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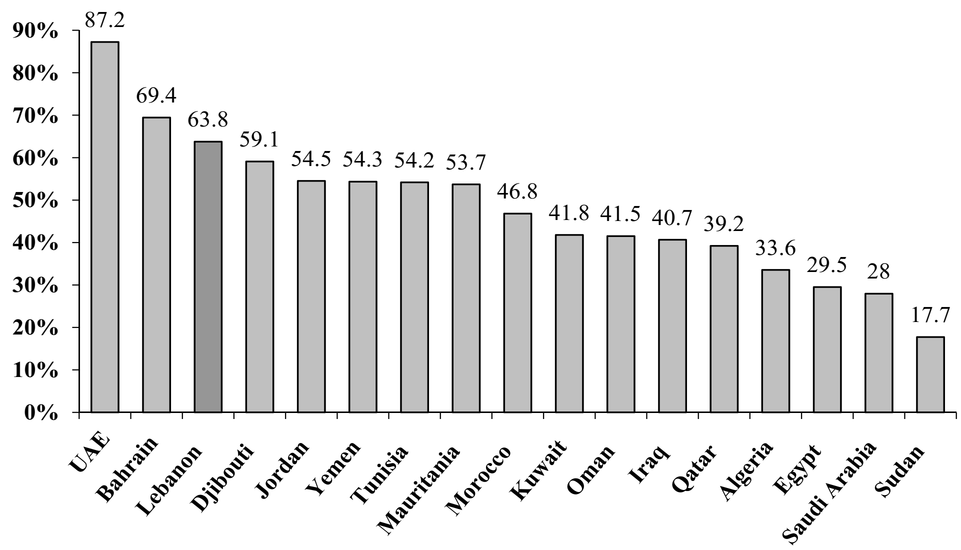
BYBLOS BANK SAL
Economic Research & Analysis Department

LEBANON THIS WEEK

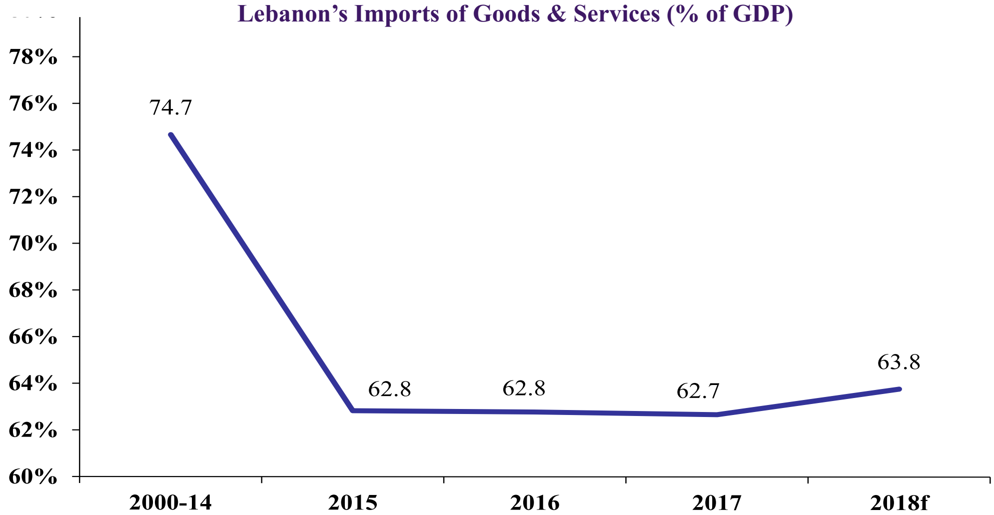
In This Issue

Charts of the Week

Projected Imports of Goods & Services to Arab Countries in 2018 (% of GDP)



Lebanon's Imports of Goods & Services (% of GDP)



Source: International Monetary Fund - April 2018, Institute of International Finance, Byblos Bank

Quote to Note

"The promise of over US$11 billion coming from the CEDRE conference could provide an external anchor for reforms."

Citigroup, on the opportunity that the financial pledges provide for Lebanon to implement structural reforms

Number of the Week

4.7%: Percentage of females in the new Lebanese Parliament, compared to 3.1% in the outgoing legislature

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
Solidere "A"	8.45	(2.31)	219,463	7.53%
Audi GDR	5.79	(0.17)	115,113	6.18%
Solidere "B"	8.37	(0.71)	62,589	4.85%
Byblos Common	1.50	(1.32)	34,611	7.56%
BLOM GDR	11.60	0.00	26,519	7.63%
BLOM Listed	11.10	0.91	21,520	21.26%
Byblos Pref. 09	96.00	(2.44)	6,943	1.71%
Byblos Pref. 08	96.00	(3.03)	1,783	1.71%
Audi Listed	5.74	(0.17)	1,050	20.44%
Holcim	15.33	0.00	-	2.66%

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

Sovereign Eurobonds	Coupon %	Mid Price $	Mid Yield %
Nov 2018	5.15	99.25	6.77
May 2019	6.00	98.38	7.72
Mar 2020	6.38	96.75	8.35
Oct 2022	6.10	91.00	8.62
Jun 2025	6.25	86.25	8.92
Nov 2026	6.60	85.75	9.03
Feb 2030	6.65	82.88	9.04
Apr 2031	7.00	84.63	9.04
Nov 2035	7.05	82.63	9.05
Mar 2037	7.25	83.88	9.05

Source: Byblos Bank Capital Markets

	May 14-18	May 8-11	% Change	April 2018	April 2017	% Change
Total shares traded	511,590	1,857,199	(72.5)	3,491,466	5,417,218	(35.5)
Total value traded	$5,473,687	$12,790,258	(57.2)	$19,769,834	$35,834,027	(44.8)
Market capitalization	$11.23bn	$11.27bn	(0.38)	$11.23bn	$11.77bn	(4.6)

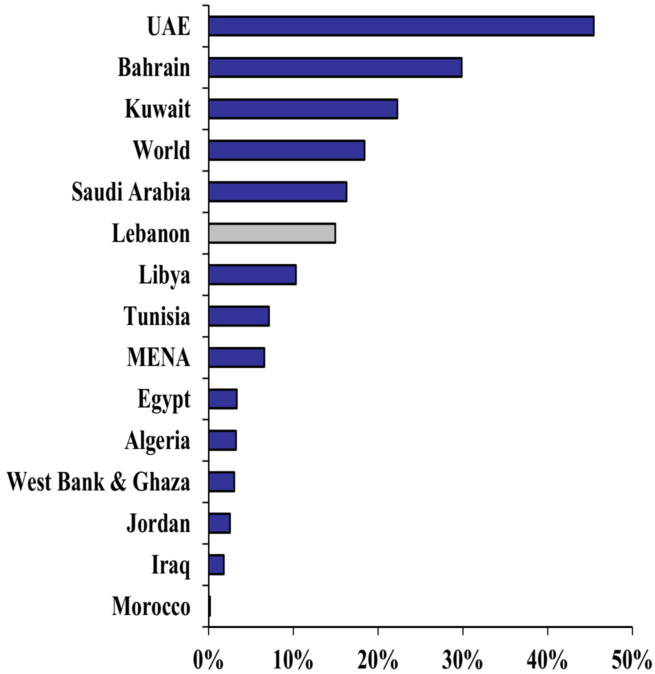
Source: Beirut Stock Exchange (BSE)

More than one-third of Lebanese adults own a debit card

Figures issued by the World Bank show that 34.8% of Lebanese who are 15 years or older owned a debit card at the end of 2017, up from 33.4% at end-2014. The share of Lebanese adults who owned a debit card came in 71st place among 144 countries globally, in 23rd place among 38 upper-middle income countries (UMICs), and in seventh place among 16 countries in the Middle East & North Africa (MENA) region. Globally, Lebanon's debit card ownership rate is higher than that of South Africa (34.1%), India (32.7%) and the Dominican Republic (32.4%), and lower than that of Kenya (37.6%), Kosovo (37.4%) and Montenegro (36.4%). It is also lower than the global average rate of 47.7%, the average rate of UMICs of 58.8% and the average rate of MENA countries of 35.8%.

In addition, 14.9% of Lebanese adults owned a credit card in 2017, up from 10.7% in 2014. The share of Lebanese adults that owned a credit card ranked in 61st place among 144 countries globally, in 17th place among 37 UMICs, and in seventh place among 16 countries in the MENA region. Globally, Lebanon's credit card ownership rate is higher than that of Georgia (14.6%), and Colombia and Costa Rica (13.9% each), and lower than that of Saudi Arabia (16.3%), Trinidad & Tobago (16%) and Namibia (15.4%). It is also lower than the global average rate of 18.4%, the average rate of UMICs of 19.5%, but higher than the average rate of MENA countries of 6.6%. Further, 23.9% of Lebanese aged above 15 years old used a debit or credit card to make a purchase in 2017, up from 21.6% in 2014.

Share of Adults who Owned a Credit Card in 2017 (%)



Source: World Bank, Byblos Research

In parallel, 33.1% of Lebanese adults have made or received digital payments in 2017 compared to 31.9% in 2014. Digital payments include payments through debit or credit cards, as well as through mobile money services, which allow users to store and transfer funds, to make a payment through a mobile phone from an account and to use the Internet to pay bills or to buy goods or services online. They also consist of paying bills, sending or receiving remittances, as well as receiving wages and salaries directly into a financial institution account or a mobile money account. The share of Lebanese adults that made or received digital payments in 2017 is the 43rd lowest among 144 countries globally, the eighth lowest among 38 UMICs, and the ninth lowest among 16 countries in the MENA region. Globally, the share of Lebanese adults that made or received digital payments is higher than that of Jordan (32.5%), Libya (31.8%) and Mexico (31.7%), and lower than in Mozambique (34.1%), Peru (33.9%) and Guatemala (33.3%). It is also lower than the global average rate of 52.3%, the average rate of UMICs of 62.3% and the average rate of MENA countries of 37.7%.

On a gender basis, 42.3% of Lebanese males and 24% of Lebanese females who are 15 years or older made or received a digital payment in 2017, relative to 45.2% and 19.8%, respectively, in 2014. The share of females in Lebanon who made or received digital payments is lower than the global average of 48.5%, the UMICs' average of 58.7%, as well as the MENA region's average of 29.2%. Similarly, the rate of Lebanese males who made or received digital payments last year is lower than the global rate of 56.1%, the UMICs' rate of 65.9%, and the MENA region's rate of 46.1%. In addition, 13.8% of Lebanese reported using the Internet to buy goods or services online in 2017, of which 16.4% paid online for the purchase, while 83.4% paid cash on delivery.

Ministry of Finance swaps $5.5bn in Eurobonds with Treasury bills from Banque du Liban's portfolio

The Ministry of Finance issued a $5.5bn four-tranche Eurobond that it swapped with LBP8,250bn worth of Lebanese pound-denominated Treasury bills from Banque du Liban's (BdL) portfolio. It said that the issuance covers its refinancing needs and debt servicing in foreign currency until the end of 2018. Also, it noted that the swap operation helps BdL strengthen its assets in foreign currency through the acquisition of the Eurobonds. It pointed out that it plans to issue another Eurobond towards the end of the year or in early 2019, depending on more appropriate conditions in emerging markets.

The first series consists of reopening and increasing by $1bn an existing bond that matures in March 2028 and that carries a coupon of 8%, while the second series consists of reopening and increasing by $1.5bn an existing bond that matures in November 2031 and carries a coupon of 8.1%. The third series consists of a 15-year $1.5bn Eurobond that matures in May 2033 and carries a coupon of 8.2%, while the fourth series is an 18-year $1.5bn Eurobond that matures in May 2034 and that carries a coupon of 8.25%.

In parallel, the Finance Ministry indicated that BdL will subscribe to Treasury bonds that the ministry will issue, as part of the deal between the two parties. As such, it noted that BdL will acquire Treasury bonds worth LBP8,250bn that have maturities ranging between three and 10 years and that carry 1% interest rate. The ministry added that its operations with BdL will save the equivalent of $1.4bn in debt servicing cost for the Treasury.

Lebanese Eurobonds more resilient relative to other emerging market bonds

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 activity in the foreign exchange market is normal and expected the currency market to remain stable. He added that there are comfortable levels of liquidity in Lebanese pounds for the markets and commercial banks.

Governor Salamé attributed the fluctuation in the prices of Lebanese Eurobonds to the change in the structure of emerging markets' portfolios and to regional developments. First, he said that the yields on emerging markets' debt instruments are no longer reflective of their risk levels, as the yield on 10-year U.S. bonds exceeded 3%. As such, he noted that investment funds have reduced their exposure to emerging markets' securities and opted for less risky markets. Second, he pointed out that developments in the Middle East reduced investors' appetite for Eurobonds issued by the region's sovereigns. Still, Governor Salamé considered that Lebanese Eurobonds have been more resilient than Eurobonds issued by other emerging markets, such as Turkey and Argentina, as the latter countries suffered from fluctuations in their local currencies.

Further, Governor Salamé informed the ABL during the meeting that BdL is on the verge of finalizing the swap operation with the Ministry of Finance. He noted that the Finance Ministry will issue $5.5bn in 10- and 15-year Eurobonds for BdL, and that BdL will retire the equivalent in Treasury bonds. He added that BdL will gradually sell about $2bn worth of Eurobonds over the coming 12 months, while it will keep the remaining balance in its portfolio. He said that the Lebanese government will not issue additional Eurobonds this year, and that it will pay the principal on the $700m Eurobond that matures in June 2018. In addition, Governor Salamé indicated that BdL intends to amend the regulations related to Certificate of Deposits (CDs) in foreign currency, which would allow banks to sell the CDs they hold in case of need, which would improve liquidity in the market.

In parallel, the ABL indicated that negative developments are adversely affecting the operating environment for banks in Iraq, including the 10 Lebanese banks that are present in the country. First, it noted that the Central Bank of Iraq (CBI) has not yet paid Lebanese banks their deposits at the Irbil branch of the CBI, despite several promises to do so. As such, it noted that banks had to book loan-loss provisions against these deposits. Second, it said that authorities are forcing banks operating in Iraq to participate in certain investments, such as into a credit fund, before examining its statute, regulations and management rules. It added that this may lead to heightened risks that would be difficult to quantify in case the fund's capital is depleted.

Third, the ABL welcomed the establishment of a Deposit Guarantee Company (DGC) in Iraq. However, it noted that banks do not have access to the DGC's statute, which makes it difficult for banks operating in the country to assess the risks that could arise in case one of the banks failed or if the DGC's capital is exhausted. It added that the materialization of risks could deplete the capital of banks operating in Iraq. In this context, Governor Salamé indicated that BdL will issue circulars that require Lebanese banks in Iraq to book provisions against all the funds that are sourced from Lebanon, as a precaution that would shield Lebanese banks from risks emanating from Iraq. In addition, Lebanese banks operating in Iraq said that they will assess their position and decide whether to maintain their operations in the country or exit the market, given the challenging regulations imposed by Iraqi authorities. Also, the ABL said that it will visit its Iraqi counterpart to discuss the three points raised by Lebanese banks operating in Iraq.

In parallel, the ABL reiterated that Lebanese banks are abiding by international regulations, including those related to combating money laundering and the financing of terrorism. In this context, Governor Salamé encouraged the ABL to continue to follow up with its legal consultants abroad on this matter. He added that Lebanese regulations are adequate to address anti-money laundering and the countering of financing of terrorism issues.

Coincident Indicator up 3.3% year-on-year in first two months of 2018

Banque du Liban's Coincident Indicator, an index of economic activity in Lebanon, reached 313 points in February 2018 compared to 309.4 in January 2018 and 305.3 in February 2017. The Coincident Indicator, an average of 8 weighted economic indicators, increased by 1.2% month-on-month and by 2.5% year-on-year in February 2018. The indicator averaged 311.2 in the first two months of 2018, up by 3.3% from 301.3 in the same period of 2017. Also, the indicator averaged 307.5 in the 12 months ending February 2018, compared to 306.9 in the 12-month period ending January 2018 and 291.9 in the 12 months ending February 2017. As a result, the 12-month average coincident indicator was unchanged month-on-month and grew by 5.4% year-on-year. In parallel, the indicator improved 13 times and regressed 13 times on a monthly basis in the month of February 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, 278.6 points in 2015, 289.5 points in 2016 and 309.5 points in 2017.

Upcoming government to face public finance challenges

Fitch Ratings indicated that the recently-held parliamentary elections reflect the gradual improvement in the functioning of the Lebanese political system since 2016. However, it noted that the elections would not result in a fundamental shift in the political status-quo despite the adoption of a new electoral law in 2017, as it considered that policy-making would still be constrained by the country's sectarian-based political system.

The agency pointed out that the current political challenge is to form a new coalition government within a reasonable period of time. It did not expect the country to return to the political paralysis that prevailed during the 2014-16 period, but it said that a longer-than-required time to negotiate and form a government could prevent effective policy-making during the rest of 2018. As such, it considered that the rapid formation of the government would support financial inflows to the country.

In parallel, the agency anticipated that the upcoming government will face the challenge of improving public finance metrics, especially amid the large anticipated infrastructure spending plans. It noted that the approved 2018 budget targeted a fiscal deficit of 8.5% of GDP, which would be narrower than the budgeted 2017 deficit of 9% of GDP but wider than the realized 2017 deficit of 7.2% of GDP. Still, it expected the public debt level to remain at about 150% of GDP this year, one of the highest such ratios among Fitch-rated sovereigns.

Further, Fitch noted that the CEDRE conference that took place in April of this year secured about $11bn in concessional loans to finance infrastructure projects, which would reduce the financing cost of the government's Capital Investment Program (CIP) to upgrade the country's infrastructure. It expected that the incentives attached to the financing pledges would encourage the government's fiscal reform efforts that aim to narrow the fiscal deficit by 5% of GDP over the coming five years, through increasing tax collection and reducing Treasury transfers to Electricité du Liban. But it noted that little progress has been made with respect to these two fiscal measures so far, and that it remains unclear how they will be implemented. Also, it said that the slow or partial execution of the CIP could limit the fiscal impact and the economic benefits of the capital expenditures.

In addition, the agency cautioned that, in the absence of fiscal reforms that would reduce the government's borrowing needs, Banque du Liban (BdL) could implement further unconventional financial operations to support deposit inflows and increase foreign currency reserves. It added that BdL intends to sell $2bn of Eurobonds within the next 12 months as part of a debt swap with the Ministry of Finance.

Also, Fitch pointed out that the new government will face challenges in managing geopolitical risks. It considered that the current tensions in the Middle East could have spillovers on Lebanon, but it said that Lebanon has demonstrated its resilience to several episodes of political shocks.

In parallel, the agency indicated that Lebanon's 'B-' sovereign rating with a 'stable' outlook balances the country's weak public finances and economic growth, high political and security risks, with its resilient banking system, external liquidity and other structural strengths, as well as its perfect track record of public debt repayment.

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

The Association of Banks in Lebanon (ABL) recommended to its member banks to maintain the Beirut Reference Rate (BRR) in US dollars at 7.3% in June 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 maintain the BRR in Lebanese pounds at 10.7% in June 2018. 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.

Ministry of Energy & Water launches tender for construction of LNG import terminals

The Ministry of Energy & Water launched a tender for the construction of three floating storage and regasification units (FSRU), which are offshore Liquid Natural Gas (LNG) import terminals. The FSRU, which cost around $199m, will be built in Selaata and Deir Ammar in the north and in Zahrani in the south of the country, and will store and transfer LNG through connected pipelines to nearby power grids.

The ministry noted that companies interested in building the FSRU will have 120 days to submit a tender offer. It added that 96 firms have already shown interest in the bidding process. Also, it indicated that it will collaborate with the U.K.-based Poten & Partners in the process of short-listing interested companies. Poten & Partners provides brokerage, consulting, and project development services related to trading and transportation of crude oil, petroleum products, natural gas and LNG, among other commodities.

In 2013, the ministry launched a tender for LNG import terminals, and proceeded by selecting 13 out of 30 interested companies. However, the process was interrupted due to the political paralysis and presidential vacuum that started in May 2014.

Lebanon among emerging markets that could be affected by higher U.S. and European interest rates

Moody's Investors Service indicated that Lebanon is one of the sovereigns in emerging markets that could be exposed to a tightening in global financing conditions. The agency assessed the exposure of rated sovereigns in the Middle East & North Africa (MENA) and Asia Pacific regions to tighter global financing conditions by analyzing the impact of higher interest rates on the cost of debt during the 2017-21 period. It measured the sovereigns' sensitivity to an increase in the cost of borrowing under its baseline scenario, as well as two alternative scenarios that assume higher-than-expected interest rates.

The agency expected global financing conditions to tighten following years of accommodative monetary policy by major central banks. Under its baseline scenario that takes into account a gradual tightening in financing conditions, Moody's anticipated the U.S. Federal Reserve to raise its policy rate gradually to 3.25% by 2021 from 1.5%-1.75% currently, and for the European Central Bank to increase interest rates to 1% by 2021 from zero percent actually. In this context, it projected Lebanon's government debt level to increase by 4.4 percentage points of GDP from 138.5% of GDP at the end of 2017 to 142.9% of GDP at end-2021, while it anticipated interest payments to rise by 2.7 percentage points from 46.1% of public revenues at end-2017 to 48.8% of revenues by end-2021.

Further, Moody's moderate shock scenario consists of a gradual cumulative increase in global interest rates of about 250 basis points above its baseline forecasts by 2021, such as a 50 basis points increase above the baseline scenario in 2018, followed by a 100 basis points increase in 2019 and a 50 basis points rise above the baseline scenario in each of 2020 and 2021. Under this scenario, it expected Lebanon's public debt level to grow by 8.2 percentage points of GDP to 146.7% of GDP at end-2021, while it projected interest payments to increase by 12.5 percentage points to 58.6% of public revenues by end-2021.

In addition, the agency's severe shock scenario incorporates a faster rise in global interest rates of about 350 basis points above the baseline forecasts by 2021. Under this scenario, it projected Lebanon's public debt level to increase by 12.2 percentage points to 150.7% of GDP at end-2021, while it expected the interest-to-revenue ratio to increase by 20.6 percentage points to 66.7% over the next four years.

Moody's noted that Lebanon's relatively low external debt level would mitigate liquidity pressures in case of any shock. In parallel, it considered that a weakening in Lebanon's fiscal metrics as a result of higher global interest rates would increase liquidity risks and weigh on the sovereign's creditworthiness.

Value of cleared checks down 1.4%, returned checks up 17% in first four months of 2018

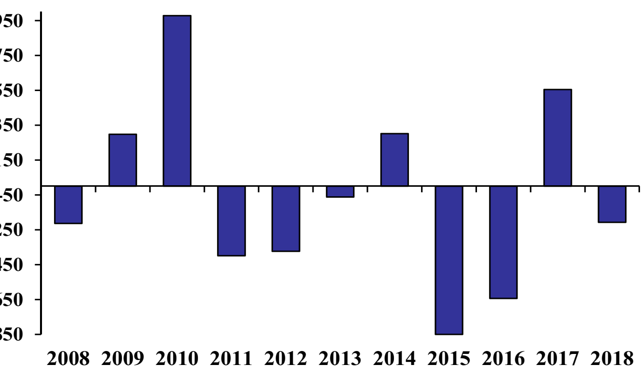
The value of cleared checks reached $22.1bn in the first four months of 2018, constituting a decline of 1.4% from $22.4bn in the same period of 2017. In comparison, the value of cleared checks decreased by 0.5% in the first four months of 2017 and the same period of 2016. The value of cleared checks in Lebanese pounds grew by 2.8% year-on-year to the equivalent of $7.2bn in the first four months of 2018, while the value of cleared checks in US dollars declined by 3.3% to $14.9bn in the covered period. The dollarization rate of cleared checks regressed from 68.7% in the first four months of 2017 to 67.3% in the same period of 2018. Further, there were 3.93 million cleared checks in the first four months of 2018, down by 0.8% from 3.96 million in the same period of 2017.

In parallel, the value of returned checks in domestic and foreign currency was $491.5m in the first four months of 2018 compared to $470m in the same period of 2017 and $466m in the first four months of 2016. This constituted an increase of 4.6% year-on-year in the first four months of 2018 relative to 0.9% in the same period of 2017 and a decline of 12.6% in the first four months of 2016. Also, there were 85,687 returned checks in the covered period, up by 17.1% from 73,200 returned checks in the first four months of 2017.

Balance of payments posts deficit of $207.5m in first quarter of 2018

Figures issued by Banque du Liban (BdL) show that Lebanon's balance of payments posted a deficit of $207.5m in the first quarter of 2018 compared to a surplus of $554.8m in the same quarter of 2017. The balance of payments posted a deficit of $364.6m in March 2018 compared to a deficit of $79.7m in February 2018 and a surplus of $46.3m in March 2017. The March 2018 deficit was caused by a decline of $395.6m in the net foreign assets of banks and financial institutions, which was partly offset by an increase of $30.9m in those of BdL. The cumulative deficit in the first quarter of 2018 was caused by a decrease of $1.64bn in the net foreign assets of banks and financial institutions, which was partly offset by a rise of $1.43bn in those of BdL. The balance of payments posted surpluses of $7.9bn in 2009, $3.3bn in 2010 and $1.2bn in 2016, and deficits of $2bn in 2011, $1.5bn in 2012, $1.1bn in 2013, $1.4bn in 2014, $3.4bn in 2015 and $155.7m in 2017. The balance of payments' deficit was equivalent to 0.3% of GDP in 2017, relative to a surplus of 2.5% of GDP in 2016 and deficits of 6.8% of GDP in 2015 and 2.9% of GDP in 2014.

Balance of Payments* (US$m)



** In the first quarter of each year*
Source: Banque du Liban

Number of real estate transactions down 23% in first four months of 2018

Figures released by the Ministry of Finance indicate that there were 17,651 real estate transactions in the first four months of 2018, constituting a decrease of 23.1% from 22,966 deals in the same period of 2017. In comparison, the number of real estate transactions grew by 12.5% year-on-year in the first four months of 2017 and increased by 14.6% in the same period of 2016. There were 3,375 real estate transactions in the Baabda area in the first four months of 2018, representing 19.1% of the total. The North followed with 2,877 deals (16.3%), then the Zahlé region with 2,417 transactions (13.7%), the South with 2,100 deals (11.9%), the Metn district with 1,858 transactions (10.5%), the Keserwan area with 1,669 deals (9.5%), the Nabatieh region with 1,666 transactions (9.4%) and Beirut with 1,207 deals (6.8%).

Also, the aggregate value of real estate transactions reached $2.5bn in the first four months of 2018 and decreased by 19.7% from $3.1bn in the same period of 2017. In comparison, the value of real estate deals increased by1.7% in the first four months of 2017 from the same period of 2016, and grew by 34.5% year-on-year in the first four months of 2016. Further, the value of real estate transactions in Beirut reached $670m and accounted for 27.2% of the total in the first four months of 2018. The Baabda district followed with $461.4m (18.8%), then the Metn region with $387.5m (15.8%), the Keserwan area with $369.4m (15%), the South with $185.4m (7.5%), the North with $163.8m (6.7%), the Zahlé area with $105.2m (4.3%) and the Nabatieh region with $69.7m (2.8%).

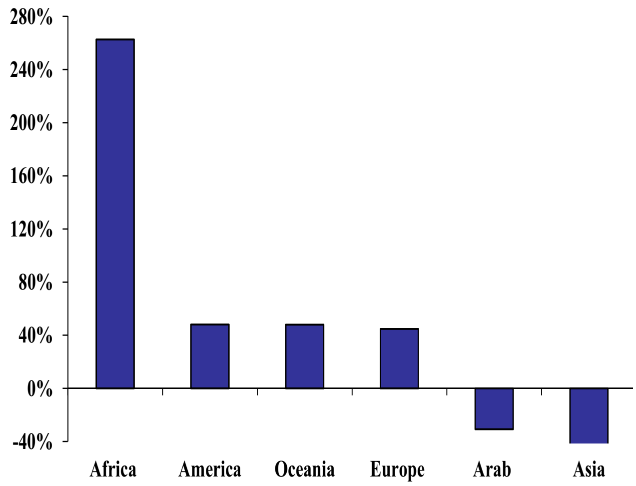
In parallel, the average value per real estate transaction was $139,375 in the first four months of 2018, up by 4.4% from an average of $133,463 in the same period of 2017 and relative to $147,611 in the first four months of 2016. Further, there were 367 real estate transactions executed by foreigners in the first four months of 2018, down by 3.9 % from 382 deals in the same period of 2017, compared to a rise of 13.7% year-on-year in the same period of 2017 and to a decrease of 21.3% in the first four months of 2016. The number of real estate deals executed by foreigners accounted for 2.1% of total real estate transactions in the covered period compared to 1.7% of deals in the same period of 2017 and to 1.6% of deals in the first four months of 2016. Further, 22.6% of the real estate transactions executed by foreigners were in the Baabda district in the first four months of 2018, followed by Beirut (19.6%), the South (16.1%), the Metn region (12.3%), the North (11.7%), Zahlé (9.3%), Keserwan (6.5%) and Nabatieh (1.9%).

Tourist arrivals up 5% in first quarter of 2018

The number of incoming visitors to Lebanon totaled 362,398 in the first quarter of 2018, constituting an increase of 5% from 345,168 tourists in the same period of 2017 and a drop of 7.8% from 393,212 visitors in the first quarter of 2010. Also, the number of incoming visitors reached 140,703 in March 2018, up by 22.7% from 114,692 in February 2018 and by 8.4% from 129,859 in March 2017. Visitors from European economies accounted for 35.4% of the total in the first quarter of 2018, followed by those from Arab countries with 32.4%, the Americas with 14.2%, Asia with 8.1%, Africa with 6.4% and Oceania with 3.5%. Further, tourists from Iraq accounted for 13.5% of total visitors in the covered period, followed by visitors from France (8.9%), the U.S. (7.3%), Egypt (5.7%), Jordan (5%), Germany (4.9%), Canada (4.6%), England (4%) and Saudi Arabia (2.7%).

In parallel, the number of visitors from Europe increased by 19.7% year-on-year in the first quarter of 2018, followed by those from the Americas (+9.4%), Oceania (+8.7%), and Africa (+2.6%), while the number of visitors from the Arab region regressed by 7.1% year-on-year, and the number of tourists from Asia declined by 3%. On a country basis, the number of tourists from Germany grew by 36.5% year-on-year in the covered period, followed by visitors from Sweden (+24.2%), France (+19.9%), Egypt (+15.5%), Brazil (+15.1%), Turkey (+12%), England (+11.9%), the U.S. (+10.3%), Italy (+8.7%) and Canada (+7.3%). In contrast, the number of visitors from the UAE dropped by 34.1% year-on-year in the first quarter of 2018, followed by visitors from Saudi Arabia (-32%), Iraq (-11.3%), Kuwait (-10.1%) and Venezuela (-2.2%). In parallel, the number of tourists from Jordan was nearly unchanged year-on-year in the covered quarter.

Change in the Number of Tourist Arrivals from Main Sources in First Quarter of 2018*



**from same quarter of 2010*
Source: Ministry of Tourism, Byblos Research

Utilized credits by private sector at $69bn at end-2017, advances against real estate account for 38% of total

Figures issued by Banque du Liban show that utilized credits by the private sector from commercial banks and financial institutions totaled $68.7bn at the end of 2017, constituting an increase of 6.9% from $64.2bn at end-2016. Trade & services accounted for $22.6bn or 33% of utilized credits at the end of 2017, followed by personal credit with $21.4bn (31.2%), construction with $11.5bn (16.7%), industry with $6.8bn (10%), financial intermediaries with $3.6bn (5.3%) and agriculture with $785.2m (1.1%), while other sectors represented the remaining $1.9bn (2.8%). The distribution of credit by type shows that advances against real estate totaled $25.9bn and accounted for 37.7% of private sector utilized credits at the end of 2017. Overdrafts followed with $18.9bn (27.5%), then advances against personal guarantees with $12.6bn (18.4%), advances against cash collateral or bank guarantees with $7.8bn (11.3%), advances against other real guarantees with $2.2bn (3.2%) and advances against financial values with $1.2bn (1.8%).

Also, the distribution of utilized credits in trade & services shows that wholesale trade accounted for 45.8% of overall trade & services credits; followed by retail with 17.7%; real estate, rent and employment services with 16.6%; hotels & restaurants with 7.4%; transport & storage with 7.3% and educational services with 5.2%. Personal credit accounted for 86.4% of loan beneficiaries, followed by trade & services with 9.1% of beneficiaries, industry with 2.4%, construction with 1.4%, agriculture with 1% and financial intermediaries with 0.5%, while other sectors attracted the remaining 3.2% of loan beneficiaries.

The aggregate number of loan beneficiaries grew by 3.7% from the end of 2016 to 615,602 at end-2017; while 69.7% of beneficiaries had loans ranging from LBP5m to LBP100m at the end of 2017. Beirut and its suburbs accounted for 75.1% of bank credits and for 53.2% of beneficiaries. Mount Lebanon followed with 12.7% of credits and 18.5% of beneficiaries, then South Lebanon with 4.7% of credits and 10.1% of beneficiaries, North Lebanon with 4.4% of credits and 10.7% of beneficiaries, and the Bekaa region with 3.2% of credits and 7.4% of beneficiaries.

In parallel, the off-balance sheet liabilities of banks and financial institutions totaled $112.3bn at the end of 2017, increasing by 3.9% from $108.1bn at end-2016. They include endorsement & guarantees of $104.3bn, or 92.8% of the total, followed by letters of undertaking with $3bn (2.7%) and commitments on notes with $2.3bn (2%).

Commercial activity significantly deteriorates in fourth quarter of 2017

Banque du Liban's quarterly business survey of the opinions of business managers shows that the volume of commercial sales significantly deteriorated during the fourth quarter of 2017, with the balance of opinions standing at -26 compared to -1 in the third quarter of 2017 and to zero in the fourth quarter of 2016. The business survey reflects the opinions of enterprise managers about their business activity in order to depict the evolution of a number of key economic variables. The balance of opinions was the highest in the North at -8, followed Beirut & Mount Lebanon (-21), the Bekaa region (-41) and the South (-56).

The survey shows that the balance of opinions about the sales of food items was -16 in the fourth quarter of 2017 relative to +12 in the preceding quarter and to +17 in the fourth quarter of 2016. Also, the balance of opinions about the sales of inter-industrial goods was -29 in the covered quarter compared to -10 in the previous quarter and to -15 in the same quarter of 2016; while it was -30 for non-food products relative to -5 in the preceding quarter and to -2 in the fourth quarter of 2016. Further, the balance of opinions for inventory levels in all commercial sub-sectors was +1 in the fourth quarter of 2017, unchanged from the previous quarter and compared to -4 in the fourth quarter of 2016. Opinions about the level of inventories were the highest in Beirut & Mount Lebanon as they reached +3, followed by the Bekaa region and the South (zero each) and the North (-6). The balance of opinions is the difference between the proportion of surveyed managers who consider that there was an improvement in an indicator and the proportion of those who reported a decline in the same indicator.

Commercial Activity: year-on-year evolution of opinions

Aggregate results	**Q4-14**	**Q4-15**	**Q4-16**	**Q4-17**
Sales volume	-3	-17	0	-26
Number of employees	0	-6	-4	-3
Inventories of finished goods	-3	-11	-4	+1
Q4-17 Regional results	**Beirut / Mount Lebanon**	**North**	**South**	**Bekaa**
Sales volume	-21	-8	-56	-41
Inventories of finished goods	+3	-6	0	0

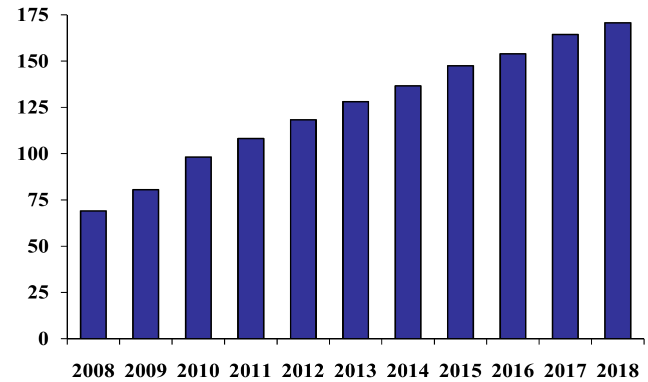
Source: Banque du Liban business survey for fourth quarter of 2017

Corporate Highlights

Banking sector assets at $225bn at end-March 2018

The consolidated balance sheet of commercial banks operating in Lebanon shows that total assets stood at $224.6bn at the end of March 2018, constituting an increase of 2.1% from the end of 2017 and a growth of 9.1% from end-March 2017. Loans extended to the private sector reached $59bn at the end of March 2018, down by 1.1% from end-2017 and up by 4.2% from a year earlier. Loans to the resident private sector totaled $52.7bn, constituting a decrease of 1.6% from end-2017 and a rise of 3.8% year-on-year; while credit to the non-resident private sector totaled $6.3bn at end-March 2018 and grew by 3.7% from end-2017 and by 7.5% from a year earlier. In nominal terms, credit to the private sector regressed by $653.5m in the first quarter of 2018, as lending to the resident private sector declined by $879.3m and credit to the non-resident private sector rose by $225.8m in the covered period. The dollarization rate in private sector lending dropped from 70.4% at end-March 2017 to 67.9% at end-March 2018.

Total Private Sector Deposits of Commercial Banks at End-March of Each Year ($bn)



Source: Banque du Liban, Byblos Research

In addition, claims on non-resident banks reached $10.4bn at the end of March 2018 and decreased by 8.1% from the end of 2017 and by 12.6% from a year earlier, while claims on the public sector stood at $30.8bn at end-March 2018, down by 3.7% from end-2017 and by 18.5% from end-March 2017. The average lending rate in Lebanese pounds was 8.95% in March 2018 compared to 8.43% a year earlier, while the same rate in US dollars was 7.89% relative to 7.32% in March 2017. Further, the deposits of commercial banks at Banque du Liban totaled $110.6bn at the end of March 2018, constituting an increase of 29% from a year earlier.

In parallel, total private sector deposits reached $170.7bn at the end of March 2018, increasing by 1.2% from the end of 2017 and by 3.9% from a year earlier. Deposits in Lebanese pounds reached $54.1bn at end-March 2018, up by 2.6% from end-2017 and down by 2.8% year-on-year; while deposits in foreign currencies totaled $116.6bn, up by 0.6% from end-2017 and by 7.3% from end-March 2017. Resident deposits totaled $134.7bn at the end of March 2018, up by 0.9% from the end of 2017 and by 3.5% from end-March 2017. Also, non-resident deposits reached $36bn at end-March 2018, up by 2.5% from end-2017 and by 5.4% from a year earlier. In nominal terms, total private sector deposits grew by $475.4m in January, by $854.2m in February and $748.6m in March 2018. As such, aggregate private sector deposits expanded by $2.08bn in the first quarter of 2018, with deposits in Lebanese pounds growing by $1.35bn and foreign-currency deposits increasing by $725.5m.

In parallel, deposits of non-resident banks reached $7.7bn at the end of March 2018 and increased by 3.4% from end-2017 and by 20.6% from a year earlier. The dollarization rate of deposits was 68.3% at the end of March 2018, slightly down from 68.7% at end-2017 and compared to 66.1% a year earlier. Further, the average deposit rate in Lebanese pounds was 6.64% in March 2018 compared to 5.57% a year earlier, while the same rate in US dollars was 4.04% relative to 3.53% in March 2017. The ratio of private sector loans-to-deposits in foreign currency stood at 34.4%, well below Banque du Liban's limit of 70% and compared to 36.7% a year earlier. The same ratio in Lebanese pounds was 35.1% at end-March 2018 relative to 30.1% at the end of March 2017. As such, the total private sector loans-to-deposits ratio reached 34.6%, nearly unchanged from 34.5% at end-March 2017. The banks' aggregate capital base stood at $21.5bn at end-March 2018, up by 16.5% from $18.5bn a year earlier.

Top five freight forwarders' import activity down 11% in first quarter of 2018, export activity down 16%

Figures released by the Port of Beirut show that overall import shipping operations by the top five freight forwarders through the port reached 80,313 20-foot equivalent units (TEUs) in the first quarter of 2018, constituting a decrease of 11.2% from 90,484 TEUs in the same quarter of 2017. The five freight forwarders accounted for 79.5% of imports to the Lebanese market and for 53% of the total import freight forwarding market in the first quarter of 2018. Mediterranean Shipping Company (MSC) handled 29,481 TEUs in imports in the covered period, equivalent to a 19.4% share of the total freight forwarding import market. Merit Shipping followed with 17,232 TEUs (11.4%), then Sealine Group with 13,347 TEUs (8.8%), Metz Group with 12,065 TEUs (8%) and Tourism & Shipping with 8,188 TEUs (5.4%). Further, Tourism & Shipping registered a year-on-year increase of 171.8% in import shipping in the covered quarter, the highest growth among the top five freight forwarders, while Sealine Group posted the steepest decline at 22.8% in the first quarter of 2018.

In parallel, export shipping operations by the top five freight forwarders through the Port of Beirut reached 17,992 TEUs in the first quarter of 2018, constituting a decrease of 15.7% from 21,355 TEUs in the same quarter of 2017. The five freight forwarders accounted for 84.3% of exported Lebanese cargo and for 11.4% of the total export freight forwarding market in the first quarter of 2018. Merit Shipping handled 7,626 TEUs of freight in the covered quarter, equivalent to 35.7% of the Lebanese cargo export market. Metz Group followed with 3,655 TEUs (17.1%), then Sealine Group with 3,297 TEUs (15.4%) and MSC Shipping with 1,985 TEUs (8.8%). Further, MSC posted a year-on-year increase of 40.5% in export shipping in the covered quarter, the highest rise among the top five freight forwarders, while Merit Shipping posted the highest decrease at 34.6% among the top five freight forwarders.

Ratio Highlights

(in % unless specified)	2015	2016	2017e	Change*
Nominal GDP ($bn)	49.5	49.7	52.5	
Public Debt in Foreign Currency / GDP	54.7	56.6	57.9	1.30
Public Debt in Local Currency / GDP	87.4	94.1	93.6	(0.54)
Gross Public Debt / GDP	142.1	150.7	151.5	0.76
Total Gross External Debt / GDP	175.8	183.9	185.6	1.70
Trade Balance / GDP	(31.6)	(32.5)	(31.9)	0.60
Exports / Imports	15.9	15.6	14.5	(1.04)
Fiscal Revenues / GDP	19.3	20.0	22.1	2.17
Fiscal Expenditures / GDP	27.3	29.9	29.3	(0.62)
Fiscal Balance / GDP	(8.0)	(9.9)	(7.2)	2.79
Primary Balance / GDP	1.5	0.0	2.7	2.68
Gross Foreign Currency Reserves / M2	58.7	62.2	68.2	5.98
M3 / GDP	249.7	267.2	263.6	(3.61)
Commercial Banks Assets / GDP	375.7	411.1	418.8	7.69
Private Sector Deposits / GDP	306.2	327.0	321.3	(5.69)
Private Sector Loans / GDP	109.5	115.0	114.9	(0.16)
Private Sector Deposits Dollarization Rate	64.9	65.8	68.7	2.88
Private Sector Lending Dollarization Rate	74.8	72.6	71.0	(1.61)

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

Risk Metrics

Lebanon	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

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