the covered quarter, up by 3.9% from $640m in the same period of 2017; while their receipts from net fees & commissions declined by 3.3% year-on-year to $140.8m. Also, the total operating income of the listed banks reached $854.1m in the first quarter of 2018 and increased by 2.2% from $835.3 in the same quarter of 2017. Further, the banks' cost-to-income ratio decreased from 49.5% in the first quarter of 2017 to 48.4% in the first three months of 2018.

In parallel, the aggregate assets of the publicly-listed banks increased by 0.6% from end-2017 and by 4.9% from end-March 2017 to $125.7bn at the end of March 2018; while their total loans, including those to related parties, dropped by 2.7% from end-2017 and by 0.9% year-on-year to $36.3bn at end-March 2018. Also, total deposits, including those from related parties, decreased by 1.4% from end-2017 and by 1.9% from end-March 2017 to $95.4bn at end-March 2018. Further, the banks' aggregate equity, including subordinated notes, increased by 2.1% from end-2017 and by 17.2% from a year earlier to $13.6bn at the end of March 2018.

The six banks' aggregate loans-to-deposits ratio stood at 38.1% at the end of March 2018 compared to 38.6% at end-2017. BLOM Bank had the lowest loans-to-deposits ratio at 28.3%, unchanged from end-2017; followed by Byblos Bank with a ratio of 30.6% at the end of March 2018, up from 30.3% at end-2017; BLC Bank with 39.6% at end-March 2018 compared to 40.8% at end-2017; Bank of Beirut with 40.9% at the end of March 2018 relative to 42.7%; Bank Audi with 48.4% at end-March 2018, down from 48.7% at end-2017; and Banque BEMO with 56.3% at the end of March 2018 relative to 55.2% at end-2017.

Results of Listed Banks in First Quarter of 2018

	Audi	BLOM	Byblos	BoB	BLC	BEMO
Net Profits ($m)	114.1	116.8	27.9	50.7	10.4	4.1
% Change*	3.5%	4.3%	-3.1%	0.9%	-1.4%	2.7%
Total Assets ($bn)	43.5	33.2	23.1	18.1	5.9	1.9
% Change**	-0.6%	2.0%	1.9%	-1.3%	0.1%	7.8%
Loans ($bn)	15.6	7.6	5.5	5.3	1.6	0.8
% Change**	-4.4%	0.5%	1.8%	-7.0%	-1.3%	0.7%
Deposits ($bn)	32.2	26.7	18.1	12.9	4.0	1.4
% Change**	-3.7%	0.3%	0.7%	-3.0%	1.8%	-1.3%

** year-on-year*
*** from end-2017*
Source: Banks' financial statements, Byblos Research

Stock market index up 1.4% in first four months of 2018

Figures released by the Beirut Stock Exchange (BSE) indicate that trading volume reached 49,113,414 shares in the first four months of 2018, constituting an increase of 2.6 times from 18,565,372 shares traded in the same period of 2017; while aggregate turnover amounted to $357.9m, up by 2.5 times from a turnover of $143.5m in the first four months of 2017. Market capitalization regressed by 4.6% from the end of April 2017 to $11.23bn, with banking stocks accounting for 84.5% of the total, followed by real estate equities (12.3%), industrial stocks (2.8%) and trading firms' stocks (0.3%). The market liquidity ratio was 3.2% in the covered period compared to 1.2% in the first four months of 2017.

Banking stocks accounted for 83.7% of the aggregate trading volume in the first four months of 2018, followed by real estate equities with 13.7%, industrial shares with 2.5% and trading stocks with 0.1%. Also, banking stocks represented 78.6% of the aggregate value of shares traded, followed by real estate equities with 16.6%, industrial stocks with 4.8% and trading stocks with 0.03%. The average daily traded volume for the period was 621,689 shares for an average daily value of $4.5m. The figures reflect a rise of 2.6 times in volume and an increase of 2.5 times in value year-on-year in the first four months of the year. In parallel, the Capital Markets Authority's Market Value-Weighted Index for stocks traded on the BSE increased by 1.4% in the first four months of 2018, while the CMA's Banks Market Value-Weighted Index regressed by 2.9% in the covered period.

BBAC Bank's net earnings at $48m in 2017

BBAC Bank sal, one of Lebanon's top 15 banks in terms of deposits, announced unaudited consolidated net profits of $47.5m in 2017, constituting a decrease of 7.6% from $51.4m in 2016. Net operating income dropped by 14.1% to $144m last year, with net interest income increasing by 10.2% to $107.5m and net fees & commissions receipts growing by 14.2% year-on-year to $27.4m. Non-interest income accounted for 32.8% of total income, down from 47.3% in the previous year; with net fees & commissions representing 52.1% of non-interest earnings relative to 27.4% in 2016. Further, the bank's interest margin was 1.65% in 2017 relative to 1.6% in 2016; while its spread reached 1.60% compared to 1.55% in the preceding year. Operating expenditures decreased by 1.8% to $84.4m in 2017, with staff expenses nearly unchanged at $45.7m and administrative & other operating expenditures dropping by 5% year-on-year to $33.6m. Also, the bank's return on average assets was 0.71% in 2017 relative to 0.82% in 2016; while its return on average equity reached 8.06% in 2017 compared to 9.83% in 2016. The cost-to-income ratio stood at 52.7% in 2017, up from 46.4% in 2016.

In parallel, total assets reached $6.9bn at the end of 2017, up by 7% from $6.5bn at end-2016, while loans & advances to customers, excluding those to related parties, increased by 4.8% from end-2016 to $1.75bn. Also, customer deposits, excluding those from related parties, totaled $5.86bn at the end of 2017 and grew by 5.1% from end-2016. The loans-to-deposits ratio was unchanged year-on-year at 29.4% at the end of 2017. Further, the bank's shareholders' equity reached $611.6m at end-2017, up by 7.7% from end-2016.

Agencies take rating actions on AXA Insurance Group

Moody's Investors Service affirmed at 'A2' the senior unsecured debt rating of the AXA Insurance Group and at 'A3/A3(hyb)' its subordinated debt rating. It kept at 'Aa3' the Insurer Financial Strength rating of AXA's main subsidiaries. It also revised the outlook on all the ratings from 'stable' to 'negative'. AXA Middle East sal, one of Lebanon's insurance firms, is a subsidiary of the AXA Group. The agency indicated that the outlook revision follows AXA's recent announcement that it plans to acquire 100% of global insurance and reinsurance company XL Group for around $15.3bn. Moody's added that the 'negative' outlook on the ratings reflects the impact of AXA's proposed financing for the acquisition of XL Group, which would raise AXA's financial leverage in the short term and significantly increase the goodwill on its balance sheet. It also considered that additional challenges could arise form AXA's acquisition of XL Group, given the intrinsic volatility of XL's reinsurance business and certain insurance lines, its moderate level of profitability in recent years, and exposure to natural and man-made catastrophes. Still, the agency expected the company's market position to benefit from XL Group's global P&C insurance and reinsurance platform and diversified business.

In parallel, S&P Global Ratings placed on CreditWatch with negative implications AXA Insurance Group's 'A/A-1' AXA's long- and short-term issuer credit ratings. It noted that the CreditWatch placement reflects the expected weakening of the group's capital adequacy following the acquisition of XL Group, in case AXA fails to successfully deconsolidate from its U.S. and asset management (AM) operations in coming years. The agency added that the acquisition could face execution risks, which include a rise in AXA's goodwill and capital requirements in the short term, fluctuations in the market valuation of AXA's U.S. life and AM operations, and potential losses of revenues in XL's business lines.

Al-Bayan magazine's annual survey of the insurance sector in Lebanon ranked AXA Middle East in eighth and third place in 2017 in terms of life and non-life premiums, respectively. The firm's life premiums reached $16.75m in 2017, up by 4% from 2016; while its non-life premiums amounted to $83.35m last year, up by 3.2% from 2016. It had a 3.2% share of the life market and a 7.5% share of the local non-life market in 2017.

Ratio Highlights

(in % unless specified)	2015	2016	2017e	Change*
Nominal GDP ($bn)	49.5	49.7	53.1	
Public Debt in Foreign Currency / GDP	54.7	56.6	57.2	0.65
Public Debt in Local Currency / GDP	87.4	94.1	92.5	(1.59)
Gross Public Debt / GDP	142.1	150.7	149.8	(0.95)
Total Gross External Debt / GDP	175.8	183.9	185.6	1.70
Trade Balance / GDP	(31.6)	(32.5)	(31.5)	0.96
Exports / Imports	15.9	15.6	14.5	(1.04)
Fiscal Revenues / GDP	19.3	20.0	21.9	1.93
Fiscal Expenditures / GDP	27.3	29.9	29.0	(0.95)
Fiscal Balance / GDP	(8.0)	(9.9)	(7.1)	2.87
Primary Balance / GDP	1.5	0.0	2.7	2.65
Gross Foreign Currency Reserves / M2	58.7	62.2	68.2	5.98
M3 / GDP	249.7	267.2	260.6	(6.59)
Commercial Banks Assets / GDP	375.7	411.1	414.0	2.95
Private Sector Deposits / GDP	306.2	327.0	317.6	(9.32)
Private Sector Loans / GDP	109.5	115.0	113.6	(1.46)
Private Sector Deposits Dollarization Rate	64.9	65.8	68.7	2.88
Private Sector Lending Dollarization Rate	74.8	72.6	71.0	(1.61)

**Change in percentage points 16/17*
***Includes portion of public debt owed to non-residents, liabilities to non-resident banks, non-resident deposits (estimated by the IMF), Bank for International Settlements' claims on Lebanese non-banks*
Source: Association of Banks in Lebanon, Institute of International Finance, International Monetary Fund, World Bank, Byblos Research Estimates & Calculations
Note: M2 includes money in circulation and deposits in LBP, M3 includes M2 plus Deposits in FC and bonds

Risk Metrics

Lebanon	Oct 2016	Sep 2017	Oct 2017	Change**	Risk Level
Political Risk Rating	54.5	55.5	55.5	▼	High
Financial Risk Rating	36.5	33.0	33.0	▲	Moderate
Economic Risk Rating	30.5	27.5	27.5	▲	High
Composite Risk Rating	60.75	58.0	58.0	▲	High

MENA Average*	Oct 2016	Sep 2017	Oct 2017	Change**	Risk Level
Political Risk Rating	57.6	57.8	57.9	▼	High
Financial Risk Rating	38.7	38.1	38.6	▲	Low
Economic Risk Rating	29.7	30.4	30.9	▼	Moderate
Composite Risk Rating	63.0	63.1	63.7	▼	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	Outlook
Moody's	Stable

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