

LEBANON THIS WEEK

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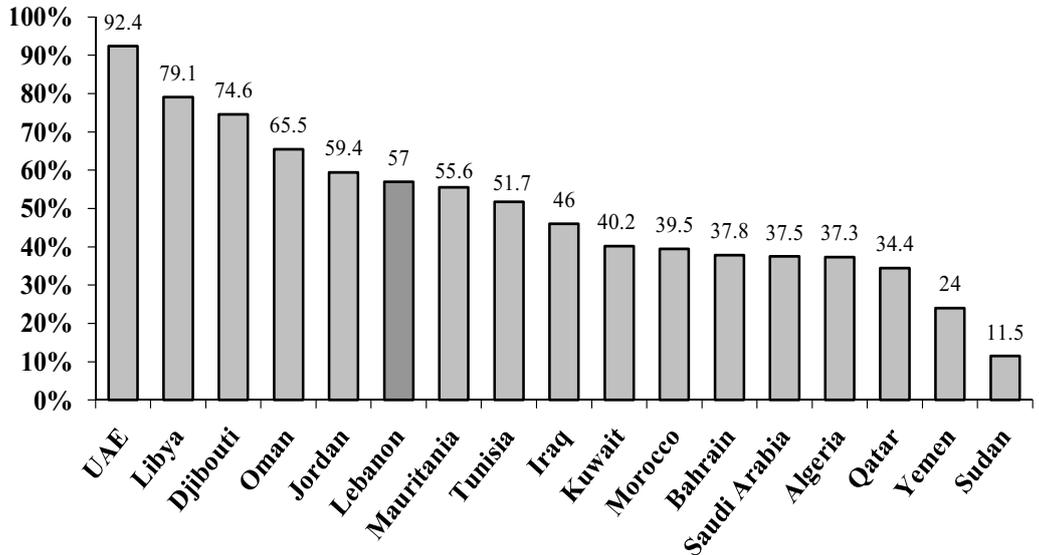
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Top five freight forwarders' import activity down 3.5% in first nine months of 2015

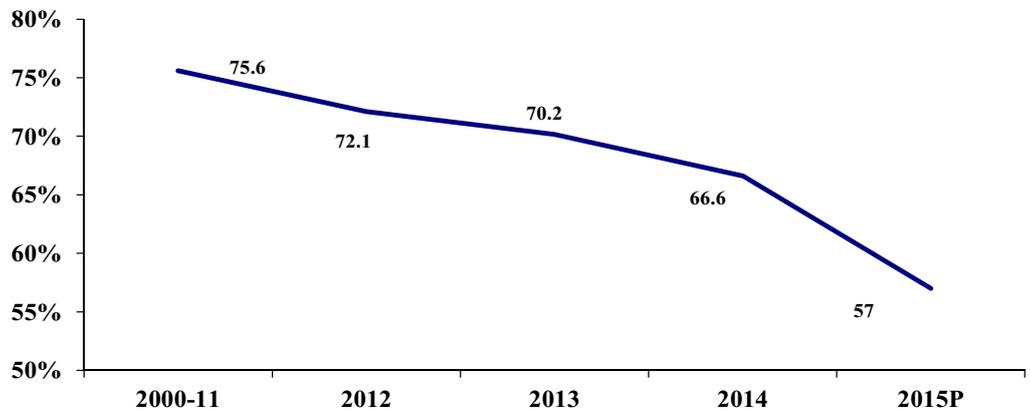
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Charts of the Week

Projected Imports of Goods & Services to Arab Countries in 2015 (% of GDP)



Imports of Goods & Services to Lebanon (% of GDP)



Source: International Monetary Fund - October 2015, Byblos Bank

Quote to Note

"Lebanon made transferring property more complex by increasing the time required for property registration."

The World Bank, on the Ease of Doing Business measures implemented by local authorities in the 2014/15 period

Number of the Week

31: Number of times the Lebanese Parliament convened and failed to elect a President

Lebanon in the News

\$m (unless otherwise mentioned)	2014	Jun 14	Mar 15	Apr 15	May 15	Jun 15	% Change*
Exports	3,313	278	257	235	342	281	1.08
Imports	20,494	1,567	1,509	1,444	1,486	1,690	7.85
Trade Balance	(17,181)	(1,289)	(1,252)	(1,209)	(1,144)	(1,409)	9.31
Balance of Payments	(1,408)	(561)	(417)	136	189	(794)	41.59
Checks Cleared in LBP	18,143	1,518	1,579	1,550	1,564	1,593	4.94
Checks Cleared in FC	56,348	4,807	4,322	4,158	4,424	4,504	(6.30)
Total Checks Cleared	74,491	6,325	5,901	5,708	5,988	6,097	(3.60)
Budget Deficit/Surplus	(4,632)	(187.36)	(391.66)	(85.53)	(167.04)	(38.90)	(79.24)
Primary Balance	1,970	133.93	(22.84)	42.17	281.74	289.34	116.04
Airport Passengers	6,567,647	610,170	476,739	598,055	544,388	591,890	(3.00)

\$bn (unless otherwise mentioned)	2014	Jun 14	Mar 15	Apr 15	May 15	Jun 15	% Change*
BdL FX Reserves	32.40	33.85	34.53	33.77	34.10	34.11	0.77
<i>In months of Imports</i>	<i>18.97</i>	<i>21.60</i>	<i>22.88</i>	<i>23.38</i>	<i>22.95</i>	<i>20.18</i>	<i>(6.56)</i>
Public Debt	66.58	65.71	69.44	69.46	69.37	69.02	5.04
Net Public Debt	57.31	55.17	58.51	58.97	59.28	59.46	7.78
Bank Assets	175.70	169.57	176.95	179.40	179.03	180.08	6.20
Bank Deposits (Private Sector)	144.43	140.35	145.46	147.50	147.89	148.58	5.86
Bank Loans to Private Sector	50.90	49.18	51.14	51.43	51.37	51.74	5.21
Money Supply M2	48.69	46.89	49.44	50.01	50.26	50.59	7.90
Money Supply M3	117.68	114.97	118.06	119.75	120.04	120.46	4.77
LBP Lending Rate (%)	7.49	7.45	6.94	7.10	7.11	7.12	(33bps)
LBP Deposit Rate (%)	5.56	5.49	5.57	5.61	5.56	5.51	2bps
USD Lending Rate (%)	6.97	6.97	7.16	7.08	7.04	7.03	6bps
USD Deposit Rate (%)	3.07	2.98	3.12	3.16	3.14	3.16	18bps
Consumer Price Index**	0.59	1.19	0.00	(0.17)	(0.13)	(0.38)	-

* Year-on-Year

** Year-on-Year percentage change

Note: bps i.e. basis point

Source: Association of Banks in Lebanon, Banque du Liban, Byblos Research

Capital Markets

Most Traded Stocks on BSE	Last Price (\$)	% Change*	Total Volume	Weight in Market Capitalization
Solidere "A"	10.13	23.54	174,728	9.22%
Solidere "B"	10.00	19.62	125,551	5.92%
Audi GDR	6.00	0.84	85,187	6.35%
BLOM Listed	9.40	(0.53)	64,709	18.39%
Audi Listed	5.95	0.17	45,635	21.65%
BLOM GDR	9.58	0.00	16,500	6.44%
HOLCIM	14.50	(4.29)	10,083	2.58%
Byblos Common	1.60	0.00	9,500	5.83%
Byblos Pref. 09	102.5	1.59	276	1.87%
Byblos Pref. 08	100.3	(0.20)	100	1.83%

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

Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
Jan 2016	8.500	100.75	4.01%
Mar 2017	9.000	105.38	4.82%
Nov 2018	5.150	100.00	5.15%
May 2019	6.000	101.00	5.68%
Mar 2020	6.375	101.69	5.92%
Apr 2021	8.250	109.75	6.10%
Oct 2022	6.100	98.75	6.33%
Jun 2025	6.250	98.50	6.47%
Nov 2026	6.600	99.50	6.66%
Feb 2030	6.650	98.00	6.87%

Source: Byblos Bank Capital Markets

	Nov 9-13	Nov 2-6	% Change	October 2015	October 2014	% Change
Total Shares Traded	535,934	4,116,516	(86.98)	3,521,768	6,765,726	(47.95)
Total Value Traded	\$4,682,803	\$40,636,020	(88.48)	\$28,446,467	\$49,594,656	(42.64)
Market Capitalization	\$10.99bn	\$10.7bn	2.71	\$10.89bn	\$11.27bn	(3.40)

Source: Beirut Stock Exchange (BSE)



Lebanon has 13th highest branch penetration rate worldwide, 18th highest ATM penetration rate in 2014

Figures issued by the International Monetary Fund show that there were 105.1 bank branches per 1,000 square kilometers in Lebanon in 2014, constituting a rise of 3.3% from 101.8 branches per 1,000 square kilometers in 2013, and compared to 85.9 branches per 1,000 square kilometers in 2005. As a result, Lebanon had the 13th highest branch penetration rate among 161 countries worldwide with available figures for 2014, the third highest among 43 upper middle-income countries (UMICs) and the highest among 15 Arab countries.

Globally, Lebanon had a higher penetration rate than Japan, Colombia and Switzerland, and a lower rate than Belgium, Mauritius and Italy among economies with a GDP of \$10bn or more; while it came second only to Mauritius among UMICs. Lebanon's branch penetration rate was higher than the global rate of 83.8 branches per 1,000 square kilometers in 2014 and significantly higher than the UMICs' rate and the Arab countries' rate of 23.5 and 16.3 per 1,000 square kilometers, respectively.

Further, there were 29.8 bank branches per 100,000 adults in Lebanon in 2014, up 1.4% from 29.4 branches per 100,000 adults in 2013, and compared to 30.6 branches per 100,000 adults in 2005. As such, Lebanon had the 37th highest branch penetration rate among 160 countries globally, the 12th highest among 43 UMICs and the highest among 15 Arab countries. Lebanon's branch penetration rate was higher than the global rate of 23, and more than twice the Arab rate of 12.3, while it was lower than the UMICs' penetration rate of 30.2 per 100,000 adults.

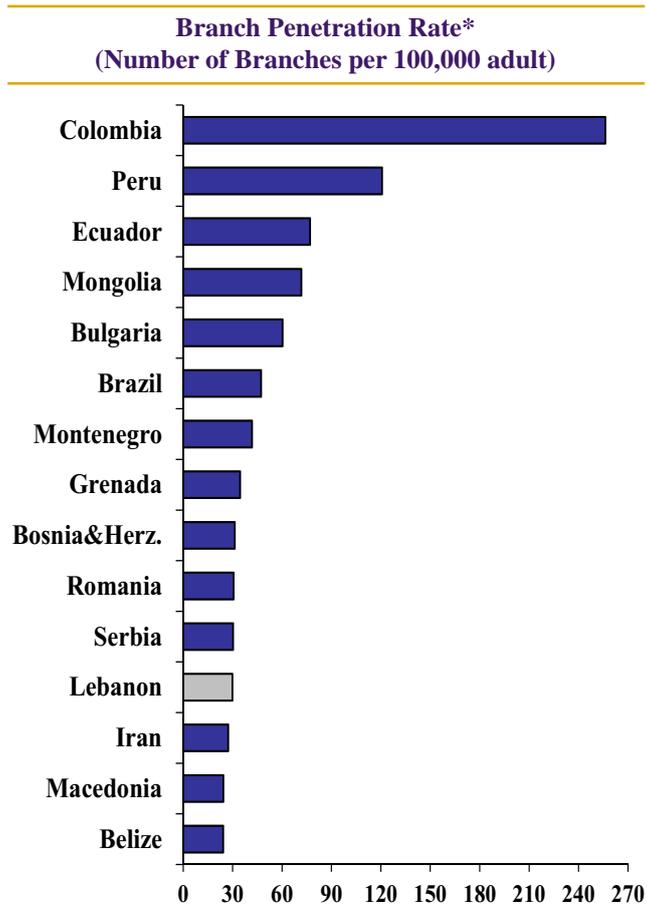
In parallel, there were 156.1 automatic teller machines (ATMs) per 1,000 square kilometers in Lebanon in 2014, constituting an increase of 5.3% from 148.2 ATMs per 1,000 square kilometers in 2013, and compared to 92 ATMs per 1,000 square kilometers in 2005. The ATM penetration rate ranks Lebanon in 18th place among 155 countries worldwide, in third place among 42 UMICs and in first place among 12 Arab countries. Globally, Lebanon had a higher penetration rate than Thailand, France and Austria, and a lower rate than Switzerland, Portugal and Italy among economies with a GDP of \$10bn or more. It also had a lower rate than only Mauritius among UMICs. Lebanon's ATM penetration rate was lower than the global average penetration rate of 330.6 but significantly higher than the UMICs' rate and the Arab region's rate of 45.1 and 38.1 ATMs per 1,000 square kilometers, respectively.

Further, there were 44.3 ATMs per 100,000 adults in Lebanon in 2014, up 3.4% from 42.9 ATMs per 100,000 adults in 2013, and compared to 32.7 ATMs per 100,000 adults in 2005. The ATM penetration rate ranks Lebanon in 77th place among 154 countries globally, in 25th place among 42 UMICs and in fourth place among 12 Arab countries. Lebanon had a lower penetration rate in this category than the global rate of 50.9 and the UMICs' average rate of 50.3, but a higher rate than the Arab penetration rate of 29.9 ATMs per 100,000 adults.

Also, there were 1,020 branches in Lebanon at the end of 2014, constituting a rise of 3.6% from 985 branches in 2013 and compared to 825 branches in 2005. As a result, Lebanon had the 67th highest number of branches among 162 countries globally, the 19th highest among 43 UMICs and the sixth highest among 15 Arab countries.

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

The Association of Banks in Lebanon (ABL) recommended its member banks to decrease the Beirut Reference Rate (BRR) in US dollars to 6.16% starting in December 2015 from 6.23% in November. The rate, considered as the reference rate for lending in foreign currency, replaced the London Interbank Offered Rate (LIBOR) in 2009 as the ABL considered that the LIBOR no longer accurately reflects the cost of funding and lending in Lebanon. Additionally, the ABL recommended to its member banks to decrease the BRR in Lebanese pounds to 8.7% in December from the November rate of 8.75%. The BRR in US dollars and Lebanese pounds was 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 risks and the profitability of banks to the prime lending rate.



*Top 15 upper middle-income countries

Source: International Monetary Fund, Byblos Research

Political deadlock and policy inaction affecting economic growth

The Institute of International Finance projected real GDP growth in Lebanon at 1.2% in 2015, constituting a marginal modification from an earlier forecast of 1.1% for the year. It said that the weak economic activity reflects policy inaction in the context of a prolonged domestic political crisis and rising regional insecurity. Further, it noted that the Lebanese Parliament has failed to elect a president for the country since May 2014, while it extended its own term until 2017. It indicated that deflationary pressures have persisted in the first nine months of the year due to subdued domestic demand and significantly lower import prices, in the context of the currency peg to the US dollar and lower commodity prices. It added that the consumer price index regressed by 4.5% in September 2015 from the same month last year, and forecast a negative average inflation rate of -3% in 2015 relative to an average inflation rate of 1.9% in 2014. It considered that a protracted negative inflation rate could be challenging, as it would raise real interest rates and complicate debt dynamics.

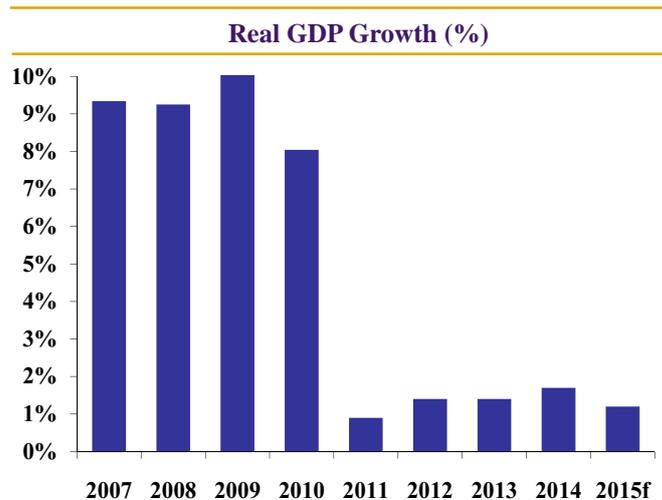
The IIF indicated that risks to the outlook are mitigated by the country's substantial foreign currency reserves and robust banking sector. It projected the Central Bank's assets in foreign currency at \$40.6bn at the end of 2015, up from \$39.5bn or 13.6 months of imports a year earlier. Also, it said that non-resident deposits are growing at a healthy pace and that confidence in the Lebanese pound remains intact. Further, it forecast the current account deficit to narrow from 21.8% of GDP in 2014 to 14.9% of GDP in 2015 due to weak domestic demand, lower import prices and a slight improvement in the exports of services. In contrast, it expected the primary budget surplus to decline from 2.7% of GDP in 2014 to 1.4% of GDP in 2015, and forecast the fiscal deficit to widen from 6.4% of GDP in 2014 to 8% of GDP in 2015. It attributed the widening deficit to the projected 8% increase in the wage bill and the decline in tax revenues, which will offset the savings from lower Treasury transfers to the state-owned and money-losing Electricité du Liban. As such, it forecast the public debt level to rise from 138.1% of GDP in 2014 to 140.1% of GDP in 2015, which increases Lebanon's vulnerability to shifts in external financing availability.

The IIF considered that stronger economic activity in 2016 depends on the election of a new president, a de-escalation of the Syrian conflict, and the implementation of structural reforms. As such, it projected real GDP to grow at a rate of 2.5% next year. It also estimated the primary budget surplus to reach 1.3% of GDP, nearly unchanged from 2015, and expected the fiscal deficit to remain wide at 8% of GDP. It also forecast the current account deficit to continue to narrow and to reach 14% of GDP.

Number of new construction permits down 12%, surface area down 13% in first nine months of 2015

The Orders of Engineers & Architects of Beirut and of Tripoli issued 11,236 new construction permits in the first nine months of 2015, constituting a decrease of 12.4% from 12,833 permits in the same period last year, and relative to an increase of 0.3% in the first nine months of 2014. Mount Lebanon accounted for 42.2% of newly issued construction permits in the first nine months of 2015, followed by South Lebanon with 16.6%, Nabatieh with 13.2%, the North with 10.4%, the Bekaa with 10.2% and Beirut with 5.5%. The remaining 1.9% represents permits issued by the Order of Engineers & Architects of Tripoli for regions located outside northern Lebanon. The number of new construction permits issued for Mount Lebanon dropped by 14.5% year-on-year in the first nine months of 2015, followed by the South (-13.5%), the North (-13.1%), the Bekaa (-10.5%), Nabatieh (-10.2%) and Beirut (-2.7%); while permits issued for regions located outside northern Lebanon dropped by 1.9% annually.

Further, the surface area of granted construction permits in the first nine months of 2015 reached 9,210,459 square meters (sqm), constituting a drop of 12.7% from the same period of 2014 and compared to a rise of 8.8% in the first nine months of 2014. Mount Lebanon accounted for 4,428,123 sqm, or 48.1% of total construction permits in the covered period. It was followed by the North with 1,202,084 sqm (13.1%), the South with 1,077,227 sqm (11.7%), the Bekaa with 781,509 sqm (8.5%), Nabatieh with 760,583 sqm (8.3%) and Beirut with 502,984 sqm (5.5%). The remaining 457,949 sqm, or 5% of total construction permits, represent the surface area of permits that were issued by the Order of Engineers & Architects of Tripoli for regions located outside northern Lebanon. The surface area of construction permits issued for Beirut decreased by 39.3% annually in the first nine months of the year, followed by the Bekaa (-14%), South Lebanon (-13.9%), the North (-12.1%), Nabatieh (-9.4%), Mount Lebanon (-8.8%) and other regions located outside northern Lebanon (-7.9%). In parallel, cement deliveries totaled 3.2 million tons in the first eight months of 2015 and dropped by 14.5% annually, relative to increases of 1.1% in the same period of last year and 7.2% in the first eight months of 2013.



Source: Institute of International Finance, Byblos Research

Lebanon's external debt posts 27th highest return in emerging markets, sixth highest in the Middle East & Africa

Figures issued by Merrill Lynch indicate that Lebanon's external debt posted returns of 3.13% in the first 10 months of 2015, constituting the 14th highest return among 38 markets in the Central & Eastern Europe and the Middle East & Africa (CEEMEA) region, as well as the 27th highest return among the 70 emerging markets included in Merrill Lynch's External Debt EM Sovereign Index. Lebanon outperformed the overall emerging markets return of 2.33% during the covered period. Further, Lebanon's external debt posted the sixth highest return among 22 countries in the Middle East & Africa region in the first 10 months of 2015, behind only Qatar (+4.99%), the UAE (+4.03%), Namibia (+3.71%), Angola (+3.61%) and Senegal (+3.58%).

In parallel, Lebanon's external debt posted returns of 0.58% in October 2015, constituting the eighth lowest return in the CEEMEA region and the 15th lowest return in emerging markets during the covered month. Lebanon underperformed the overall emerging returns of 2.51%, those of the CEEMEA region of 1.82% and the 2.02% return posted by 'B'-rated sovereigns in October 2015.

Further, Lebanon's external debt posted the fourth lowest return in the Middle East & Africa region in October 2015. It outperformed only Bahrain (-0.29%), Egypt (-0.89%) and Tunisia (-0.9%); while it underperformed Iraq (+6.98%), Zambia (+6.15%), Nigeria (+4.9%), Gabon (+4.73%), Turkey (+4.37%), Senegal (+3.82%), Angola (+3.66%), the Ivory Coast (+3.55%), Ghana (+3.2%), Rwanda (+3.1%), Kenya (+2.55%), South Africa (+2.35%), Namibia (+2.1%), the UAE (+0.96%), Qatar (+0.84%), Israel (+0.76%) and Morocco (+0.65%).

Merrill Lynch indicated that the spread on Lebanese Eurobonds ended October 2015 at 438 basis points, constituting the 18th widest spread in the CEEMEA region and the 28th widest among emerging markets. It was wider than the emerging markets' overall spread of 319 basis points at the end of October 2015. Lebanon has a weight of 3.3% on Merrill Lynch's External Debt EM Sovereign Index, the fifth largest weight in the CEEMEA universe and the 10th biggest among emerging economies. Lebanon accounted for 6% of allocations in the CEEMEA region.

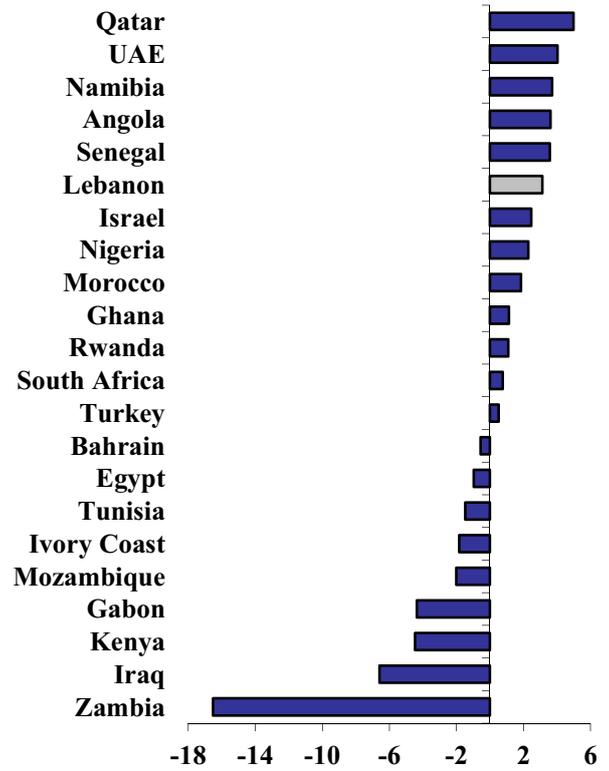
Decisions by Central Bank of Iraq to affect Lebanese banks

In the monthly meeting between the Central Bank and the Association of Banks in Lebanon (ABL), Governor Riad Salamé indicated that the local financial and monetary markets are stable and that confidence remains elevated. He added that the banking and financial draft laws that Parliament is expected to ratify will preserve the banking sector's relationships with correspondent banks and would facilitate the transfer of funds to Lebanon. He added that remittance inflows have reached about \$7.5bn this year despite the economic conditions in emerging markets and in oil-producing countries that are key sources of remittances flows to Lebanon. Further, Governor Salamé noted the successful placement in the market of the recent Eurobond despite the prevailing political conditions in Lebanon and in the region. In addition, the governor indicated that a joint mission from the International Monetary Fund and the World Bank is currently conducting a financial system assessment program (FSAP) in Lebanon, which will help solidify confidence in the Lebanese financial sector. He noted that the mission will work on the report with the Banking Control Commission.

In parallel, the ABL raised the issue of Lebanese banks operating in Iraq in light of the statement from the Central Bank of Iraq (CBI) that it has cut all administrative, organizational and financial ties with its branches in Erbil and Sulaimaniyeh. The CBI added that the two branches would report from now on to the Finance Ministry of the Kurdistan Regional Government and that it no longer recognizes the banks' deposits in Iraqi dinars or in US dollars that are placed in these two branches. The ABL noted that Lebanese banks have about \$90m in deposits at the two branches, and that they will have to take provisions in case this issue is not resolved before the end of the year. Further, the ABL indicated that the CBI is imposing a large increase to the capital of private banks operating in Iraq, that the banks need to meet this increase by June 2016, and that these developments would affect the outlook on the Iraqi banking sector.

Finally, the ABL raised the issue of independent board members at banks and the difficulty of identifying and convincing qualified persons to join bank boards, given that the Commercial Code in Lebanon holds these directors financially liable in case the institution incurs losses. Governor Salamé indicated that board members could resign from the board if they are not comfortable with the direction of an institution, or they can remain on the board in case they agree with the bank's strategy.

External Debt Performance in the Middle East & Africa in First 10 Months of 2015 (%)



Source: Merrill Lynch, Byblos Research

Parliament ratifies anti-money laundering draft laws and soft loans, authorizes additional borrowing

The Lebanese Parliament ratified a number of draft laws that strengthen the country's anti-money laundering framework, that release soft loans from multilateral institutions for development projects, as well as other draft laws that have been pending for several years.

The legislature ratified a draft law that consists of expanding the definition of anti-money laundering to include most financial crimes, such as the violation of intellectual property, as well as to expand the declaration forms to include new professional sectors such as public notaries and lawyers, in accordance with international criteria. It also approved a draft law that regulates the transfer of funds across borders, as the law requires incoming visitors to disclose the amount of cash of up to \$15,000 or their equivalent in other currencies at border entry points, which would facilitate the deposit of these amounts at financial institutions in Lebanon. Further, it ratified the draft law on the exchange of tax information, which is part of the Organization for Economic Cooperation and Development's (OECD) decisions and mechanisms to combat tax evasion. It covers the exchange of tax information for nationals of OECD countries, and would not have an impact on Lebanese working in GCC countries or in Africa. Finally, Parliament approved Lebanon's adherence to the United Nation's 1999 International Convention for the Suppression of the Financing of Terrorism.

In parallel, Parliament ratified draft laws that authorize a \$474m soft loan from the World Bank to finance the construction of the Bisri Dam, and a \$5.2m loan from the Bank to support budget operations. Also, it approved a loan of EUR75m from the European Investment Bank to finance the widening of a highway between Beirut and Tripoli, and another EUR50m to finance private investments in renewable energy projects. Other approved development loans include a loan from the Kuwait Fund for Arab Economic Development (KFAED) to finance a road in the Bekaa region, two loans from the Arab Fund for Economic and Social Development (AFESD) to finance the purchase of medical equipments and housing projects; and a loan from the Islamic Development Bank to the Lebanese University. Also, it ratified a loan from the AFESD to finance the reconstruction of infrastructure that was destroyed during the July 2006 war. In addition, it endorsed a \$91m loan from AFESD and a \$70m loan from the KFAED to finance a portion of the Litani River Project. Finally, it ratified an \$85m loan from KFAED to finance the upgrading of the Zouk and Jiyeh electricity-generation plants, a \$15m loan from the World Bank to reduce industrial pollution, and an \$8m loan from China for technical and economic cooperation. In parallel, the Parliament authorized the issuance of new Eurobonds in 2016, as well as additional credit lines totaling \$3bn to cover the government's operational expenditures in 2016, as well as \$558m to cover wages and salaries.

Opened letters of credits at \$3.9bn for imports and \$1.9bn for exports in first nine months of 2015

Figures issued by the Central Bank indicate that the value of letters of credits (LCs) opened to finance imports to Lebanon totaled \$3.91bn in the first nine months of 2015, constituting a decrease of 20.5% from \$4.92bn in the same period of 2014. Further, utilized credits for imports reached \$3.88bn in the first nine months of 2015, down by 20.8% from \$4.9bn in the first nine months of 2014. They accounted for 99.1% of opened LCs in the covered period compared to a 99.5% share in the first nine months of last year. Also, outstanding import credits amounted to \$8.42bn in the first nine months of 2015 compared to \$9.3bn in the same period of 2014. Further, the aggregate value of inward bills for collection reached \$1.1bn in the first nine months of 2015, constituting a decrease of 17.2% from \$1.3bn in the first nine months of last year. Outstanding bills for collection reached \$142.2m at the end of September 2015 relative to \$152.2m at end-September 2014.

In parallel, the value of documentary letters of credits opened to finance exports from Lebanon reached \$1.95bn in the first nine months of 2015, constituting a decrease of 19.4% from \$2.41bn in the same period of 2014. Further, utilized credits for exports reached \$1.92bn in the covered period, down by 15.2% from \$2.27bn of used credits in the first nine months of 2014. Outstanding export credits reached \$10.42bn in the first nine months of 2015, down from \$11.85bn in the first nine months of 2014. The aggregate value of outward bills for collection amounted to \$1.31bn in the first nine months of the year, constituting a decrease of 1.3% from \$1.32bn in the same period of 2014. The outstanding value of outward bills for collection reached \$578.2m at end-September 2015 relative to \$474.5m a year earlier.

Central Bank receives \$0.7m grant to support renewable energy projects

The Central Bank of Lebanon received a grant of \$700,000 from the independent financial organization Global Environment Facility (GEF) to subsidize commercial and industrial loans in the renewable energy sector through the Small Decentralized Renewable Energy Power Generation (DREG) project. The objective of the \$1.6m project is to facilitate the installation of at least 1.75 megawatts of decentralized renewable energy power-generation capacity. It also aims to reduce direct greenhouse gas emissions by about 35,500 tons of carbon dioxide equivalent. The United Nations Development Program (UNDP) and the GEF launched the four-year project in 2014. The GEF is providing \$1.45m and the UNDP \$125,000 to fund the project.

Commercial banks that receive loan applications under the National Energy Efficiency and Renewable Energy Action (NEEREA) will be able to tap the grant. The DREG finances up to 25% of the value of the approved renewable energy project for a maximum amount of \$150,000 per project. The UNDP, along with the Lebanese Center for Energy Conservation, an affiliate of the Lebanese Ministry of Energy & Water, will conduct due diligence to approve the funding of about 10 renewable energy projects. They will also review the projects to ensure their proper implementation.

Trade deficit narrows by 17% to \$11bn in first nine months of 2015

The total value of imports reached \$13.2bn in the first nine months of 2015, constituting a decrease of 15.9% from the same period in 2014; while the value of aggregate exports dropped by 11.1% to \$2.2bn, leading to a trade deficit of \$11bn, down by 16.9% year-on-year. The narrowing of the deficit was due to a decrease of \$2.5bn in imports year-on-year, given that exports fell by \$279.3m. The coverage ratio reached 16.9% in the first nine months of 2015 compared to 16% in the same period last year, while it reached 17% in September 2015 relative to 16.9% in September 2014. The Port of Beirut was the entry point of 71% of Lebanon's imports in the covered period, followed by the Hariri International Airport with 19.5%, the Port of Tripoli with 5.6%, the Port of Saida with 2.5% and the Masnaa crossing point with 0.9%. In parallel, the Port of Beirut was the exit point of 50.3% of Lebanon's exports, followed by the Hariri International Airport with 27.6%, the Port of Tripoli with 8.9%, the Masnaa crossing point with 7% and the Abboudieh crossing point with 3.7%.

The value of imported oil & mineral fuels declined by \$1.7bn, or 42.3%, year-on-year, to \$2.3bn; while non-hydrocarbon imports regressed by 7.2% to \$11bn. The imports of base metals fell by \$276.1m, or 23.5%, to \$901.1m in the first nine months of 2015, and those of animal products dropped by \$150m, or 18.7%, to \$651m in the covered period. The value of oil & mineral fuels accounted for 17.2% of total imports in the first nine months of 2015 compared to a share of 25% in the same period of 2014.

In volume terms, imports reached 11.43 million tons in the first nine months of 2015, constituting a decrease of 3.4% from 11.83 million tons in the same period last year; while exports regressed by 8.6% to 1.48 million tons. Imports of oil & mineral fuels regressed by 9.1% year-on-year to 5.2 million tons, while non-hydrocarbon imports grew by 2.1% annually to 6.2 million tons. Imported oil & mineral fuels accounted for 45.6% of total imports in the covered period relative to a 48.5% share in the first nine months of 2014.

China was the main source of imports with \$1.6bn or 12% of the total in the first nine months of 2015, followed by Italy with \$995.8m (7.5%), Germany with \$897.7m (6.8%), France with \$809.3m (6.1%), the United States with \$747.3m (5.7%), Russia with \$655.7m (5%) and Greece with \$584.2m (4.4%). Imports from Greece surged by 10.1% year-on-year in the first nine months of 2015 and those from Russia grew by 2%; while imports from Italy dropped by 25.1%, those from France fell by 22.4%, imports from the United States regressed by 22.3%, those from China decreased by 17.7% and those from Germany declined by 2.4% year-on-year.

Further, Saudi Arabia was the main export destination of Lebanese merchandise with \$275.4m or 12.3% of total exports, followed by the UAE with \$230m (10.3%), Iraq with \$171.1m (7.7%), Syria with \$157.7m (7.1%), South Africa with \$149.7m (6.7%), Jordan with \$83.5m (3.7%) and Egypt with \$65.4m (2.9%). Exports to Egypt grew by 20.5% year-on-year in the first nine months of 2015; while exports to South Africa dropped by 41.3% year-on-year, those to Jordan fell by 14.5%, exports to Syria decreased by 12.6%, those to Iraq regressed by 9.7%, exports to Saudi Arabia fell by 5.8% and those to the UAE declined by 1.5%.

Lebanon's main exports were prepared foodstuff with \$363m, or 16.2% of the total, followed by jewelry with \$332.5m (14.9%), chemical products with \$322.4m (14.4%), machinery & mechanical appliances with \$312.4m (14%), base metals with \$238.5m (10.7%), vegetable products with \$128m (5.7%) and paper & paperboard products with \$119m (5.3%). In parallel, re-exports totaled \$366m in the first nine months of 2015 compared to \$313.5m in the same period last year.

Ratings on five banks affirmed, outlook revised to 'negative'

Capital Intelligence affirmed at 'B' the long- and short-term foreign currency ratings of Byblos Bank, Bank Audi, BLOM Bank, Fransabank and Crédit Libanais. It also maintained the financial strength rating (FSR) of Byblos Bank, BLOM Bank and Bank Audi at 'BBB-', and the FSR of Crédit Libanais and Fransabank at 'BB+'. The agency also kept the Support Level of the five banks at '3', reflecting a high probability of sufficient and timely support from the Central Bank.

In parallel, the agency revised the outlook from 'stable' to 'negative' on the long-term foreign currency ratings and the FSR of the five Lebanese banks, in line with its decision last month to revise the outlook on Lebanon's sovereign ratings from 'stable' to 'negative'. It noted that the banks' long- and short-term foreign currency ratings are highly linked to the sovereign's creditworthiness and are constrained by the sovereign ceiling.

The agency said that the banks have adequately managed their balance sheets in the context of sustained elevated credit and geopolitical risks in Lebanon and in the region. But it pointed out that the banks' financial strength remains constrained by the deteriorating operating environment in Lebanon, as well as by their relatively large holdings of government debt.

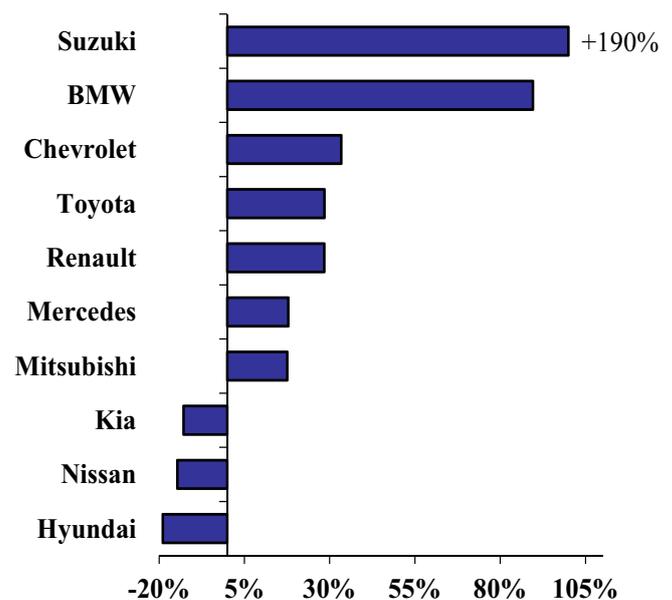
Capital Intelligence noted that the government's reliance on the domestic banking system to finance most of its needs in local and foreign currency makes the economy vulnerable to a shock that would adversely affect the risk appetite of local banks or the confidence of depositors. It considered that 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 continued growth of bank deposits. But it noted that the heavy reliance of external and government financing on the banking sector constitutes one of the main constraints on the sovereign ratings.

New car sales up 2% in first 10 months of 2015

Figures released by the Association of Automobile Importers in Lebanon (AIA) indicate that dealers sold 32,811 new passenger cars in the first 10 months of 2015, constituting a rise of 2.3% from 32,084 cars sold in the same period of 2014. Consumers purchased 2,436 new cars in January, 2,141 automobiles in February, 2,966 cars in March, 3,198 vehicles in April, 3,481 cars in May, 3,825 automobiles in June, 4,241 cars in July, 3,603 vehicles in August, 3,279 automobiles in September and 3,641 cars in October 2015. Japanese automobiles accounted for 38.6% of total sales in the first 10 months of 2015, followed by Korean cars with a 34.6% share, European automobiles (20.3%), American vehicles (5.8%) and Chinese cars (0.7%). The number of American vehicles sold rose by 24.4% year-on-year, sales of Japanese cars grew by 16.7% and European cars sold increased by 14.6%; while the number of new Chinese vehicles sold dropped by 52.5% year-on-year and sales of Korean cars regressed by 15.4%. Kia is the leading brand in the Lebanese market with 6,317 cars sold in the first 10 months of 2015, followed by Toyota with 5,320 in new car sales, Hyundai (4,993), Nissan (3,407), Renault (1,424) and Suzuki (1,182). In parallel, 1,924 new commercial vehicles were sold in the first 10 months of 2015, up marginally by 0.3% from 1,919 vehicles in the same period last year.

The AIA indicated that the slow increase in the sale of new passenger cars during the first 10 months of 2015 is due to the challenging domestic economic, political and security conditions in the country. The AIA reiterated that the majority of new cars sold are small-engine automobiles with a low selling price. The number of new vehicles sold by Lebanon's top five distributors reached 24,259 in the first 10 months of 2015 and accounted for 69.8% of new car sales. NATCO sal sold 6,317 vehicles, equivalent to 18.2% of the total, followed by Boustany United Machineries sal with 5,665 vehicles (16.3%), Century Motor Co. sal with 5,093 (14.7%), Rasamny Younis Motor Co. sal with 3,992 (11.5%) and Bassoul Heneiné sal with 3,192 (9.2%).

Sales of Top 10 Car Brands in First 10 Months
(% change*)



* from the first 10 months of 2014

Source: AIA, Byblos Research

Kafalat loan guarantees down 17% to \$77m in first 10 months of 2015

Figures released by the Kafalat Corporation show that loans extended to small- and medium-size companies under the guarantee of Kafalat reached \$77.4m in the first 10 months of 2015, constituting a decline of 17.4% from \$93.7m in the same period of 2014. Kafalat provided 554 loan guarantees year-to-October 2015, down by 24.3% from 732 guarantees in the first 10 months of 2014. The average loan size reached \$139,678 during the covered period compared to \$128,009 in the first 10 months of last year. Mount Lebanon accounted for 37.9% of the total number of guarantees, followed by the Bekaa with 21.3%, the South with 13%, the North with 12.6%, Nabatieh with 7.9% and Beirut with 7.2%. The agricultural sector accounted for 47.5% of the total number of guarantees, followed by the industrial sector with 35.7%, tourism with 9.9%, handicraft with 3.6% and specialized technologies with 3.3%. Kafalat is a state-sponsored organization that provides financial guarantees for loans of up to \$400,000 earmarked for the setup and expansion of small- and medium-size companies in productive sectors. It guarantees up to 75% of the loan amount and a similar percentage of the interest that accrues during the grace period. It also guarantees up to 90% of the loan amount for innovative start-ups and a similar percentage of the interest that accrues during the grace period.

Balance sheet of financial institutions down 2% in first nine months of 2015

Figures released by the Central Bank show that the consolidated balance sheet of financial institutions in Lebanon reached LBP2,468bn, or \$1.6bn, at the end of September 2015, constituting decreases of 2.3% from end-2014 and of 12.1% from end-September 2014. On the assets side, financial institutions' cash and bank deposits totaled \$641.6m at the end of September 2015, constituting an increase of 10.8% from end-2014 but a drop of 4.1% from end-September 2014. Claims on the private sector reached \$856.2m, increasing by 15.4% from end-2014 and by 0.6% from a year earlier. Also, investments in government securities totaled \$146.4m as at end-September 2015, down by 60.3% from end-2014 and by 58.6% from end-September 2014.

In parallel, liabilities to the private sector totaled \$341.6m, up by 31.6% from the end of 2014 and down by 8.3% from a year earlier; while those to the financial sector reached \$715.6m at the end of September 2015, representing a decrease of 25.6% from a year earlier. Further, the aggregate capital accounts of financial institutions reached \$458m at the end of September 2015, reflecting an increase of 5.6% from the end of 2014 and a rise of 8.1% from a year earlier. There were 55 financial institutions with a total of 73 branches operating in Lebanon as at end-March 2015.

Top five freight forwarders' import activity down 3.5% in first nine months of 2015

Figures released by the Port of Beirut show that overall import shipping operations by the top five freight forwarders through the port reached 253,486 20-foot equivalent units (TEUs) in the first nine months of 2015, constituting a decline of 3.5% from 262,809 TEUs in the same period last year. The top five freight forwarders accounted for 59.6% of the total import freight forwarding market and for 90.1% of imports to the Lebanese market during the covered period. Mediterranean Shipping Company (MSC) handled 89,575 TEUs in imports in the first nine months of 2015, equivalent to a 21.1% share of the total freight forwarding import market. It was followed by Sealine Group with 56,655 TEUs (13.3%), Metz Group with 43,015 TEUs (10.1%), Merit Shipping with 42,712 TEUs (10%) and Gezairy Transport with 21,529 TEUs (5.1%). Further, Metz Group registered the highest growth in import shipping among the top five freight forwarders at 20.1% year-on-year, while Merit Shipping posted the steepest decline at 27.1%.

In parallel, export shipping operations by the top five freight forwarders through the Port of Beirut reached 64,707 TEUs in the first nine months of 2015, constituting an increase of 37% from 47,234 TEUs in the same period last year. The five freight forwarders accounted for 15.4% of the total export freight forwarding market and for 97.6% of exported Lebanese cargo during the first nine months of 2015. Merit Shipping handled 24,225 TEUs of freight in the first nine months of the year, equivalent to 36.5% of the Lebanese cargo export market. It was followed by Metz Group with 16,911 TEUs (25.5%), Sealine Group with 16,276 TEUs (24.5%), MSC with 4,011 TEUs (6%) and Gezairy Transport with 3,284 TEUs (5%). Further, Metz Group registered the highest growth in export shipping among the top five freight forwarders at 125.7% year-on-year, while MSC posted the steepest decline at 1.2%.

Ratio Highlights

(in % unless specified)	2012	2013	2014	Change*
Nominal GDP (\$bn)	41.0	44.2	48.4	
Public Debt in Foreign Currency / GDP	59.4	59.1	52.9	(620)
Public Debt in Local Currency / GDP	81.2	84.6	84.7	13
Gross Public Debt / GDP	140.6	143.7	137.7	(607)
Total Gross External Debt / GDP**	163.9	163.8	165.4	160
Trade Balance / GDP	(40.9)	(38.9)	(35.6)	333
Exports / Imports	21.1	19.1	16.1	(295)
Fiscal Revenues / GDP	22.9	21.3	22.5	116
Fiscal Expenditures / GDP	32.5	30.9	28.9	(204)
Fiscal Balance / GDP	(9.6)	(9.6)	(6.4)	320
Primary Balance / GDP	(0.3)	(0.5)	2.7	325
Gross Foreign Currency Reserves / M2	69.4	69.5	66.5	(299)
M3 / GDP	253.5	251.7	243.4	(838)
Commercial Banks Assets / GDP	370.2	373.3	363.4	(992)
Private Sector Deposits / GDP	304.7	308.5	298.7	(979)
Private Sector Loans / GDP	105.9	107.3	105.3	(204)
Private Sector Deposits Dollarization Rate	64.8	66.1	65.7	(43)
Private Sector Lending Dollarization Rate	77.6	76.5	75.6	(98)

* Change in basis points 13/14

**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, International Monetary Fund, Institute of International Finance, Byblos Research Estimates & Calculations

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

Risk Metrics

Lebanon	Aug 2013	July 2014	Aug 2014	Change*	Risk Level
Political Risk Rating	52.5	52.0	52.0	▲	High
Financial Risk Rating	33.5	38.0	38.0	▼	Low
Economic Risk Rating	28.5	27.0	27.0	▲	High
Composite Risk Rating	57.2	58.5	58.5	▼	High

Regional Average	Aug 2013	July 2014	Aug 2014	Change*	Risk Level
Political Risk Rating	58.2	57.9	57.7	▲	High
Financial Risk Rating	41.3	41.0	40.9	▲	Very Low
Economic Risk Rating	36.2	36.2	36.1	▲	Low
Composite Risk Rating	67.8	67.5	67.3	▲	Moderate

*year-on-year change in risk

Source: The PRS Group, Byblos Research

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

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

Ratings & Outlook

Sovereign Ratings	Foreign Currency			Local Currency		
	LT	ST	Outlook	LT	ST	Outlook
Moody's	B2	NP	Negative	B2		Negative
Fitch Ratings	B	B	Negative	B		Negative
Standard & Poor's	B-	B	Negative	B-	B	Negative
Capital Intelligence	B	B	Negative	B	B	Negative

Source: Rating agencies

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

Source: Rating agencies



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