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LEBANON THIS WEEK

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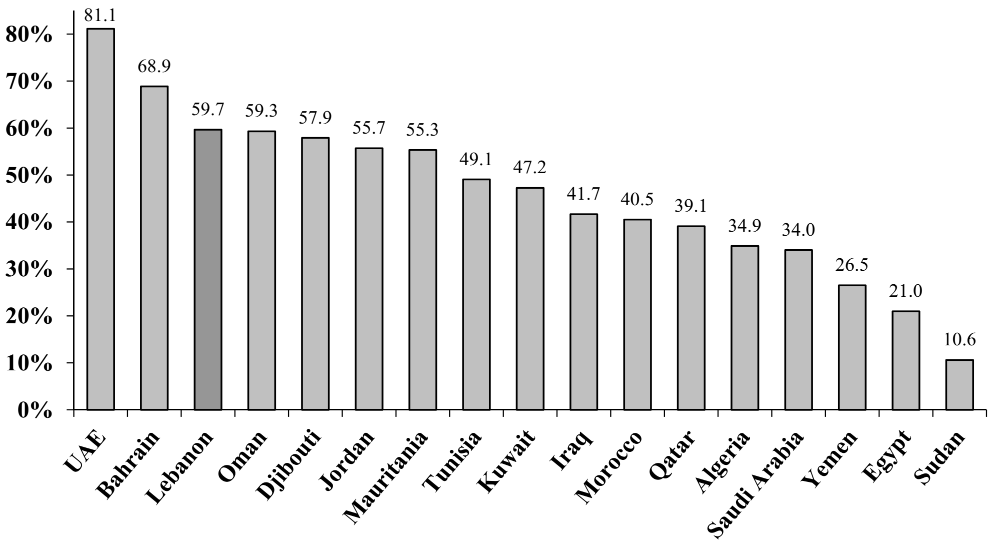
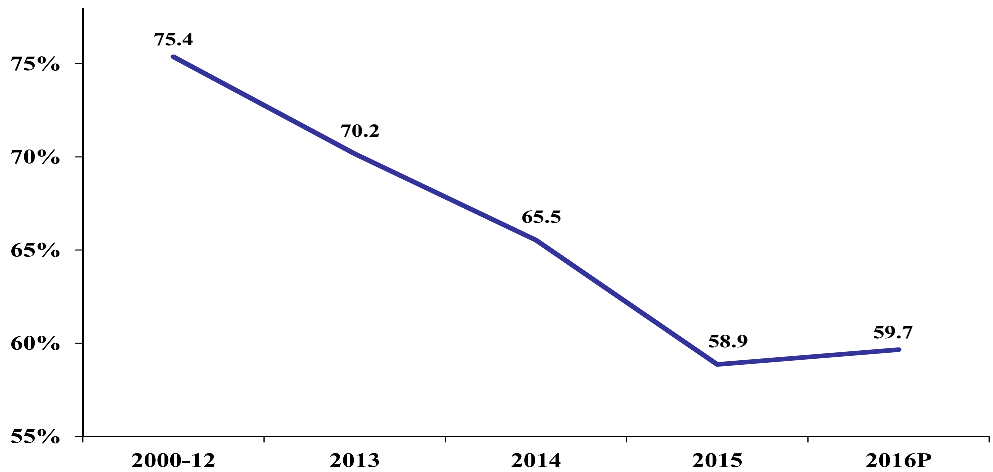
Charts of the Week

Projected Imports of Goods & Services to Arab Countries in 2016 (% of GDP)



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



** Source: International Monetary Fund - October 2016, Institute of International Finance, Byblos Research*

Quote to Note

"Lebanon needs a sustained fiscal adjustment effort to bring down its high public debt-to-GDP ratio."

The Institute of International Finance, on the urgency of implementing structural reforms to reduce the government's borrowing needs

Number of the Week

135: Lebanon's rank out of 138 countries in terms of wasteful government spending, according the World Economic Forum's Global Competitiveness Index for 2016-2017

Lebanon in the News

$m *(unless otherwise mentioned)*	2015	Jun 2015	Mar 2016	Apr 2016	May 2016	Jun 2016	% Change*
Exports	2.952	281	220	237	237	274	(2.49)
Imports	18,069	1,690	1,750	1,610	1,629	1,533	(9.29)
Trade Balance	(15,117)	(1,409)	(1,530)	(1,373)	(1,392)	(1,259)	(10.65)
Balance of Payments	(3,354)	(794)	(288)	(225)	(862)	(13)	(98.36)
Checks Cleared in LBP	18,714	1,593	1,609	1,698	1,591	1,577	(1.00)
Checks Cleared in FC	50,845	4,504	3,983	3,959	4,018	4,076	(9.50)
Total Checks Cleared	69,559	6,097	5,592	5,657	5,609	5,653	(7.28)
Budget Deficit/Surplus	(3,952)	(64.56)	(713.34)	(192.17)	(40.18)	(263.20)	307.7
Primary Balance	724.40	289.34	(156.28)	249.64	542.95	103.48	(64.24)
Airport Passengers***	7,241,463	594,221	534,954	557,763	618,581	572,461	(3.66)

$bn *(unless otherwise mentioned)*	2015	Jun 2015	Mar 2016	Apr 2016	May 2016	Jun 2016	% Change*
BdL Gross FX Reserves	30.64	34.11	30.37	31.16	32.03	33.20	(2.68)
In months of Imports	*20.35*	*20.18*	*17.35*	*19.36*	*19.66*	*21.65*	7.29
Public Debt	70.31	69.03	71.05	71.68	71.49	72.89	5.59
Bank Assets	185.99	180.08	187.66	187.92	188.63	190.36	5.70
Bank Deposits (Private Sector)	151.59	148.58	152.44	152.93	153.89	154.66	4.09
Bank Loans to Private Sector	54.22	51.74	55.06	55.20	55.52	55.88	8.00
Money Supply M2	52.15	50.59	52.52	52.79	52.98	53.25	5.25
Money Supply M3	123.62	120.44	124.51	125.11	125.65	126.38	4.94
LBP Lending Rate (%)****	7.45	7.12	8.62	8.40	8.53	8.31	-
LBP Deposit Rate (%)	5.56	5.51	5.59	5.60	5.58	5.56	5bps
USD Lending Rate (%)	7.06	7.03	7.36	7.17	7.29	7.20	17bps
USD Deposit Rate (%)	3.17	3.16	3.27	3.29	3.26	3.31	15bps
Consumer Price Index**	(3.75)	(3.37)	(3.57)	(2.35)	(2.45)	(0.98)	239bps

** 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
Audi Listed	6.40	1.59	375,349	21.58%
Solidere "A"	11.35	(4.14)	160,552	9.57%
BLOM GDR	10.60	0.95	84,915	6.61%
BLOM Listed	10.10	1.00	49,786	18.32%
Solidere "B"	11.38	(3.07)	38,588	6.24%
Audi GDR	6.58	2.17	20,000	6.66%
HOLCIM	15.33	(2.97)	11,246	2.52%
Byblos Pref. 09	102.10	0.49	3,810	1.72%
Byblos Common	1.67	1.21	2,672	5.06%
Byblos Pref. 08	101.20	(0.30)	984	1.71%

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

Sovereign Eurobonds	Coupon %	Mid Price $	Mid Yield %
Mar 2017	9.00	101.38	4.90
Nov 2018	5.15	98.38	6.03
May 2019	6.00	99.13	6.38
Mar 2020	6.38	100.38	6.24
Apr 2021	8.25	106.50	6.53
Oct 2022	6.10	97.13	6.70
Jun 2025	6.25	95.50	6.95
Nov 2026	6.60	96.88	7.04
Feb 2030	6.65	96.00	7.12
Nov 2035	7.05	98.75	7.17

Source: Byblos Bank Capital Markets

	Nov 7-11	Oct 31 - Nov 4	% Change	October 2016	October 2015	% Change
Total Shares Traded	908,110	2,051,885	(55.7)	22,970,630	3,521,768	552.3
Total Value Traded	$11,360,139	$14,607,381	(22.2)	$169,756,567	$28,446,467	496.8
Market Capitalization	$11.85bn	$11.81bn	0.40	$11.87bn	$10.89bn	9.0

Source: Beirut Stock Exchange (BSE)

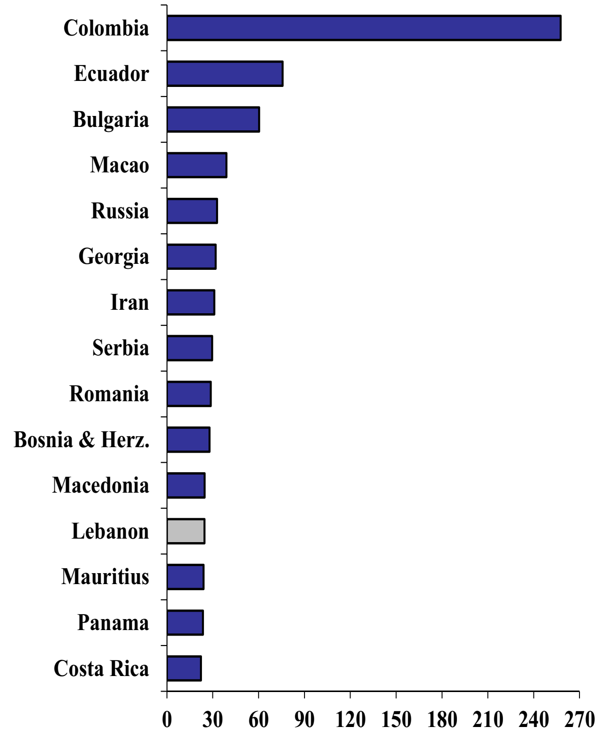
Lebanon has 10th highest branch penetration rate worldwide, 21st highest ATM penetration rate in 2015

Figures issued by the International Monetary Fund show that there were 106.7 branches of commercial banks per 1,000 square kilometers in Lebanon in 2015, constituting an increase of 1.6% from 105.1 branches per 1,000 square kilometers in 2014, and compared to 85.9 branches per 1,000 square kilometers in 2005. As a result, Lebanon had the 10th highest branch penetration rate among 167 countries and jurisdictions worldwide with available figures for 2015, the fifth highest among 49 upper middle-income countries (UMICs) and the highest among 16 Arab countries.

Globally, Lebanon had a higher branch penetration rate than Japan, Italy and Colombia, and a lower rate than Luxembourg, Mauritius and Belgium among economies with a GDP of $10bn or more; while it came behind only Macao, Hong Kong and Mauritius among UMICs. Lebanon's branch penetration rate in 2015 was higher than the global rate of 80.2 branches per 1,000 square kilometers and significantly higher than the Arab countries' rate of 15.4 branches per 1,000 square kilometers, while it was lower than the UMICs' rate of 182.5 branches per 1,000 square kilometers.

Further, there were 24.6 bank branches per 100,000 adults in Lebanon in 2015, down 2.6% from 25.2 branches per 100,000 adults in 2014, and compared to 30.6 branches per 100,000 adults in 2005. As such, Lebanon had the 46th highest branch penetration rate among 167 countries and jurisdictions globally, the 14th highest among 50 UMICs and the second highest among 16 Arab countries. Lebanon's branch penetration rate was higher than the global rate of 20.9 branches per 100,000 adults, and more than twice the Arab rate of 11.3 branches per 100,000 adults, while it was slightly lower than the UMICs' penetration rate of 24.9 branches per 100,000 adults.

Branch Penetration Rate*
(Number of branches per 100,000 adults)



**Top 15 upper middle-income countries*
***excluding economies with a GDP of less than $10bn*
Source: International Monetary Fund, Byblos Research

In parallel, there were 166.9 automatic teller machines (ATMs) per 1,000 square kilometers in Lebanon in 2015, constituting an increase of 6.5% from 156.7 ATMs per 1,000 square kilometers in 2014, and compared to 92 ATMs per 1,000 square kilometers in 2005. The ATM penetration rate ranks Lebanon in 21st place among 165 countries and jurisdictions worldwide, in fifth place among 51 UMICs and in first place among 15 Arab countries. Globally, Lebanon had a higher penetration rate than Thailand, Qatar and France, and a lower rate than Switzerland, Italy and Portugal among economies with a GDP of $10bn or more. It also had a lower rate than only Macao, Hong Kong and Mauritius among UMICs. Lebanon's ATM penetration rate was lower than the global average penetration rate of 362.7 ATMs per 1,000 square kilometers and the UMICs' rate of 941.2 ATMs per 1,000 square kilometers, while it was significantly higher than the Arab region's rate of 36 ATMs per 1,000 square kilometers.

Further, there were 38.4 ATMs per 100,000 adults in Lebanon in 2015, up 2.1% from 37.6 ATMs per 100,000 adults in 2014, and compared to 32.7 ATMs per 100,000 adults in 2005. The ATM penetration rate ranks Lebanon in 89th place among 165 countries and jurisdictions globally, in 35th place among 51 UMICs and in fourth place among 15 Arab countries. Lebanon had a lower penetration rate in this category than the global rate of 50.5 ATMs per 100,000 adults and the UMICs' average rate of 56.5 ATMs per 100,000 adults, while it had a higher rate than the Arab penetration rate of 26.4 ATMs per 100,000 adults.

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

The Association of Banks in Lebanon (ABL) recommended to its member banks to increase the Beirut Reference Rate (BRR) in US dollars to 6.54% starting in December 2016 from 6.36% 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 decided that the LIBOR does not reflect the cost of funding and lending in Lebanon. Additionally, the ABL recommended to its member banks to raise the BRR in Lebanese pounds to 8.71% in December from the November rate of 8.68%. Prior to this decision, the ABL had kept unchanged since September 2016 its recommendations for the BRR in US dollars and Lebanese pounds. 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 to the prime lending rate the cost of liquidity and refinancing, credit risk and the profitability of banks.

Sovereign risks ease slightly after presidential elections, economic and fiscal reforms must follow

Moody's Investors Service indicated that the election of a Lebanese President, after a vacuum of more than two years, will be credit positive for the sovereign if the local political parties agree on economic and fiscal reforms. It noted that the successful presidential elections reflect a higher level of consensus among Lebanese political parties and could signal an end to the political paralysis that has undermined the government's effectiveness and led to persistent delays in reforms. It said that the proper functioning of the government's institutions would reinforce the country's capacity to implement reforms, such as the restructuring of the state-owned and money-losing Electricité du Liban and the development of hydrocarbon resources. It added that successive delays in the implementation of reforms have weighed on economic activity and worsened public finances. As such, it considered that the improved political dynamics could help address Lebanon's wide fiscal deficit and elevated debt level. Further, the agency anticipated that the successful presidential elections will likely strengthen the confidence of non-resident depositors in Lebanon's economic prospects. As such, it added that political stability would limit the deceleration in deposit inflows, which are sensitive to political risks. However, the agency considered that the improvement in policy effectiveness would be gradual, as several challenges persist. It said that forming a new government could take several months, while Lebanon's complex political system has prevented the formulation and implementation of policies, such as the ratification of the budget, even when the country had a President.

In parallel, Moody's indicated that Lebanon's sovereign credit risk eased somewhat in the week that ended on November 4, following the presidential elections, as the country's five-year sovereign Expected Default Frequency (EDF) regressed from a peak of 1.88% on November 1, 2016, to 1.82% on November 4, 2016. Moody's sovereign EDF measure consists of forward-looking probabilities of default that are extracted from credit default swap (CDS) spreads. The agency indicated that Lebanon's five-year sovereign EDF has been gradually rising from 0.98% at the start of 2016, as the five-year CDS spread widened from 424 basis points at the beginning of the year to 515 basis points during the first week of November. It pointed out that Lebanon's latest EDF figure reflects an implied sovereign rating of 'B2', which is aligned with the agency's current rating for Lebanon.

Lebanon's five-year sovereign EDF was the sixth highest on November 4, 2016 among 69 sovereigns with available figures, lower than only Venezuela (17.97%), Greece (3.25%), Iraq (3.19%), Ukraine (2.48%) and Nigeria (1.98%). In comparison, Lebanon's five-year sovereign EDF was 0.96% on November 4, 2015, the 10th highest globally. Lebanon's five-year sovereign EDF rose by 86 basis points between November 4, 2015 and November 4, 2016, constituting the second largest increase among the 69 covered countries, behind Venezuela (+230 basis points).

Further, Lebanon's one-year sovereign EDF was 0.39% on November 4, 2016, unchanged from the preceding week and compared to 0.13% a year earlier. It was the sixth highest on November 4, 2016, while it was the 11th highest a year earlier. Lebanon's one-year sovereign EDF rose by 26 basis points year-on-year, the second largest increase globally behind Venezuela (+71 basis points).

Transparency Forum approves Lebanon's measures

The Global Forum on Transparency and Exchange of Information for Tax Purposes recommended that Lebanon moves to the next round of peer reviews, which is scheduled to start in the second half of 2018. The Forum conducts peer reviews in two stages, which are the Phase 1 Review that assesses the legal and regulatory framework for the transparency and exchange of information for tax purposes, and makes recommendations; and the Phase 2 Review that evaluates the implementation of its recommendations. Also, jurisdictions can request an additional review in case they would like to demonstrate the improvements they have made in their laws or practices since their previous review. The Forum's recommendation came after it issued in November 2016 the Supplementary Phase 1 Review, in which it considered that Lebanon's progress is "promising" in addressing gaps about its legal and regulatory framework that were identified in the 2012 Phase 1 Review Report. But it considered that there is further legal uncertainty about the ability of Lebanese authorities to access information, which includes banking and accounting records, as well as ownership records and identity information. It said that these uncertainties would prevent the country from abiding by the Forum's Exchange for Information (EOI) agreements. Therefore, it recommended that Lebanon amends its legislation so that authorities have the power to obtain and provide banking information in compliance with the EOI agreements. It added that amending the legislation would ensure that authorities will be able to obtain and provide information, including banking information requested under an EOI agreement. The Forum also made recommendations about bearer shares, attorney-client privilege, and the availability of accounting information for foreign trusts.

The Forum's Supplementary Phase 1 Review does not take into account the recent laws that Parliament ratified in October 2016, including the law on the exchange of tax information and the ban of bearer shares, among others. The Forum indicated that it would evaluate in June 2017 if Lebanon addressed the recommendations made in the Supplementary Review. The Global Forum currently has 137 members and monitors its members to ensure that they properly implement internationally agreed standards of transparency and of exchange of tax information. Lebanon became a member of the Global Forum in April 2016, but was identified as a jurisdiction that is relevant to the Global Forum’s work starting in 2010. Also, Lebanon has committed to the automatic exchange of information, with its first such exchange taking place in September 2018.

Merrill Lynch maintains Lebanon's external debt at Marketweight

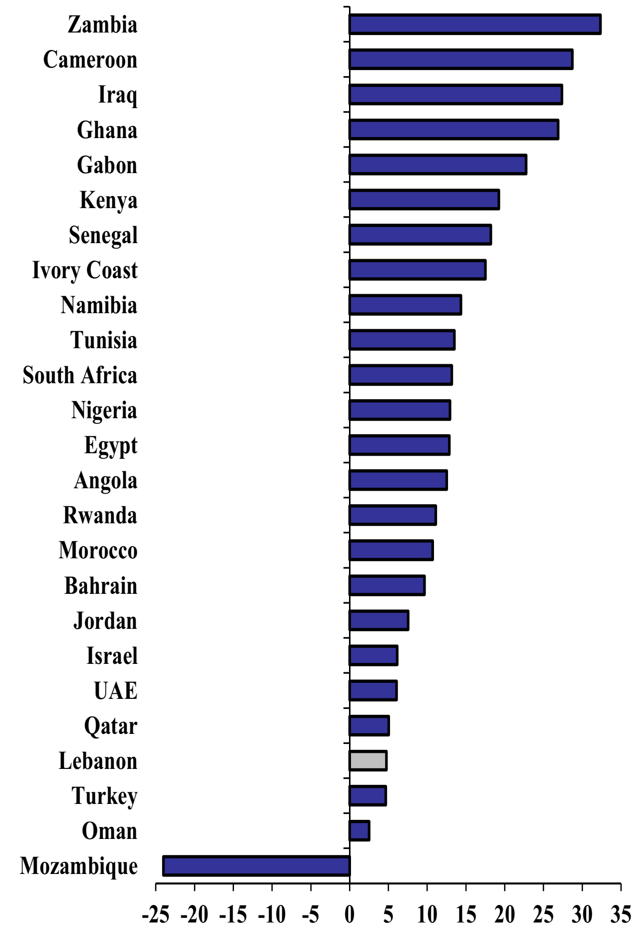
Figures issued by Merrill Lynch indicate that Lebanon's external debt posted a return of 4.75% in the first 10 months of 2016, constituting the sixth lowest return among 42 markets in the Central & Eastern Europe and the Middle East & Africa (CEEMEA) region, as well as the ninth lowest return among 73 emerging markets included in Merrill Lynch's External Debt EM Sovereign Index. Lebanon underperformed the overall emerging markets' return of 11.52% during the covered period. Further, Lebanon's external debt posted the fourth lowest return among 25 countries in the Middle East & Africa region in the first 10 months of the year, ahead of only Turkey (+4.66%), Oman (+2.51%) and Mozambique (-24.02%).

In parallel, Merrill Lynch maintained its recommendation for Lebanon's external debt at "Marketweight" in its emerging markets portfolio of external debt. It attributed its decision to the fact that Lebanese Eurobonds have been stable due, in large part, to support from local banks. Also, it indicated that the Central Bank's gross foreign currency reserves have increased recently. It did not expect rating agencies to downgrade Lebanon's sovereign ratings.

Lebanon's external debt posted a return of -0.06% in October 2016, constituting the 16th highest return in the CEEMEA region and the 23rd highest in emerging markets during the covered month. Lebanon outperformed the emerging markets' return of -1.3% in October 2016.

Further, Lebanon's external debt posted the 11th highest return in the Middle East & Africa region in October 2016, ahead of Zambia (-0.12%), Angola (-0.34%), Rwanda (-0.42%), Nigeria and Tunisia (-0.59% each), Qatar (-0.69%), Namibia (-0.71%), Iraq (-0.75%), Israel (-0.86%), South Africa (-0.87%), Turkey (-1.17%), Egypt (-1.75%), Jordan (-2.31%) and Mozambique (-28.29%). It underperformed Ghana (+2.59%), Kenya (+1.85%), Bahrain (+1.13%), Gabon (+0.84%), Cameroon (+0.75%), Oman (+0.47%), the Ivory Coast (+0.26%), and the UAE, Morocco and Senegal (-0.04% each).

External Debt Performance in the Middle East & Africa in First 10 Months of 2016 (%)



Source: Merrill Lynch, Byblos Research

In parallel, Merrill Lynch indicated that the option-adjusted spread on Lebanese Eurobonds was 511 basis points at the end of October 2016 compared to 438 basis points a year earlier, constituting the ninth widest spread in the CEEMEA region and the 14th widest among emerging markets. It was wider than the emerging markets' overall spread of 297 basis points at the end of October 2016. Lebanon has a weight of 2.65% on Merrill Lynch's External Debt EM Sovereign Index, the sixth largest weight in the CEEMEA universe and the 12th largest among emerging economies. Lebanon accounted for 5.3% of allocations in the CEEMEA region.

Central Bank asks banks to build provisions to meet future requirements

The Central Bank of Lebanon issued Intermediate Circular 439 on November 8, 2016, which amends Basic Circular 81 dated February 21, 2001 about the operations of financial institutions that are related to credit, investment, shareholding and participation. The amendments consisted of adding a new article to the original circular.

The circular asks banks operating in Lebanon to build collective provisions equivalent to 2% of the credit risk weighted assets of their loan portfolio, including retail loans. It noted that the collective provisions are part of the requirements under IFRS9 that will come into force in January 2018. It added that the 2% collective provisions are not eligible for regulatory capital. The circular indicated that the risk weighted assets should be based on the bank's consolidated balance sheet at the end of 2016. It pointed out that banks have to build the requested provisions by the end of 2016 and, in case they are unable to comply in full by this date, they can cover the balance during 2017 at the latest.

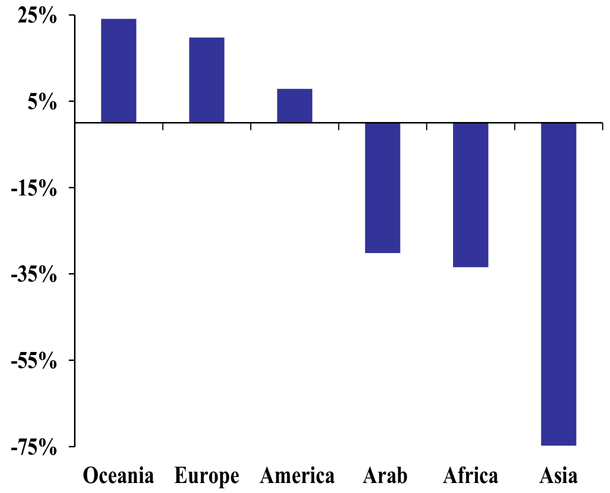
The IFRS9 is a standard issued by the International Accounting Standards Board in July 2014. Its Impairment Requirement asks banks to establish an expected credit loss (ECL) measurement for their portfolio of financial instruments. The ECL will be applied to the banks' holdings of all credit assets, including government securities, placement with banks and lending to the private sector.

Tourist arrivals up 10% in first nine months of 2016

The number of incoming tourists to Lebanon totaled 1,302,655 in the first nine months of 2016, constituting an increase of 10.2% from 1,181,787 tourists in the same period of 2015, and a drop of 23.1% from 1,694,662 tourists in the first nine months of 2010. Also, the number of incoming tourists reached 164,605 in September 2016, up by 21% from 136,050 in September 2015. Visitors from European countries accounted for 33.5% of total visitors in the first nine months of 2016, followed by visitors from Arab economies with 30.4%, the Americas with 18.4%, Asia with 7.3%, Africa with 6% and Oceania with 4.5%. Also, tourists from Iraq accounted for 14% of total visitors in the covered period, followed by visitors from the U.S. (9.6%), France (8.7%), Canada (6.2%), Germany (5.3%), Jordan (5.1%), Egypt (4.9%) and the United Kingdom (3.7%).

In parallel, the number of visitors from African countries rose by 26% year-on-year in the first nine months of 2016, followed by visitors from Oceania (+25.3%), the Americas (+11.9%), Europe (+10.5 %), the Arab region (+6.9%) and Asia (+0.4%). On a country basis, the number of tourists from Venezuela surged by 27.3% year-on-year in the first nine months of 2016, followed by visitors from Iraq (+26%), Sweden (+22%), Turkey (+16.3%), Germany (+15.7%), the U.S. (+13.1%), the United Kingdom (+10.7%), Jordan (+10.5%), Egypt (+10.4%), Brazil and Canada (+9.5% each), and France (+6.5%). In contrast, the number of visitors from the UAE fell by 74.2%, followed by those from Kuwait (-29.5%), Saudi Arabia (-27.6%) and Italy (-1.4%).

Change in the Number of Tourist Arrivals from Main Sources in First Nine Months of 2016*



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

In parallel, the Ministry of Tourism launched on November 4, 2016 the 'Ana' initiative that aims to increase ties between members of the Lebanese Diaspora and their home country. The program plans to encourage millions of individuals of Lebanese descent to visit Lebanon at least once in their lifetime. It also aims to encourage public and private sector stakeholders in Lebanon to connect with the Diaspora and discuss possible joint activities and partnerships, especially in developing tourism itineraries. The ministry has set incentive packages that include discounted airfares, transportation and accommodation, as well as complementary services at reduced prices. The project will be developed in the coming months in collaboration with the United Nations World Tourism Organization and the Council of Europe.

Central Bank regulates banks' proceeds from its recent financial operations

The Central Bank of Lebanon issued Intermediate Circular 440 on November 8, 2016, which amends Basic Circular 66 dated December 24, 1999 about the financial operations and financial market activity of banks, financial institutions and financial intermediaries in Lebanon. Intermediate Circular 440 replaces Intermediate Circular 428 issued on June 25, 2016 about the excess of funds the banks generated from the Central Bank's recent financial operations.

Circular 440 asked banks to book the surplus of funds, which they generated from simultaneously selling local-currency Treasury bonds from their portfolio and buying Eurobonds, under deferred liabilities to be included in their Tier Two Capital. It said that banks should use the surplus of funds during the 2016-18 period to meet the collective provisions requirements set by the Central Bank, in order to comply with the new capital adequacy ratios and to cover any additional costs related to the implementation of the IFRS9 standard. It indicated that, in case the surplus of funds at banks exceeds the amount they need to meet the previously mentioned requirements, they can release the excess amount upon the Central Bank's approval and the assessment of the Banking Control Commission, which would evaluate the banks' situation as at the end of 2017.

Prior to issuing Circular 440, banks had to comply with Circular 428, which asked them to use the surplus of funds only as provisions in Lebanese pounds to be included in their Tier Two Capital in order to help them meet the IFRS9 requirements.

In parallel, the Central Bank of Lebanon issued Intermediate Circular 441 on November 9, 2016, which amends Basic Circular 46 dated June 4, 1998 about deposits in foreign currencies that originate from loans taken in Lebanese pounds. The circular prohibited banks from extending loans to their clients in Lebanese pound that would be used to settle their outstanding loans in foreign currency.

Mixed impact of the Central Bank's recent financial operations

In its assessment of the impact of Banque du Liban's (BdL) recent financial operations on the Ministry of Finance, commercial banks and the BdL itself, the World Bank considered that these operations exacerbate macro-financial risks despite their short-term benefits. It indicated that the BdL did not disclose all of the details of its recent financial operations, but it said that the Ministry of Finance swapped Eurobonds with Lebanese pound-denominated Treasury bonds from the BdL's portfolio. Also, it noted that the BdL bought from banks Lebanese pound-denominated Treasury bonds at a premium, on the condition that commercial banks buy either Eurobonds held by the BdL and/or Certificate of Deposits (CDs) in US dollars issued by the BdL. It noted that the BdL conducted its operations amid slowing capital inflows to the country.

First, the World Bank indicated that the swap with the BdL allowed the Ministry of Finance to substitute Eurobonds for Treasury bonds, on which it pays a lower interest rate. But it noted that the exchange increases the sovereign's exposure to exchange rate risk. Overall, it considered that this operation is a continuation of the authorities' recent strategy that favors borrowing in foreign currency over the local currency. Second, the World Bank pointed out that the BdL's operations allowed it to increase its foreign currency reserves, which reinforces confidence in the exchange rate and in the financial system. However, it said that the BdL expanded its liabilities in foreign currency by issuing more CDs in US dollars, and increased its liabilities in local currency in the form of commercial banks deposits at the BdL. Overall, it considered that the BdL's operations increased its foreign currency reserves but weakened its balance sheet. Third, the World Bank said that the commercial banks' exposure to the sovereign in local currency decreased, their liquidity in Lebanese pounds increased, and their capital position improved following the BdL's operations. In contrast, it noted that the banks' holdings of Eurobonds increased and their foreign currency liquidity placed abroad declined. Overall, it considered that the banks' balance sheets strengthened further due to an increase in their liquidity in local currency and in their capital position, but at the expense of lower liquidity in foreign currency.

On the macroeconomic level, the World Bank said that the banks' higher liquidity in Lebanese pounds could be positive for lending and, in turn, for economic growth, in case there is sufficient demand for loans in the local currency. However, it considered that there would be liquidity management challenges in case there is insufficient demand for the additional liquidity, and that the commercial banks' appetite for Eurobonds in the primary market could diminish if non-resident deposits do not grow substantially.

Lebanon cancels bearer shares and bans their issuance

The Cabinet issued on October 27, 2016 Law 75 that cancels bearer shares and "shares to order" from the capital of all joint-stock companies in Lebanon. The law was ratified by Parliament on October 19, 2016, and came after the Central Bank of Lebanon issued Intermediate Circular 411 on February 29, 2016, which prohibits banks, financial institutions, money dealers and leasing companies in Lebanon from dealing with entities that have bearer shares in their capital.

The law prohibits joint-stock companies from issuing bearer shares and "shares to order", and gave firms 12 months starting from November 2016 to replace such shares by registered ones. It added that joint-stock companies that issue bearer shares and "shares to order" have to amend their internal statutes prior to the first general assembly that follows the implementation of the law.

Further, the law prohibits holders of bearer shares and "shares to order" from exercising their full rights as shareholders and from being appointed to the board of directors, in case they did not exchange their shares with registered ones. Also, it stipulated that companies that distribute dividends to holders of bearer shares and "shares to order" will be subject to a fine equivalent to 20% of their capital for each transaction. It added that decisions made at general assemblies would be illegal in case owners of bearer shares and "shares to order" participate in the meeting. The law pointed out that the ownership of the bearer shares and "shares to order" will be transferred to the Lebanese State in case the shares were not exchanged with registered ones after two years from the implementation of the law.

Treasury transfers to Electricité du Liban down 47% to $334m in first half of 2016

Figures released by the Finance Ministry show that Treasury transfers to Electricité du Liban (EdL) totaled $334.4m in the first half of 2016, constituting a drop of 46.7% from $627.5m in the same period of 2015. The ministry said that reimbursements to the Kuwait Petroleum Corporation (KPC) and to the Algerian energy conglomerate Sonatrach totaled $327.8m, or 98% of transfers, in the first half of the year, while EdL's debt servicing represented the balance of $6.6m, or 2% of the total. It attributed the decline in transfers to a decrease of $291m, or 47%, in payments to KPC and Sonatrach in the covered period, as well as to a drop of $2.2m, or 25%, in debt servicing.

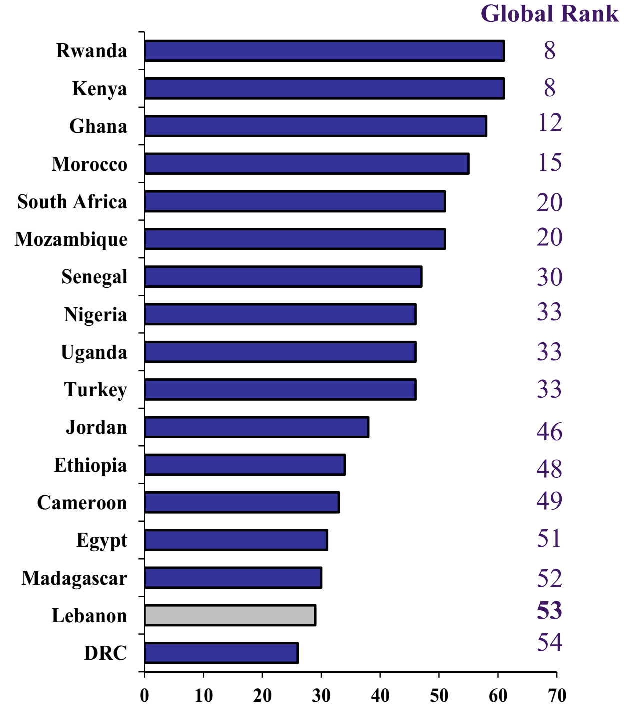
The ministry said that the decline in payments to KPC and Sonatrach reflects a 31.5% year-on-year decrease in oil prices at the time the oil contracts were executed, as well as a 10.5% decline in the quantity of imported gas and a 1.1% drop in the quantity of imported fuel oil. Also, it pointed out that EdL contributed 9.1% of the repayments to the two oil suppliers in the first half of 2016, up from 2.4% in the same period last year. EdL transfers accounted for 6.9% of primary expenditures in the first half of 2016, compared to 13.9% in the same period of 2015. They constituted the third largest expenditures item after debt servicing and public sector salaries & wages in overall fiscal spending. EdL transfers were equivalent to 5.1% of GDP in 2012, 4.3% of GDP in 2013, 4.1% of GDP in 2014 and to 2.7% of GDP in 2015.

Lebanon ranks 53rd globally, 16th in the Middle East & Africa region in terms of financial inclusion

The Economist Intelligence Unit's 2016 Global Microscope Index for Financial Inclusion ranked Lebanon in 53rd place among 55 developing countries worldwide and in 16th place among 17 countries in the Middle East & Africa (ME&A) region. Also, Lebanon came in last place among 20 upper middle-income countries (UMICs) included in the survey. Lebanon's global rank regressed by two spots from 51st place in the 2015 index, while its regional rank dropped by two spots from 14th place in last year's survey.

The index assesses the capacity of a country's government, political stability, and regulatory and supervisory environment to promote financial inclusion. It is composed of 25 factors grouped into 12 equally-weighted indicators that are the government support for financial inclusion, regulatory and supervisory capacity for financial inclusion, prudential regulation, regulation and supervision of credit portfolios, regulation and supervision of deposit-taking activities, regulation of insurance targeting low-income populations, regulation and supervision of branches and agents, requirements for non-regulated lenders, electronic payments, credit-reporting systems, market-conduct rules and grievance redress, and dispute-resolution mechanisms. The index also includes a 13th indicator used as an adjustment factor to reflect political instability, which impacts the country's financial inclusion environment. It assigns to each country a score between zero and 100, with 100 representing the best possible outcome.

Microscope Index for Financial Inclusion for 2016



Source: Economist Intelligence Unit, Byblos Research

Globally, Lebanon ranked ahead of only the Democratic Republic of Congo and Haiti. Lebanon received a score of 29 points on the 2016 survey, unchanged from the 2015 survey, and below the global average score of 49 points, the UMICs' average score of 51 points and the ME&A average score of 44 points. Colombia ranked first globally, while Haiti came in last place.

Lebanon came in last place globally, along with eight other countries, on the Government Support for Financial Inclusion indicator. This indicator assesses the existence and implementation of a strategy for financial inclusion in a country, as well as the collection of customer level data from financial institutions. Lebanon received a score of zero relative to the global average score of 46 points, the UMICs' average score of 42 points and the ME&A average score of 43 points.

Also, Lebanon ranked in 39th place globally, in 13th place among UMICs and in 14th place regionally on the Prudential Regulation indicator. This indicator assesses the appropriate entry and licensing requirements of microfinance institutions in a country, as well as the ease of operations. Globally, it tied with the Democratic Republic of Congo, Ethiopia, Madagascar and Trinidad & Tobago, while it came ahead of Guatemala and behind South Africa. It also ranked ahead of Venezuela and behind South Africa among UMICs, while it came ahead of only Egypt among ME&A countries. Lebanon received a score of 58 points, below the global average score of 71 points, the UMICs' average score of 69 points and the ME&A average score of 70 points.

Further, Lebanon came in 10th place globally and in fifth place among UMICs and countries in the ME&A region on the Requirements for Non-Regulated Lenders indicator. This indicator assesses information reporting and operational guidelines about non-regulated lenders. Globally, it tied with nine countries, ranked ahead of Argentina, and came behind Turkey. It also tied with South Africa, and ranked behind only Peru, Jordan and Turkey among UMICs; while it tied with Kenya, Madagascar, Nigeria and South Africa, and ranked behind Morocco, Ghana, Jordan and Turkey among ME&A countries. Lebanon received a score of 67 points, above the global average score of 49 points, the UMICs' average score of 50 points and the ME&A average score of 58 points.

Kafalat loan guarantees up 1% to $78m in first 10 months of 2016

Figures released by the Kafalat Corporation show that loans extended to small- and medium-size companies under the guarantee of Kafalat reached $78.2m in the first 10 months of 2016, constituting an increase of 1% from $77.4m in the same period of 2015. Kafalat provided 592 loan guarantees in the covered period, up by 6.9% from 554 guarantees in the first 10 months of 2015. The average loan size reached $132,034 compared to $139,678 in the first 10 months of 2015. Mount Lebanon accounted for 42.4% of the total number of guarantees, followed by the Bekaa with 23.1%, the South with 11.3%, the North with 11.2%, Nabatieh with 7.4% and Beirut with 4.6%. Also, the agricultural sector accounted for 46.6% of the total number of guarantees in the first 10 months of 2016, followed by the industrial sector with 30.9%, tourism with 16.7%, handicraft with 3.2% and specialized technologies with 2.5%. Kafalat is a state-sponsored organization that provides financial guarantees for loans of up to $400,000 earmarked for the set-up 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 investment banks nearly unchanged in first nine months of 2016

Figures released by the Central Bank show that the consolidated balance sheet of investment banks in Lebanon reached LBP6.86bn, or $4.55bn, at the end of September 2016, nearly unchanged from end-2015 and constituting a rise of 4.6% from $4.35bn at end-September 2015. The cash balance and deposits of investment banks at commercial banks reached $2.1bn at end-September 2016, constituting a drop of 6.8% from $2.29bn at the end of 2015 and a decrease of 1.4% from $2.17bn at end-September 2015. Also, claims on the private sector totaled $1.4bn, and grew by 1% from $1.39bn at end-2015 and by 3% from $1.36bn a year earlier. Investments in government securities reached $644.8m at the end of September 2016, up by 23.7% from $521.1m at the end of 2015 and by 31.3% from $491.1m a year earlier.

On the liabilities side, private sector deposits totaled $2bn at the end of September 2016, down by 5.1% from $2.14bn at end-2015 and by 0.9% from $2.05bn a year earlier. Resident deposits in foreign currency stood at $1.03bn, followed by resident deposits in Lebanese pounds at $735.3m, non-resident deposits in foreign currency at $203.4m and non-resident deposits in Lebanese pounds at $63.9m. Liabilities to the public sector reached $194.3m at end-September 2016, constituting a decrease of 10.6% from $217.4m at the end of 2015 and a drop of 5.4% from $205.4m at end-September 2015. Also, commitments to the financial sector totaled $795m at the end of September 2016, reflecting a rise of 9.9% from $723.4m at end-2015 and a growth of 11.9% from $710.7m a year earlier. Further, the aggregate capital account of investment banks reached $1.34bn at the end of September 2016, up by 8.4% from end-2015 and by 8.2% from a year earlier. There were 16 investment banks operating in Lebanon with a total of 21 branches as of March 2016.

Venture capital fund announces $1.3m investment in operator of electrical scooters

The Beirut-based venture capital firm Berytech Fund II announced that it invested $1.3m in Loop, a local operator of electrical scooters. Licensed by the Vancouver-based LOOPshare, Loop provides commuters and vacationers with a self-service riding scheme for journeys on vehicles available for rent. The firm launched a trial, the first of its kind worldwide for this brand, in Beirut with 55 scooters. The startup will use the funds for running more trials before the rollout in Beirut of more than 165 scooters in the summer of 2017. The scooters are equipped with a booking application, Telematics, which users can download to receive a PIN number allowing them to unlock the scooter and to park at dedicated docking stations across the city. Loop noted that its services will cater to university students and young professionals, among others.

The $51m Berytech Fund II's objective is to invest in small- and medium-sized Lebanese enterprises in the fields of Information & Communication Technology (ICT), digital content, fashion, renewable energies and industrial design. The fund raised money from major banks in Lebanon to invest in the knowledge economy sector, in line with Circular 331 issued by the Central Bank.

Ratio Highlights

(in % unless specified)	2013	2014	2015	Change*
Nominal GDP ($bn)	47.7	50.0	51.1	
Public Debt in Foreign Currency / GDP	54.8	51.2	53.0	176
Public Debt in Local Currency / GDP	78.3	81.9	84.6	271
Gross Public Debt / GDP	133.1	133.1	137.6	447
Total Gross External Debt / GDP**	167.1	170.0	174.7	470
Trade Balance / GDP	(36.3)	(34.4)	(29.5)	481
Exports / Imports	18.5	16.2	16.6	41
Fiscal Revenues / GDP	19.7	21.8	18.7	(302)
Fiscal Expenditures / GDP	28.6	27.9	26.5	(143)
Fiscal Balance / GDP	(8.8)	(6.1)	(7.7)	(159)
Primary Balance / GDP	(0.5)	2.6	1.4	(120)
Gross Foreign Currency Reserves / M2	69.5	66.5	58.7	(780)
M3 / GDP	233.0	235.4	241.9	657
Commercial Banks Assets / GDP	345.5	351.4	364.0	1258
Private Sector Deposits / GDP	285.5	288.9	296.6	779
Private Sector Loans / GDP	99.3	101.8	106.1	432
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	Oct 2014	Sep 2015	Oct 2015	Change**	Risk Level
Political Risk Rating	52.0	54.5	54.5	▼	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	63.25	▼	Moderate

MENA Average*	Oct 2014	Sep 2015	Oct 2015	Change**	Risk Level
Political Risk Rating	57.1	57.6	57.7	▼	High
Financial Risk Rating	40.6	39.2	39.3	▲	Low
Economic Risk Rating	35.6	31.3	31.2	▲	Moderate
Composite Risk Rating	66.6	64.0	64.1	▲	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	Stable	B-		Stable
Standard & Poor's	B-	B	Stable	B-	B	Stable
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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