

## LEBANON THIS WEEK

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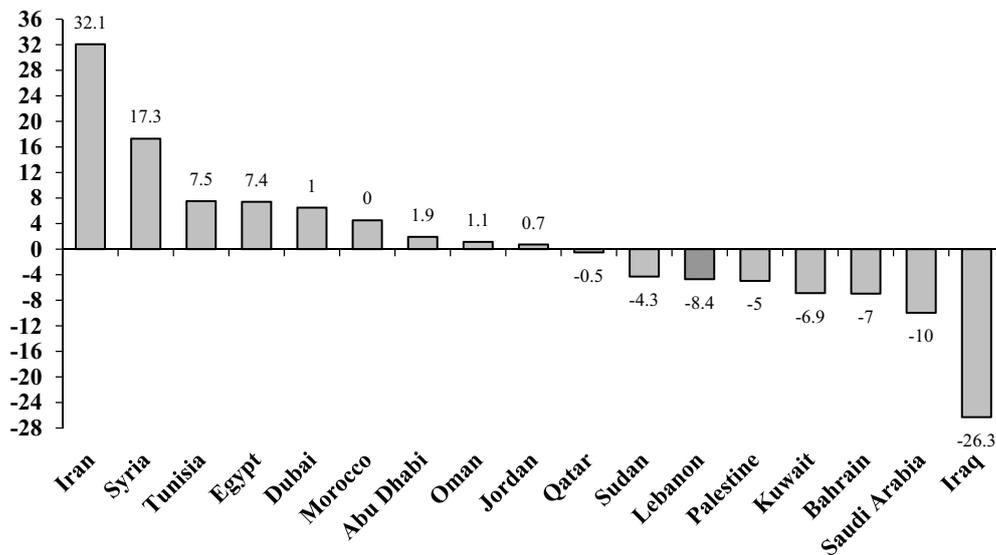
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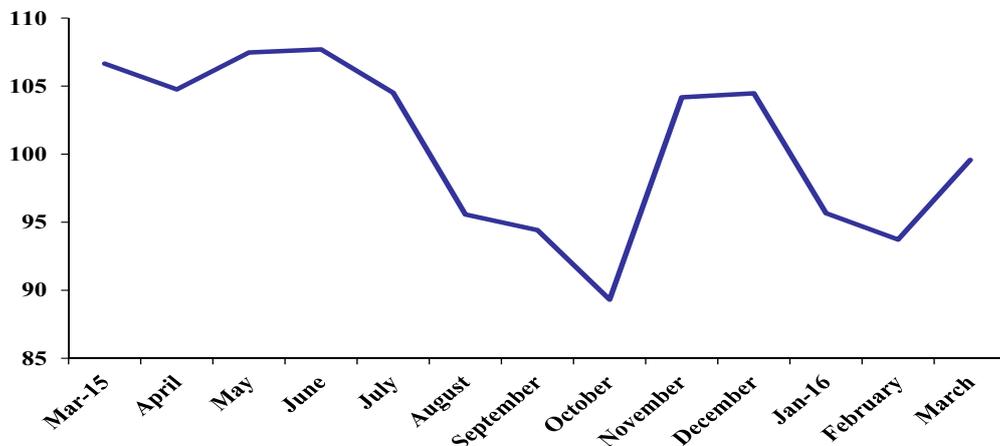
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### Charts of the Week

Performance of MENA Stock Markets in First Quarter of 2016 (% change)



Performance of the Beirut Stock Exchange\*



\* Capital Markets Authority Value Weighted Index, end-of-month values

Source: Local Stock Markets, Dow Jones Indices, Capital Markets Authority, Byblos Bank

### Quote to Note

"The outlook for the Lebanese economy is highly uncertain as long as the political paralysis continues."

*The Institute of International Finance, on the opportunity cost of the presidential vacuum in Lebanon*

### Number of the Week

**37:** Number of times the Lebanese Parliament convened and failed to elect a President since May 2014

## Lebanon in the News

\$m (unless otherwise mentioned)	2014	Dec 2014	Sep 2015	Oct 2015	Nov 2015	Dec 2015	% Change*
Exports	3,313	268	243	261	222	236	(11.94)
Imports	20,494	1,649	1,434	1,467	1,539	1,841	11.64
Trade Balance	(17,181)	(1,381)	(1,191)	(1,206)	(1,317)	(1,605)	16.22
Balance of Payments	(1,408)	(116)	(122)	(396)	(816)	(372)	220.7
Checks Cleared in LBP	18,143	1,599	1,587	1,700	1,507	1,709	6.89
Checks Cleared in FC	56,348	4,692	4,151	4,552	3,987	4,265	(9.10)
Total Checks Cleared	74,491	6,291	5,738	6,252	5,494	5,974	(5.04)
Budget Deficit/Surplus	(3,073)	(48.82)	(619.44)	10.56	(643.40)	(711.58)	1357.7
Primary Balance	1,307	281.94	(121.58)	486.02	(95.30)	(338.61)	-
Airport Passengers***	6,567,647	573,229	750,290	575,660	501,204	616,249	7.50

\$bn (unless otherwise mentioned)	2014	Dec 2014	Sep 2015	Oct 2015	Nov 2015	Dec 2015	% Change*
BdL FX Reserves	32.40	32.40	32.02	33.25	31.77	30.64	(5.45)
<i>In months of Imports</i>	<i>18.97</i>	<i>19.65</i>	<i>22.33</i>	<i>22.67</i>	<i>20.64</i>	<i>16.64</i>	<i>(15.31)</i>
Public Debt	66.57	66.57	68.72	69.05	70.44	70.31	5.62
Bank Assets	175.70	175.70	181.34	182.27	183.18	185.99	5.86
Bank Deposits (Private Sector)	144.43	144.43	149.11	149.36	149.81	151.59	4.96
Bank Loans to Private Sector	50.90	50.90	52.61	52.99	53.22	54.22	6.53
Money Supply M2	48.69	48.69	51.54	51.64	51.75	52.15	7.11
Money Supply M3	117.68	117.68	122.08	122.05	122.45	123.62	5.05
LBP Lending Rate (%)	7.49	7.49	7.08	7.13	6.93	7.45	(4bps)
LBP Deposit Rate (%)	5.56	5.56	5.57	5.67	5.56	5.56	-
USD Lending Rate (%)	6.97	6.97	7.19	7.05	7.15	7.06	9bps
USD Deposit Rate (%)	3.07	3.07	3.14	3.20	3.17	3.17	10bps
Consumer Price Index**	0.59	(1.66)	(0.64)	0.41	(0.17)	1.40	-

\* Year-on-Year \*\* Year-on-Year percentage change

\*\*\*includes arrivals, departures, transit

Note: bps i.e. basis points

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

## Capital Markets

Most Traded Stocks on BSE	Last Price (\$)	% Change*	Total Volume	Weight in Market Capitalization
Audi GDR	6.05	(0.01)	113,086	6.17%
Solidere "A"	10.04	0.03	77,564	8.90%
BLOM GDR	10.90	0.04	45,392	7.14%
Byblos Common	1.70	0.00	40,334	5.42%
Solidere "B"	9.97	0.02	35,268	5.74%
Audi Listed	6.00	(0.04)	2,000	21.26%
BLOM Listed	10.30	0.03	435	19.63%
HOLCIM	14.36	0.00	118	2.48%
Byblos Pref. 08	101.60	0.00	0	1.80%
Byblos Pref. 09	101.40	0.00	0	1.80%

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

Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
Mar 2017	9.000	103.69	5.02
Nov 2018	5.150	99.60	5.31
May 2019	6.000	100.75	5.73
Mar 2020	6.375	101.50	5.94
Apr 2021	8.250	108.88	6.17
Oct 2022	6.100	98.88	6.31
Jun 2025	6.250	97.50	6.62
Nov 2026	6.600	98.75	6.77
Feb 2030	6.650	98.00	6.88
Nov 2035	7.050	99.88	7.06

Source: Byblos Bank Capital Markets

	Mar 29-April 1	Mar 21-24	% Change	March 2016	March 2015	% Change
<b>Total Shares Traded</b>	316,897	631,835	(49.84)	24,416,630	10,015,512	143.79
<b>Total Value Traded</b>	\$2,408,580	\$5,812,863	(58.56)	\$222,416,319	\$74,663,509	197.89
<b>Market Capitalization</b>	\$11.28bn	\$11.26bn	0.2	\$11.34bn	\$11.94bn	(5.06)

Source: Beirut Stock Exchange (BSE)



### Cost of sending remittances from the U.S. increases in first quarter of 2016

Figures issued by the World Bank show that the cost of sending \$500 in remittances from the United States to Lebanon reached 6.53% in the first quarter of 2016, constituting an increase from 5.91% in the fourth quarter of last year and from 5.29% in the first quarter of 2015. The cost includes the transaction fee and exchange rate margin, and represents the average cost of transferring money through commercial banks and money transfer operators (MTOs). In nominal terms, the cost of sending \$500 from the U.S. to Lebanon was \$32.66 in the first quarter of 2016 relative to \$29.55 in the preceding quarter. Lebanon is the sixth most expensive destination for sending \$500 from the U.S. among 37 countries with available data. The World Bank indicated that the average cost of sending \$500 in remittances from the United States through commercial banks to Lebanon was 8.5% and the average cost through MTOs was 4.57% in the first quarter of 2016.

Further, the cost of sending remittances from Canada to Lebanon reached 6.72% in the first quarter of 2016 for a transfer of CAD500, relative to 7.45% in the fourth quarter of 2015 and 7.83% in the first quarter of 2015. In nominal terms, the cost of sending CAD500 from Canada to Lebanon was CAD33.58 in the first quarter of 2016 relative to CAD37.27 in the preceding quarter. Lebanon is the third most expensive destination for sending CAD500 from Canada among 15 countries with available data.

Also, the cost of sending remittances from Australia to Lebanon was 7.99% in the first quarter of 2016 compared to 7.65% in the preceding quarter and 7.59% in the first quarter of 2015. The cost of sending AUD500 from Australia to Lebanon was AUD39.95 in the first quarter of 2016 relative to AUD38.24 in the previous quarter. Lebanon is the fifth most expensive destination for sending AUD500 from Australia among 15 countries with available data.

In parallel, the cost of sending remittances from Germany to Lebanon reached 7.38% in the first quarter of 2016 for a transfer of EUR345, up from 7.11% in the preceding quarter and relative to 7.53% in the first quarter of 2015. In nominal terms, the cost of sending EUR345 from Germany to Lebanon was EUR25.46 in the first quarter of 2016 relative to EUR24.53 in the previous quarter. Lebanon is the second most expensive destination for sending EUR345 from Germany among 22 countries with available data.

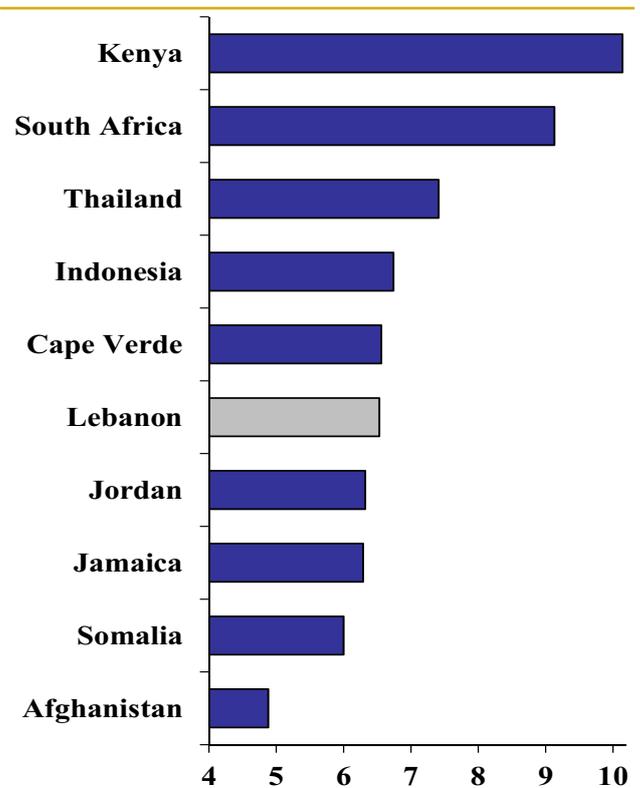
### Stable interest rates and currency markets

In the monthly meeting between the Central Bank and the Association of Banks in Lebanon (ABL), Governor Riad Salamé considered that the domestic currency market is stable and that the Lebanese pound's exchange rate against the US dollar is not at risk. He added that the interest rate market is stable and that the Central Bank is keen to preserve the stability of interest rates in the country. Governor Salamé informed the ABL that the Central Bank is not intervening in the domestic Treasury bills market, given that the Treasury has enough funds in its account at the Central Bank and that domestic banks are subscribing to the sovereign debt at the current market rates. He noted that the stable interest rate environment in the country preserves the stability of the banks' bond portfolios.

Further, Governor Salamé called on Lebanese banks to monitor global financial and monetary developments, especially low or negative interest rates and market volatility. He noted that risks from foreign corporate bonds, including those with high ratings, are related to market instability rather than to credit risks. He pointed out that global markets currently lack market markers, a position that large international banks used to fulfill prior to the global financial crisis. Further, he said that the low interest rate environment in the Eurozone is pushing many European banks to restructure their balance sheets and to alter their business models, with an increased focus on their respective domestic markets. Further, Governor Salamé expected competition for capital to increase among banks in the Middle East, given that some governments are tapping the markets to finance their deficits, which, in turn, could place pressure on interest rates on deposits.

In parallel, Governor Salamé considered that it is crucial for Lebanese banks to develop strong relationships with correspondent banks, especially those in the Europe. He noted that Lebanese banks should continue to increase their commitment to comply with rules and regulations about anti-money laundering and combating the financing of terrorism.

Costliest Destinations of Remittances from the United States\*



\*Cost of sending \$500 from the U.S.

Source: World Bank, Byblos Research

### Lebanon's travel & tourism sector to generate 8.3% of direct economic activity in 2016

The World Travel & Tourism Council (WTTC) estimated that the travel & tourism (T&T) industry would directly contribute \$3.78bn to the Lebanese economy in 2016, equivalent to about 8.3% of GDP, and that direct industry employment will reach 125,900 persons, representing 8.1% of total employment in Lebanon this year. It expected the sector's direct contribution to the economy to grow by 4.8% in real terms in 2016, and its direct contribution to employment to rise by 4.1% this year. It added that, since the T&T industry affects all sectors of the economy, its real direct and indirect impact is more significant. As such, it forecast the sector to generate \$10.38bn or 22.7% of Lebanon's overall economic activity in 2016, including 341,200 jobs or 22% of total employment. It expected the sector's overall contribution to GDP to increase by 5.3% in real terms, and its aggregate contribution to employment to rise by 4.4% in 2016.

The WTTC forecast the direct contribution of the T&T industry to Lebanon's economic activity to rise to \$7.28bn in 2026 in constant 2015 prices, equivalent to 11.2% of GDP; while the broader T&T economy will contribute \$20bn, or 30.6% of GDP by 2026. It projected the T&T industry in Lebanon to grow by 6.8% in real terms annually between 2016 and 2026, compared to real growth rates of 4.9% in the Middle East and 4% globally over the same period. It forecast the T&T industry's direct contribution to grow by 6.8% in real terms yearly during the 2016-26 period compared to real growth rates of 4.9% in the Middle East and of 4.2% in the world. Globally, Lebanon ranks in ninth place in terms of the sector's annualized growth rate over the 2016-26 period and in 10th place in terms of the expected growth of the sector's direct contribution to GDP over the covered period.

Further, the WTTC projected the number of jobs in the T&T direct industry to grow by 4.1% in real terms annually and to reach 188,300 jobs, or about 11.5%, of total jobs in Lebanon by 2026. It also forecast employment in the T&T economy to rise by 4% in real terms annually and to reach 503,100 jobs overall, equivalent to 30.6% of total employment by 2026. In comparison, the WTTC forecast direct industry employment in the Middle East to grow by 3.4% over the 2016-26 period and to account for 3.6% of total employment, while it forecast the T&T economy's employment to grow by 3.4% and to account for 8.4% of the region's total employment. Lebanon ranks in 12th place among 184 countries in terms of the expected growth rate of the sector's total contribution to employment and in 16th place in terms of the industry's direct contribution to employment during the 2016-26 period.

In parallel, the WTTC noted that the T&T industry had a direct contribution of \$3.61bn to the Lebanese economy in 2015, equivalent to 8.1% of GDP, and that direct industry employment reached 120,900 jobs, representing 7.9% of Lebanon's total employment in 2015.

Travel & Tourism contribution in Lebanon (US\$m)			
	2016	2026	Growth*
Visitors Exports	7,157	12,496	5.7%
Leisure Spending	7,712	13,182	5.5%
Domestic Spending	1,730	2,894	5.3%
Business Spending	1,175	2,207	6.5%
Capital Investment	1,353	2,467	6.2%
T&T Direct Contribution to GDP	3,781	7,279	6.8%
T&T Total Contribution to GDP	10,379	19,968	6.8%
T&T Direct Employment**	125.9	188.3	4.1%
T&T Economy Employment**	341.2	503.1	4.0%

\*real annualized growth rate over 2016-2026

\*\*thousands of jobs

Source: World Tourism & Travel Council

### Central Bank's foreign assets down 1% to \$37bn in first quarter of 2016

The Central Bank's interim balance sheet totaled \$94.6bn at the end of March 2016, constituting increases of 4% from \$90.9bn at end-2015 and of 6.5% from \$88.8bn at the end of March 2015. Assets in foreign currency reached \$36.6bn at the end of March 2016, reflecting decreases of 1.3% from \$37.1bn at end-2015 and of 4.9% from \$38.5bn at end-March 2015. Assets in foreign currency regressed by \$74.6m in January and by \$581.4m in March, while they rose by \$156.5m in February 2016. This resulted in an aggregate decrease of \$499.5m in the first quarter of 2016. In comparison, the Central Bank's assets in foreign currency increased by \$1bn in the first quarter of 2014 and by \$612.4m in the first quarter of 2015.

In parallel, the value of the Central Bank's gold reserves rose by 15.6% from the end of 2015 and by 4.1% year-on-year to \$11.4bn. The value of gold reserves reached a peak of \$16.7bn at the end of August 2011. Also, the securities portfolio of the Central Bank grew by 9.2% in the first quarter of 2016 to \$19.7bn. Further, deposits of the financial sector reached \$75.7bn at the end of March 2016 and grew by \$1.4bn, or by 1.9%, from the end of 2015 and by \$6.4bn, or 9.2% from end-March 2015. In comparison, public sector deposits totaled \$5bn at the end of March 2016 and regressed by \$432.1m, or 8%, from end-2015, while they contracted by \$2.7bn or 35.5% year-on-year.



### **Public finance imbalances need to be addressed before recovery of hydrocarbon prices**

Citi indicated that Lebanon's fiscal and current account deficits continue to be wide despite the positive impact of the drop in global oil prices on the fuel import bill and on Treasury transfers to the state-owned and money-losing Electricité du Liban (EdL). It estimated that lower hydrocarbon prices reduced Lebanon's imports and EdL's losses by about 40% since mid-2013.

Citi estimated that the drop in oil prices has reduced Lebanon's fuel import bill by more than 4% of GDP between 2013 and 2015, which has narrowed the current account deficit by about 3% of GDP in 2015. But it noted that the current account deficit is still around 23% of GDP. It attributed the wide deficit to the non-trade items in the current account, given that the drop in imports has offset the fall in exports in the trade balance. As such, it noted that net current transfers, which include remittance inflows, have regressed by the equivalent of 3% of GDP, while the services balance has contracted by more than 5% of GDP since the first quarter of 2011. In addition, it indicated that "ordinary" financial inflows, such as FDI and portfolio inflows, have decreased significantly since 2011. It added that FDI in Lebanon reached 3% of GDP in mid-2015, equivalent to about 25% of its average level prior to the onset of the Syrian conflict. However, it noted that "exceptional" financing items, such as the capital account and reserve assets, which largely reflect the impact of foreign grants and domestic reserve management operations, have prevented the balance of payments from deteriorating further.

Further, Citi estimated the drop in oil prices to have reduced the Treasury transfers to EdL by about 2% of GDP in 2015. Still, it noted that the fiscal deficit widened from 6.6% of GDP in 2014 to 8.7% of GDP in 2015, and deteriorated from 2.1% of GDP in 2014 to 6.2% of GDP in 2015 when excluding transfers to EdL. It attributed the deterioration in the fiscal balance to a decline of 2% of GDP in public revenues last year from the subdued economic activity and the one-off telecom receipts in 2014 that inflated non-tax revenues that year. It added that the widening deficit in 2015 reflects in part a 2% rise in public spending, mainly in primary spending.

In parallel, Citi considered that most of the benefits from lower oil prices could reverse if global hydrocarbon prices recover. It estimated that Lebanon's hydrocarbon imports bill could increase significantly in 2017 in case oil prices grow from a projected average of \$40 p/b this year to \$60 p/b in 2017. It expected this increase to have a negative impact on the country's current account and fiscal deficits in the context of deteriorating fundamentals. As such, it considered that the implementation of reforms could help address the country's wide fiscal and current account deficits. It noted that this would include energy, fiscal, administrative and economic reforms, in addition to progress on the exploration of oil and gas. However, it did not expect a significant improvement in governance over the near term. It also expected the policy-making environment to remain weak, the fiscal slippage to continue and the external imbalance to remain significant. In this context, it said that the financial sector will continue to be the anchor of financial and economic stability in the country.

### **Lebanon signs financing agreements for development projects**

The Council for Development & Reconstruction signed with the Islamic Development Bank (IDB) five financing agreements worth \$372.7m to fund infrastructure development projects across Lebanon. The first loan earmarks \$128m to a project that will supply Greater Beirut and Mount Lebanon with about 12 million cubic meters of drinking water per year through the Bisri Dam. Also, the project involves the construction of a hydroelectric plant with a capacity of 12 megawatts per hour and a station that treats 25,000 cubic meters of water per day. The second credit facility totals \$87.5m and will go toward rehabilitating the Ghadir wastewater treatment plant and increasing its capacity from 50,000 cubic meters per day to 140,000 cubic meters per day. The third lending facility of about \$61m is earmarked for the construction of a water supply system that would secure uninterrupted drinking water to the citizens of Jabal Amel in southern Lebanon. In addition, the fourth loan of \$26.7m will finance the fifth stage of the southern coastal road project that aims to improve transportation between Beirut and the South. Further, the fifth credit facility of \$69.5m is allocated for the completion of a seven-kilometer northern highway in Tripoli.

In parallel, the U.S. government, through the United States Agency for International Development (USAID), launched a new project to support the water sector in Lebanon in partnership with the Ministry of Energy & Water. The five-year \$65m Lebanon Water Project (LWP), in collaboration with the potable water and wastewater authorities of Beirut & Mount Lebanon, the Bekaa, the North, the South, and the Litani River Authority, intends to increase access to clean and sustainable drinking water for Lebanese citizens. The LWP plans to develop the efficiency and sustainability of the five water utilities, and to improve Lebanon's capacity in managing its water resources. The U.S. government, through USAID, has already contributed over \$180m to the Lebanese water sector over the past 15 years.

Further, the World Bank announced a \$100m concessional loan aimed at supporting the Lebanese government's plan to improve the quality of education in the country and to expand school access to Syrian children in Lebanon. It noted that this is an exceptional arrangement as the financing terms are usually limited to low-income countries. In addition, the World Bank, the United Nations and the IDB have jointly supported a new initiative to raise additional financing that would assist Lebanon and other countries in the Middle East & North Africa region cope with the immediate consequences of the Syrian conflict.



### Occupancy rate at Beirut hotels at 55%, room yields down 14% in first two months of 2016

EY's benchmark survey of the hotel sector in the Middle East indicated that the average occupancy rate at hotels in Beirut was 55% in the first two months of 2016, up from 53% in the same period of 2015 and compared to an average rate of 63.6% in 14 Arab markets included in the survey. The occupancy rate at Beirut hotels was the fifth lowest in the region in the first two months of 2016, unchanged from its rank in the same period of 2015. Kuwait City posted the lowest occupancy rate of 41% in the first two months of 2016, followed by Amman (45%), Makkah (52%) and Manama (54%). Also, the occupancy rate at hotels in Beirut rose by two percentage points year-on-year, constituting the fourth highest increase among the 14 Arab markets, and relative to an average drop of 1.6 percentage points for the region. Occupancy rates at Beirut hotels were 53% in January and 57% in February 2016, compared to 50% in January and 56% in February 2015.

The average rate per room at Beirut hotels was \$142 in the first two months of 2016, ranking the capital's hotels as the second least expensive in the region relative to Cairo (\$104). The average rate per room at Beirut hotels regressed by 16.7% year-on-year and posted the second steepest drop among all markets in the region, behind only Abu Dhabi (-22.2%). The average rate per room in Beirut came below the regional average of \$195.5, which decreased by 4.7% from the same period of 2014.

Further, revenues per available room (RevPAR) were \$79 in Beirut in the first two months of 2016, down from \$92 in the same period of 2015. They were the third lowest in the region, higher than in Amman (\$67) and Cairo (\$66). Beirut's RevPAR decreased by 14.3% year-on-year and posted the fourth steepest decline among Arab markets, relative to contractions of 25.5% in Abu Dhabi, 22.1% in Doha and 15.3% in Makkah. Beirut posted RevPARs of \$79 in January and \$78 in February 2016, compared to \$92 in January and \$91 in February 2015. Further, Dubai posted the highest average rate per room in the region at \$290, the highest occupancy rate at 86% and the highest room yield at \$250 in the first two months of 2016.

### Value of real estate transactions up 41% to \$1.4bn in first two months of 2016

Figures released by the Ministry of Finance indicate that there were 9,460 real estate transactions in the first two months of 2016, constituting an increase of 25.6% from 7,531 deals in the same period of 2015. In comparison, the number of real estate transactions dropped by 26.7% in the first two months of 2015. In parallel, there were 1,956 real estate transactions in the Baabda area during the first two months of 2016 and represented 21.5% of the total. The North followed with 1,646 transactions (18.1%), then the Zahlé region with 1,080 (11.9%), the Kesrwan area with 1,040 (11.5%), the Metn district with 948 (10.4%), the South with 940 (10.4%), Nabatieh with 893 (9.8%) and Beirut with 575 (6.3%).

Also, the aggregate value of real estate transactions reached \$1.4bn in the first two months of 2016 and increased by 40.6% from \$1bn in the same period of 2015. In comparison, the value of real estate deals totaled \$1.38bn in the first two months of 2014. The value of real estate transactions in Beirut reached \$426.3m and accounted for 32.4% of the total, followed by Baabda with \$283.8m (21.6%), the Metn region with \$187.9m (14.3%), the Kesrwan area with \$130.9m (10%), the South with \$114.5m (8.7%), the North with \$98.3m (7.5%), Zahlé with \$41m (3.1%) and Nabatieh with \$32.5m (2.5%).

In parallel, the average value per real estate transaction was \$149,058 in the first two months of 2016, up by 11.9% from an average value of \$133,202 in the same period of 2015 and relative to \$134,661 in the first two months of 2014. Further, there were 165 real estate transactions executed by foreigners in the first two months of 2016, which constitutes a decrease of 9.3% from 182 deals in the same period of 2015, compared to an annual increase of 21.3% in the first two months of 2015 and a growth of 0.7% in the same period of 2014. The number of real estate transactions by foreigners accounted for 1.7% of total real estate deals in the first two months of 2016 compared to 2.4% of deals in the same period of 2015 and to 1.5% of deals in the first two months of 2014. In parallel, 30.2% of real estate transactions by foreigners were in the Baabda district during the first two months of 2016, followed by Beirut (20.4%), the Keserwan area (13%), the South (12.3%), the Metn region (10.5%), Nabatieh (6.2%), Zahlé (4.9%) and the North (2.5%).

### Hotel Sector Performance in First Two Months of 2016

	Occupancy Rate (%)	RevPAR (US\$)	RevPAR % change
Dubai	86	250	(10.7)
Muscat	75	168	(13.9)
Jeddah	68	167	(8.2)
Doha	70	158	(22.1)
Riyadh	66	135	(8.7)
Madina	67	134	(6.5)
Abu Dhabi	81	117	(25.5)
Kuwait City	41	116	(1.6)
Ras Al Khaimah	67	107	19.0
Manama	54	103	0.8
Makkah	52	93	(15.3)
<b>Beirut</b>	<b>55</b>	<b>79</b>	<b>(14.3)</b>
Amman	45	67	(13.9)
Cairo City	63	66	35.3

Source: EY, Byblos Research

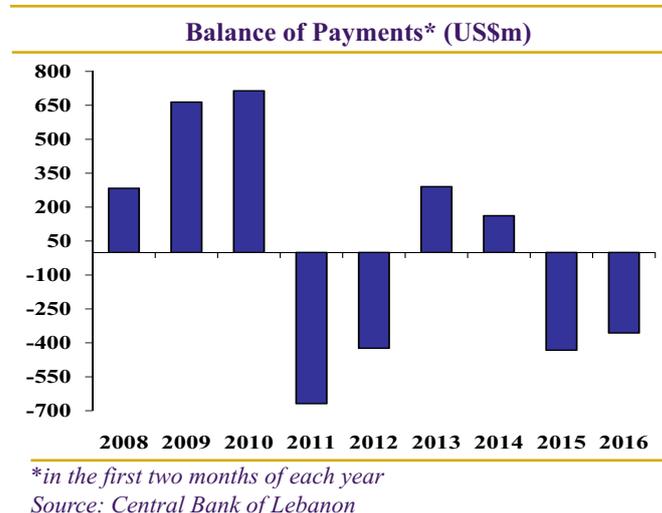
### Consumer Price Index down 3% in first two months of 2016

The Central Administration of Statistics' Consumer Price Index declined by 3% in the first two months of 2016 from the same period of 2015. Also, the CPI decreased by 2.9% in February 2016 from February 2015. The prices of water, electricity, gas & other fuels fell by 16.5% year-on-year in the covered period, followed by transportation costs (-4.8%), healthcare costs (-4.1%), prices of food & non-alcoholic beverages (-2.1%), recreation & entertainment (-1%), and the cost of furnishings & household equipment and communication (-0.4% each). In contrast, the prices of clothing & footwear rose by 3.2% year-on-year in February 2016, followed by prices at restaurants & hotels (+3%), the cost of education (+1.5%), actual rents (+1.4%), imputed rents and miscellaneous goods & services (+1.3% each), and alcoholic beverages & tobacco (+0.6%). The distribution of actual rent shows that new rents grew by 1.4% annually in the first two months of 2016, while old rents increased by 1.3% from the same period of 2015.

Further, the CPI increased by 0.3% in February 2016 from the preceding month, relative to a month-on-month decline of 1.5% in January 2016. The cost of clothing & footwear rose by 13.3% month-on-month, followed by prices at restaurants & hotels (+1.1%), recreation & entertainment (+0.7%), communication costs (+0.6%), healthcare costs (+0.4%), imputed and actual rents (+0.2% each) and alcoholic beverages & tobacco (+0.1%). In contrast, prices of furnishings & household equipment dropped by 1.5% from the preceding month, followed by prices of food & non-alcoholic beverages (-0.9%), transportation costs and miscellaneous goods & services (-0.6% each) and the prices of water, electricity, gas & other fuels (-0.2%). Further, the cost of education was unchanged month-on-month in February 2016.

### Balance of payments posts deficit of \$356m in first two months of 2016

Central Bank figures show that Lebanon's balance of payments posted a deficit of \$356.3m in the first two months of 2016 compared to a deficit of \$432.8m in the same period of 2015. The balance of payments posted a surplus of \$362.6m in February 2016 compared to deficits of \$718.9m in January 2016 and of \$152.6m in February 2015. The February 2016 surplus was caused by an increase of \$200.9m in the net foreign assets of banks and financial institutions, and a rise of \$161.7m in those of the Central Bank. The cumulative deficit over the first two months of 2016 was caused by a deficit of \$562.8m in the net foreign assets of banks and financial institutions that was partly offset by a surplus of \$206.5m in those of the Central Bank. The balance of payments posted surpluses of \$7.9bn in 2009 and \$3.3bn in 2010, and deficits of \$2bn in 2011, \$1.5bn in 2012, \$1.1bn in 2013, \$1.4bn in 2014 and \$3.4bn in 2015.



### Number of new construction permits up 27%, surface area up by 12% in first two months of 2016

The Orders of Engineers & Architects of Beirut and of Tripoli issued 2,505 new construction permits in the first two months of 2016, constituting an increase of 27.2% from 1,969 permits in the same period of 2015 and relative to a drop of 26.7% year-on-year in the first two months of 2015. Mount Lebanon accounted for 38.7% of newly-issued construction permits in the first two months of 2016, followed by South Lebanon with 20.6%, Nabatieh with 15.3%, the Bekaa with 10.4%, the North with 9.5% and Beirut with 3.6%. The remaining 1.8% represent permits issued by the Order of Engineers & Architects of Tripoli for regions located outside northern Lebanon. The number of new construction permits issued for the Nabatieh region rose by 54.4% year-on-year in the first two months of 2016, followed by permits for the Bekaa region (+52.6%), the South (+51.9%), the North (+22.6%) and Mount Lebanon (+14.1%). In contrast, the number of new construction permits issued for Beirut dropped by 29.5% year-on-year in the first two months of 2016; while permits issued for regions located outside northern Lebanon grew by 24.3% year-on-year.

Further, the surface area of granted construction permits in the first two months of 2016 reached 2,045,099 square meters (sqm), reflecting a rise of 12% from the same period last year. In comparison, the surface area of granted construction permits dropped by 18% year-on-year in the first two months of 2015. Mount Lebanon accounted for 1,012,808 sqm, or 49.5% of the total in the first two months of 2016. The South followed with 289,994 sqm (14.2%), the North with 243,846 sqm (11.9%), the Bekaa with 194,003 sqm (9.5%), Nabatieh with 172,341 sqm (8.4%), and Beirut with 42,916 sqm (2.1%). The remaining 89,191 sqm, or 4.4% of the total, 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 the Bekaa region grew by 37.5% year-on-year in the covered period, followed by the South (+34%), Nabatieh (+18%), the North (+15.5%) and Mount Lebanon (+8.2%). In contrast, the surface area of construction permits issued for Beirut decreased by 55.1% annually; while the surface area of granted construction permits for regions located outside northern Lebanon grew by 11% year-on-year. In parallel, cement deliveries totaled 251,000 tons in January 2016, constituting a decrease of 4.6% from the same month of 2015 and relative to a drop of 39% in January 2015.

### **Compensation of public-sector personnel up 8% in first eight months of 2015, absorbs 36% of fiscal spending**

Figures issued by the Ministry of Finance show that the compensation of public-sector personnel totaled \$3.1bn in the first eight months of 2015, constituting an increase of 7.9% from \$2.9bn in the same period of 2014. Salaries, wages and related benefits accounted for 65% of the total in the first eight months of the year, followed by retirement benefits (24.7%), transfers to public institutions to cover salaries (5.7%) and end-of-service indemnities (4.6%). The increase in the compensation of public-sector personnel reflects a rise in salaries, wages & related benefits (+5.4%), retirement benefits (+4.8%), transfers to public institutions (+50%), and end-of-service indemnities (+26.5%). The compensation of public-sector personnel represented the largest component of total primary spending and accounted for 66% of such expenditures in the first eight months of 2015, compared to 56% in the same period of 2014. Also, the compensation of public-sector personnel absorbed 36% of total fiscal spending in the covered period, up from 32% in the same period of 2014.

In parallel, salaries, wages and related benefits paid to public-sector employees totaled \$2bn in the first eight months of 2015, constituting an increase of 5.3% from the same period of 2014. This category includes basic salaries, employment benefits, allowances, contributions to civil servants' cooperatives, as well as contributions to other mutual funds providing health insurance for specific categories of civil servants, mainly judges, religious judges and employees at the Parliament.

Salaries and benefits of military personnel reached \$1.3bn and accounted for 63.2% of salaries, wages and related benefits paid in the public sector during the first eight months of 2015, followed by public education personnel with \$397.3m (19.8%), civil staff with \$202.3m (10.1%), the government's contribution to the employees' cooperative with \$123.4m (6.2%) and customs employees with \$15.9m (0.8%). Also, the Lebanese Army's salaries totaled \$791.4m in the first eight months of 2015 and represented 62.5% of military personnel's salaries and benefits. They were followed by the salaries of the Internal Security Forces with \$361.5m (28.6%), those of the General Security Forces with \$88.2m (7%) and the State Security Forces with \$24.5m (1.9%).

The overall increase in salaries, wages and related benefits paid to public-sector employees reflects a rise of \$45.8m in basic salaries, an increase of \$31.8m in other payments given to non-military bodies, such as bonuses, a growth of \$22.6m in allowances and a rise of \$1.3m in employment benefits. The increase in allowances was allocated in full to military personnel. Overall, basic salaries grew by 3.2% year-on-year to \$1.5bn in the first eight months of 2015, allowances increased by 8.8% to \$279.3m, other payments rose by 26.7% to \$151.2m and employment benefits increased by 1.4% to \$93.5m.

### **Byblos Bank announces dividends for 2015, invites shareholders to General Assembly**

The Board of Directors of Byblos Bank sal announced that it will propose to the Annual Ordinary General Assembly the distribution of LBP200 (\$0.13) in dividends per share to holders of common shares, and of \$8 (LBP12,060) per share to the holders of Preferred Shares Class 2008 and Preferred Shares Class 2009. Also, the Bank plans to pay in US dollars the equivalent of LBP200 per share to GDR holders through the Bank of New York Mellon. Upon the General Assembly's approval, the dividends on common and preferred shares will be paid starting on May 5, 2016 net of a 5% withholding tax, while those on GDRs will be disbursed starting on May 10, 2016 after deducting the withholding tax and other expenses. Byblos Bank's share capital consists of 565,515,040 common shares, 2,000,000 Class 2008 Preferred Shares and 2,000,000 Class 2009 Preferred Shares.

In parallel, the Board of Directors of Byblos Bank sal invited the Bank's shareholders to attend the Annual General Assembly on April 26, 2016. The agenda of the meeting includes examining the Board of Directors' and the auditors' general reports for 2015, approving the financial statements of fiscal year 2015, granting clearance to the Chairman and Board members for their administrative duties during 2015, and determining the remuneration of the auditors and the emoluments of the Board members and members of Board Committees for 2016.

Byblos Bank declared unaudited consolidated net profits of \$160.6m in 2015 relative to \$175.5m in 2014. Total assets reached \$19.9bn at the end of 2015 and grew by 4.4% from \$19bn at end-2014. Also, net loans & advances to customers totaled \$4.91bn at the end of 2015, up by 4.3% from \$4.7bn a year earlier. The Bank's net non-performing loans, or NPLs net of specific provisions and reserved interest, were equivalent to 1.3% of net loans at the end of 2015. Also, the NPL coverage ratio, including collective provisions, was 109.8% at the end of 2015. The Bank's customer deposits totaled \$16.36bn at the end of 2015, up by 5.5% from the end of 2014. Byblos Bank maintained strong financial buffers in 2015 to mitigate unexpected risks and to counter economic volatility. The Bank's capital adequacy ratio stood at 17.6% at the end of June 2015 according to Basel III criteria, which is significantly above the minimum regulatory requirement of 12% for 2015 and one of the highest such ratios in the Lebanese banking sector.

### **Stock market activity up 22% to \$304m in first quarter of 2016**

Figures released by the Beirut Stock Exchange (BSE) indicate that the trading volume reached 33.86 million shares in the first quarter of 2016, constituting a decrease of 2.8% from 34.82 million shares traded in the same quarter of 2015; while aggregate turnover amounted to \$303.8m, up by 21.6% from a turnover of \$249.8m in the first quarter of 2015. Market capitalization regressed by 5.1% from the end of March 2015 to \$11.34bn, with banking stocks accounting for 81.9% of the total, followed by real estate shares (15.1%), industrial firms (2.7%) and trading stocks (0.3%). The market liquidity ratio was 2.7% in the covered quarter compared to 2.1% in the first quarter of 2015. Banking stocks accounted for 92.2% of aggregate trading volume in the first quarter of the year, followed by real estate equities with 7.7% and industrial shares with 0.1%. Also, banking stocks represented 91.3% of the aggregate value of shares traded, followed by real estate equities with 8.5% and industrial stocks with 0.2%. The average daily traded volume for the period was 564,290 shares for an average daily value of \$5.1m. The figures reflect a decrease of 1.1% in volume and an increase of 23.6% in value year-on-year. In parallel, the Capital Markets Authority's Market Value-Weighted Index for stocks traded on the BSE decreased by 4.7% in the first quarter of 2016, while the Capital Markets Authority's Banks Market Value-Weighted Index improved by 4% in the covered quarter.

### **A.M. Best affirms ratings of Arabia Insurance, revises outlook to 'negative'**

Insurance rating agency A.M. Best affirmed the issuer credit rating (ICR) of Arabia Insurance Company sal (AIC) at 'bbb+' and its financial strength rating (FSR) at 'B++' (good). It said that AIC's ratings reflect the company's adequate level of risk-adjusted capitalization and a well-diversified business profile. In parallel, the agency kept the 'stable' outlook on the FSR, while it revised the outlook on the ICR from 'stable' to 'negative'. It attributed the outlook revision to the deterioration in the company's underwriting practice in recent years and to its volatile investment performance, which placed pressure on AIC's risk-adjusted capitalization. It added that the 'negative' outlook reflects the insurer's concentrated investment portfolio and the high level of economic and political risks associated with operating in Lebanon.

In parallel, A.M. Best indicated that AIC's risk-adjusted capitalization weakened due to the subdued performance of the motor portfolio over the past three years and due to substantial fair value losses at the company's affiliate, Arabia Insurance Cooperative Company (AICC). The agency expects AIC's risk-adjusted capitalization to remain dependent on future income retention and on fluctuations in the market value of AICC. It said that AIC's 19% equity stake in AICC has added significant volatility to its capital position and that the insurer could face reputational risks in case AICC's financial position deteriorates. Further, A.M. Best noted that the company adopted a remedial program in 2015 to improve its underwriting performance, which includes non-renewal of loss-making contracts and the introduction of data-driven pricing tools. However, it estimated that AIC generated a non-life combined ratio in excess of 100% in 2015, which means that the company paid claims more than it received in premiums.

Established in 1944, AIC is active in the non-life and life segments in Bahrain, Jordan, Kuwait, Lebanon, Oman, Qatar, Saudi Arabia, Syria and the UAE. Figures from *Al-Bayan* magazine's annual survey of the insurance sector in Lebanon show that the firm's non-life premiums dropped by 7.4% to \$20.65m in 2015. It had a 1.9% share of the local non-life insurance market in 2015 and ranked in 16th place. In parallel, the firm's life premiums amounted to \$2.33m in 2015, down by 5.3% from the preceding year. It had a 0.5% share of the local life market in 2015 and ranked in 20th place.

## Ratio Highlights

(in % unless specified)	2013	2014	2015	Change*
Nominal GDP (\$bn)	47.2	49.4	50.9	
Public Debt in Foreign Currency / GDP	55.3	51.9	53.2	134
Public Debt in Local Currency / GDP	79.1	83.0	85.0	203
Gross Public Debt / GDP	134.4	134.8	138.2	337
Total Gross External Debt / GDP**	163.8	165.1	162.4	(270)
Trade Balance / GDP	(36.6)	(34.8)	(29.7)	512
Exports / Imports	18.5	16.2	16.6	41
Fiscal Revenues / GDP	19.9	22.0	18.8	(322)
Fiscal Expenditures / GDP	28.9	28.3	26.6	(167)
Fiscal Balance / GDP	(8.9)	(6.2)	(7.8)	(154)
Primary Balance / GDP	(0.5)	2.6	1.4	(122)
Gross Foreign Currency Reserves / M2	69.5	66.5	58.7	(780)
M3 / GDP	235.4	238.4	243.0	462
Commercial Banks Assets / GDP	349.0	355.9	365.6	968
Private Sector Deposits / GDP	288.4	292.6	298.0	540
Private Sector Loans / GDP	100.3	103.1	106.6	348
Private Sector Deposits Dollarization Rate	66.1	65.7	64.9	(83)
Private Sector Lending Dollarization Rate	76.5	75.6	74.8	(73)

\* Change in basis points 14/15

\*\*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	Apr 2014	Mar 2015	Apr 2015	Change**	Risk Level
Political Risk Rating	52.0	54.5	55.0	▼	High
Financial Risk Rating	38.0	39.0	39.0	▼	Low
Economic Risk Rating	27.0	33.0	33.0	▼	Moderate
Composite Risk Rating	58.5	63.25	63.5	▼	Moderate

MENA Average*	Apr 2014	Mar 2015	Apr 2015	Change**	Risk Level
Political Risk Rating	58.0	57.9	57.2	▲	High
Financial Risk Rating	40.4	39.6	39.4	▲	Low
Economic Risk Rating	35.7	34.4	33.9	▲	Moderate
Composite Risk Rating	67.0	65.9	65.3	▲	Moderate

\*excluding Lebanon

\*\*year-on-year change in risk

Source: The PRS Group, Byblos Research

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

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

## Ratings & Outlook

Sovereign Ratings	Foreign Currency			Local Currency		
	LT	ST	Outlook	LT	ST	Outlook
Moody's	B2	NP	Negative	B2		Negative
Fitch Ratings	B	B	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



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