

## LEBANON THIS WEEK

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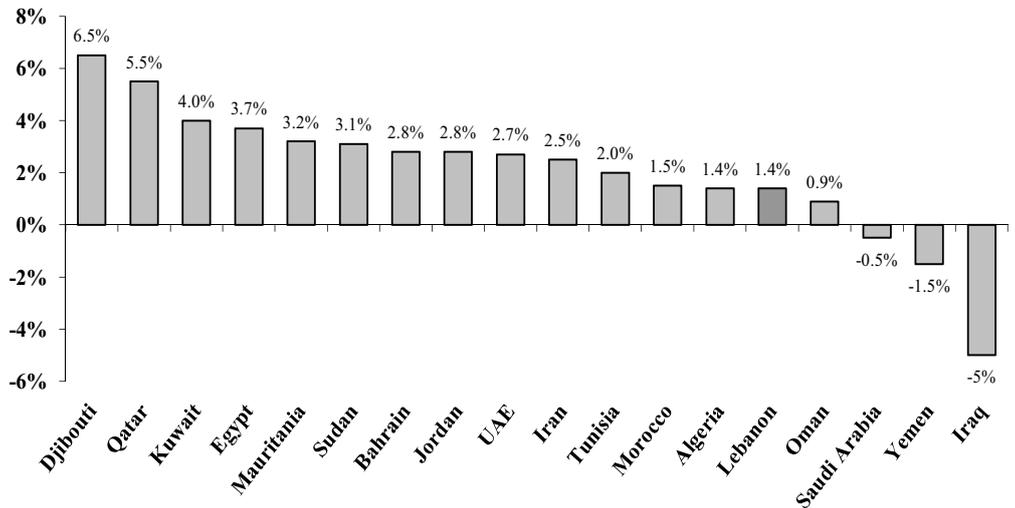
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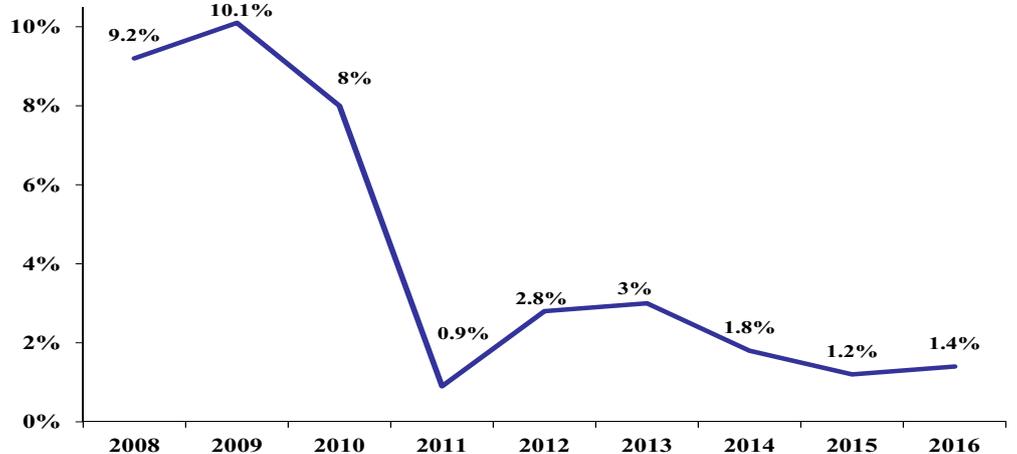
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### Charts of the Week

Projected Non-Hydrocarbon Real GDP Growth Rates of MENA Countries in 2016 (%)



Estimated Real GDP Growth Rate in Lebanon (%)



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

### Quote to Note

"It is unclear to what extent low-skilled Syrian refugees have been competing with Lebanese nationals since, even prior to the crisis, the low skilled labor market in Lebanon was dominated by foreigners."

*The World Bank, on the domestic political concerns that Syrian refugees have been competing with the Lebanese labor force*

### Number of the Week

**1:** Byblos Bank's rank among the top 14 banks in Lebanon in terms of primary liquidity in foreign currency, according to the 2016 Bilanbanques report

## 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)
<i>In months of Imports</i>	<i>20.35</i>	<i>20.18</i>	<i>17.35</i>	<i>19.36</i>	<i>19.66</i>	<i>21.65</i>	<i>7.29</i>
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
Byblos Common	1.67	0.00	1,665,807	7.95%
BLOM Listed	10.11	0.10	435,459	18.29%
BLOM GDR	10.60	0.00	193,279	6.59%
Solidere "A"	11.45	0.88	142,824	9.64%
Audi Listed	6.50	1.56	65,250	21.87%
Audi GDR	6.60	0.30	60,900	6.66%
Solidere "B"	11.40	0.18	50,474	6.24%
HOLCIM	13.87	(9.52)	23,053	2.28%
Byblos Pref. 09	101.50	(0.59)	4,860	1.71%
Byblos Pref. 08	101.20	0.00	550	1.70%

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

Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
Mar 2017	9.00	101.00	5.80
Nov 2018	5.15	98.13	6.17
May 2019	6.00	98.38	6.72
Mar 2020	6.38	99.00	6.71
Apr 2021	8.25	105.75	6.71
Oct 2022	6.10	95.75	7.00
Jun 2025	6.25	93.00	7.37
Nov 2026	6.60	94.00	7.46
Feb 2030	6.65	92.88	7.51
Nov 2035	7.05	95.63	7.49

Source: Byblos Bank Capital Markets

	Nov 14-18	Nov 7-11	% Change	October 2016	October 2015	% Change
<b>Total Shares Traded</b>	2,743,665	908,110	202.1	22,970,630	3,521,768	552.3
<b>Total Value Traded</b>	\$16,146,551	\$11,360,139	42.1	\$169,756,567	\$28,446,467	496.8
<b>Market Capitalization</b>	\$11.88bn	\$11.85bn	0.24	\$11.87bn	\$10.89bn	9.0

Source: Beirut Stock Exchange (BSE)

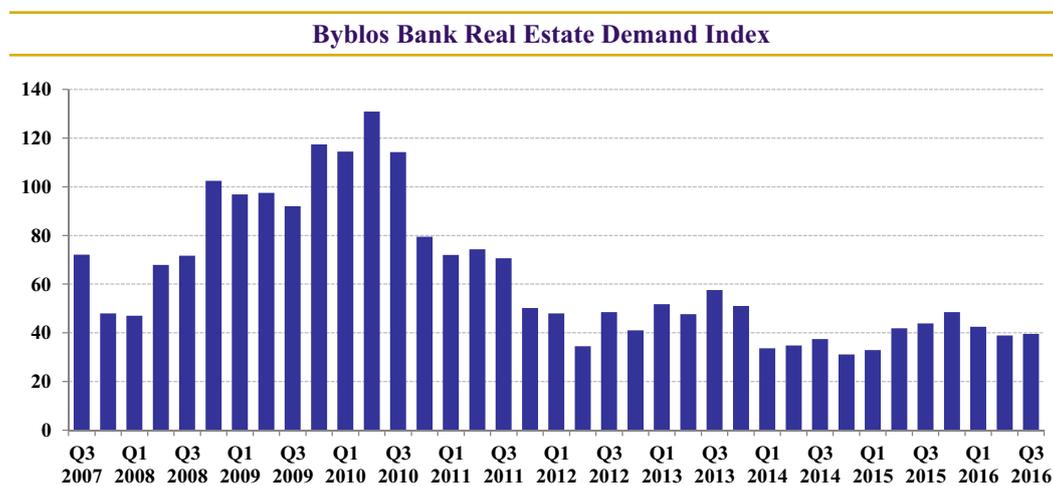


### Demand for housing stagnates in third quarter of 2016

Demand for residential real estate in Lebanon stagnated in the third quarter of 2016, as reflected by the results of the Byblos Bank Real Estate Demand Index. The Index averaged 39.5 points in the third quarter of 2016, reflecting a marginal growth of 1.5% from 38.9 points in the second quarter of the year and a decline of 9.8% from 43.8 points in the third quarter of 2015. The results constitute the eighth lowest level in 37 quarterly readings. Further, the average monthly score of the third quarter of 2016 represents a drop of 70% from the peak of 131 points registered in the second quarter of 2010, and a decrease of 64% from the annual peak of 109.8 points posted in 2010. Also, it is 38% lower than the Index's monthly trend average score of 62.8 points since the Index's inception in July 2007. The low demand for housing in the third quarter of 2016 was reflected in the answers of respondents to the Index's survey questions, as 4.5% of Lebanese residents had plans to either buy or build a home in the coming six months. In comparison, 7.1% of residents in Lebanon, on average, had plans to buy or build a house in the country between July 2007 and September 2016, with a peak of 15% in the second quarter of 2010. The results of the third quarter of 2016 show that real estate demand in Lebanon continued to be significantly affected by the high level of political uncertainties, the slow economic growth environment and the low level of consumer confidence during the covered period.

The results of the Byblos Bank Real Estate Demand Index show that demand for housing was the highest in Mount Lebanon during the third quarter of 2016, as 5.4% of its residents had plans to build or buy a house in the coming six months, unchanged from the preceding quarter. Beirut followed with 5% of its residents planning to mainly buy a house in the coming six months relative to 4.6% in the second quarter; while 4.5% of residents in the Bekaa had plans to build or buy a house, up from 3.4% in the preceding quarter. In addition, 3.5% of residents in the South intend to build or buy a house compared to 3.3% in the preceding quarter, while 3.1% of residents in the North had plans to build or buy a house, down from 4.1% in the previous quarter. In parallel, real estate demand increased among residents earning more than \$1,500 per month in the third quarter of 2016.

The Byblos Bank Real Estate Demand Index is a measure of local demand for residential units and houses in Lebanon. The Index is compiled, implemented and analyzed in line with international best practices and according to criteria from leading indices worldwide. The Index is based on a face-to-face monthly survey of a nationally representative sample of 1,200 males and females living throughout Lebanon, whereby residents are asked about their plans to buy or build a house in the coming six months. The data segregates the Index based on age, gender, income, profession, administrative district, and religious affiliation. The Byblos Bank Economic Research & Analysis Department has been calculating the Index on a monthly basis since July 2007, with November 2009 as its base month. The survey has a margin of error of  $\pm 2.83\%$ , a confidence level of 95% and a response distribution of 50%. The monthly field survey is conducted by Statistics Lebanon Ltd, a market research and opinion-polling firm.



Source: Byblos Bank Economic Research & Analysis Department, based on surveys conducted by Statistics Lebanon

### Central Bank launches \$1bn economic stimulus package for 2017

The Central Bank of Lebanon issued Intermediate Circular 444 on November 12, 2016, which amends Basic Circular 23 dated March 7, 1996 about the facilities that the Central Bank can provide to banks and financial institutions. The circular stipulates that banks operating in Lebanon can benefit from up to LBP1,500bn, or \$995m, in financial facilities from the Central Bank before October 15, 2017. The Central Bank would extend the loans to domestic banks on a first-come first-served basis at an interest rate of 1% per year. In turn, banks would extend loans to the private sector at reduced interest rates. The circular will allow banks to provide up to LBP900bn, or 60% of the facilities, in housing loans. The new economic stimulus package would represent the Central Bank's fifth consecutive package since 2013, following the LBP2,210bn (\$1.47bn) package in 2013, LBP1,200bn (\$800m) in 2014, LBP1,500bn (\$1bn) package in 2015 and LBP1,500bn (\$1bn) package in 2016. The stimulus package for 2017 is in line with previous packages, where loans are extended to finance productive sectors of the economy, as well as innovative projects, renewable energy projects, housing, education, and research & development ventures.



### Net private capital inflows to Lebanon to increase by 3% to \$5.4bn in 2016

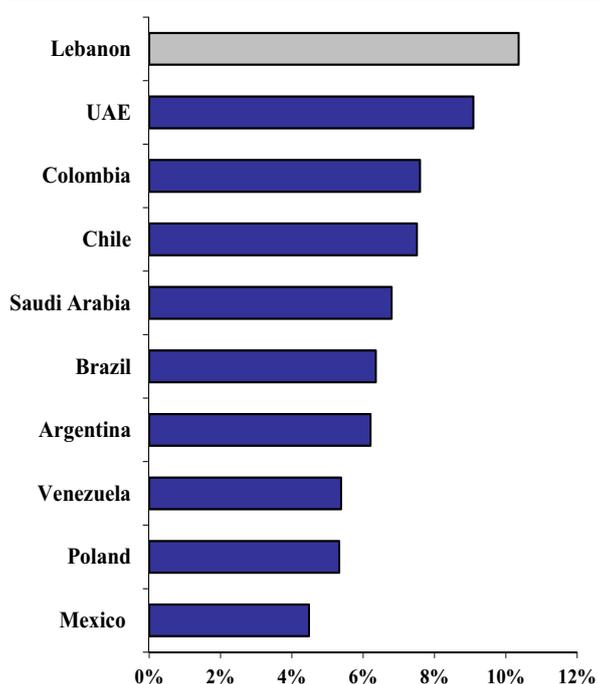
The Institute of International Finance projected non-resident net private capital inflows to Lebanon at \$5.4bn in 2016, which would constitute an increase of 2.9% from \$5.2bn in 2015, and compared to a peak of \$14bn in 2009. Lebanon is one of 22 countries out of the 25 emerging markets included in the survey that would post positive net private capital flows in 2016. Also, Lebanon would be the third smallest recipient of capital flows among 22 emerging markets with positive non-resident flows, as well as the second smallest among six countries in the Middle East & Africa (ME&A) region in 2016.

Lebanon would post the second smallest increase in net capital inflows among emerging markets in 2016. The expected rise in non-resident net private capital inflows to Lebanon this year would be due mainly to an increase of 61% in net inflows from non-resident commercial banks and other private creditors, which would partly be offset by a decrease of 23.4% in equity investment inflows. Net private capital inflows to Lebanon would account for 0.8% of total net private capital inflows to emerging markets and for 5.4% of aggregate flows to ME&A economies in 2016. They would be equivalent to 10.4% of GDP in 2016, the highest ratio among the 25 emerging markets.

In parallel, the IIF estimated net non-resident private capital inflows to Lebanon at \$5.2bn in 2015, constituting a decrease of 16.7% from \$6.3bn in 2014, and compared to inflows of \$6bn in 2013. Lebanon was among 18 countries out of the 25 emerging markets included in the survey that posted positive net private capital flows last year. Net private capital inflows to Lebanon were the third smallest among the 18 emerging markets in 2015, while they were the second lowest in the ME&A region last year.

Lebanon posted the smallest decrease in net capital inflows last year among emerging markets as well as in the ME&A region. The decrease in net private capital inflows to Lebanon last year reflects a drop of 54.4% in the flows from non-resident commercial banks and other private creditors, which was partly offset by an increase of 32.7% in equity investment inflows. Net private capital inflows to Lebanon accounted for 2% of total capital inflows to emerging markets and for 5.6% of aggregate flows to the ME&A region in 2015. They were equivalent to 10.2% of GDP in 2015, the second highest ratio among emerging markets.

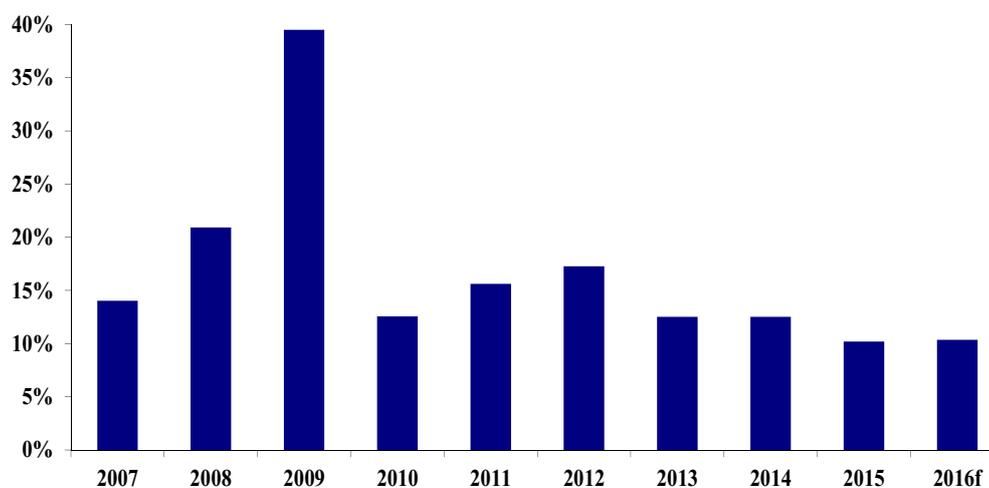
Projected Net Capital Inflows in 2016\*  
(% of GDP)



\*Top 10 countries among 25 Emerging Markets

Source: Institute of International Finance, Byblos Research

Net Private Capital Inflows to Lebanon (% of GDP)



Source: Institute of International Finance, Byblos Research

### Occupancy rate at Beirut hotels at 58%, room yields down 17% in first 10 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 58% in the first 10 months of 2016, unchanged from the same period of 2015 and compared to an average rate of 60.6% in 14 Arab markets included in the survey. The occupancy rate at Beirut hotels was the sixth lowest in the region in the first 10 months of 2016, similar to its rank in the same period of 2015. In comparison, the average occupancy rate in Arab markets fell by 3.1 percentage points year-on-year in the first 10 months of 2016. Occupancy rates at Beirut hotels were 53% in January, 57% in February, 51% in March, 55% in April, 66% in May, 44% in June, 63% in July, 63% in August, 70% in September and 54% in October 2016. In comparison, occupancy rates were 50% in January, 56% in February, 56% in March, 58% in April, 64% in May, 58% in June, 58% in July, 64% in August, 55% in September and 55% in October 2015.

The average rate per room at Beirut hotels was \$138 in the first 10 months of 2016, ranking the capital's hotels as the third least expensive in the region relative to Abu Dhabi (\$121) and Cairo (\$128). The average rate per room at Beirut hotels regressed by 16.5% year-on-year and constituted the steepest drop among all markets in the region. The average rate per room in Beirut came below the regional average of \$201.7 that decreased by 5.1% from the same period of 2015.

Further, revenues per available room (RevPAR) were \$80 in Beirut in the first 10 months of 2016, down from \$96 in the same period of 2015 and were, along with those in Cairo, the lowest in the region. Beirut's RevPAR decreased by 16.5% year-on-year and posted the fourth steepest decline among Arab markets. Beirut posted RevPARs of \$79 in January, \$78 in February, \$68 in March, \$72 in April, \$94 in May, \$55 in June, \$92 in July, \$88 in August, \$102 in September and \$72 in October 2016, compared to \$92 in January, \$91 in February, \$90 in March, \$97 in April, \$108 in May, \$89 in June, \$111 in July, \$103 in August, \$92 in September and \$86 in October 2015. Makkah posted the highest average rate per room in the region at \$292, Jeddah posted the highest RevPAR at \$215, while Dubai posted the highest occupancy rate at 79% in the first 10 months of 2016.

### Number of real estate transactions up 1% in first 10 months of 2016, transactions by foreigners down 24%

Figures released by the Ministry of Finance indicate that there were 51,707 real estate transactions in the first 10 months of 2016, constituting an increase of 1.2% from 51,096 deals in the same period of 2015. In comparison, the number of real estate transactions dropped by 12.1% in the first 10 months of 2015. There were 10,914 real estate transactions in the Baabda area during the first 10 months of 2016, representing 21.1% of the total. The North followed with 8,293 transactions (16%), then the Zahlé region with 6,319 transactions (12.2%), the Metn district with 5,717 transactions (11.1%), the Keserwan area with 5,596 transactions (10.8%), the South with 5,278 transactions (10.2%), Nabatieh with 4,725 transactions (9.1%) and Beirut with 3,305 transactions (6.4%). Also, the aggregate value of real estate transactions reached \$6.73bn in the first 10 months of 2016 and increased by 4.1% from \$6.46bn in the same period of 2015. In comparison, the value of real estate deals totaled \$7.41bn in the first 10 months of 2014. The value of real estate transactions in Beirut reached \$1.7bn and accounted for 25.3% of the total in the covered period. The Baabda district followed with \$1.6bn (24.2%), then the Metn region with \$1.2bn (17.7%), the Keserwan area with \$690.9m (10.3%), the North with \$473.2m and the South with \$470.7m (7% each), the Zahlé area with \$239.3m (3.6%), and Nabatieh with \$191.7m (2.8%).

In parallel, the average value per real estate transaction was \$130,131 in the first 10 months of 2016, up by 2.9% from an average value of \$126,514 in the same period of 2015 and relative to \$127,478 in the first 10 months of 2014. Further, there were 859 real estate transactions executed by foreigners in the first 10 months of 2016, which constituted a decrease of 24.2% from 1,133 deals in the same period of 2015, and compared to an annual increase of 25.7% in the first 10 months of 2015 and a drop of 10.7% 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 10 months of 2016 compared to 2.2% of deals in the same period of 2015 and to 1.5% of deals in the first 10 months of 2014. In parallel, 28.1% of the real estate transactions executed by foreigners were in the Baabda district during the first 10 months of 2016, followed by Beirut (19.4%), the Metn region (14.6%), the South (12.8%), the Keserwan area (9.8%), the North (8.4%), Zahlé (4.5%), and Nabatieh (2.1%).

### Hotel Sector Performance in First 10 Months of 2016

	Occupancy Rate (%)	RevPAR (US\$)	RevPAR % change
Jeddah	74	215	(4.6)
Dubai	79	193	(8.0)
Madina	61	147	(14.1)
Makkah	47	138	(6.3)
Doha	62	134	(18.3)
Muscat	63	119	(12.6)
Ras Al Khaimah	71.8	114	-
Riyadh	56	110	(18.3)
Kuwait City	38	102	(16.4)
Manama	49	98	(6.0)
Abu Dhabi	77	93	(16.6)
Amman	50	81	(10.1)
Cairo City	63	80	48.8
<b>Beirut</b>	<b>58</b>	<b>80</b>	<b>(16.5)</b>

Source: EY, Byblos Research

### **Central Bank stops swap operations**

In the monthly meeting between the Central Bank and the Association of Banks in Lebanon (ABL), Governor Riad Salamé indicated that the Central Bank's recent financial swap operations with commercial banks have achieved their intended goals and he did not see any added value in continuing with the swaps at this time. He said that the goals of the swap operations were to improve the balance of payments, increase the Central Bank's foreign currency reserves and accelerate the growth rate of deposits at commercial banks. He considered that the swap operations were successful and have led the balance of payments to shift from a deficit of \$1.76bn in the first half of 2016 to a surplus of \$555m in the first nine months of the year, while deposits at commercial banks grew by more than 5%, or \$7bn, relative to a growth rate of 2% prior to conducting the operations. He added that these operations have also allowed the Central Bank to prevent a significant rise in interest rates.

Further, Governor Salamé pointed out that the swap operations helped the banks meet the requirements of the International Financial Reporting Standards (IFRS9). He also considered that these measures have been able to preserve the stability of interest and exchange rates, and maintained the pace of lending to the economy. Finally, he indicated that the Central Bank's objective is to preserve monetary stability, and that it is not concerned by the high yielding financial products that some banks offered to their clients in relation to the swap operations.

In parallel, Governor Salamé welcomed the Lebanese Parliament's recent ratification of a law that allows the Ministry of Finance to issue up to \$3bn in foreign-currency denominated debt. He said that the law would allow the ministry to raise funds in foreign currency directly from the market, which would avoid putting pressure on the Central Bank's foreign currency reserves. He added that the ministry will decide on the timing and details of the issuance based on the government's financing needs.

Also, Governor Salamé noted that the planned economic program of U.S. President-elect Donald Trump could lead to a wider fiscal deficit in the United States, which, in turn, could put upward pressure on U.S. interest rates. He considered that this would lead to a rise in investor demand for U.S. Treasuries, which could have negative implications on debt markets in the rest of the world. However, Governor Salamé expected these developments to have a limited impact on the bond market in Lebanon, given the wide yield differential. He noted that the stability of the Lebanese pound exchange rate and of interest rates in the country would persist, and stressed that the Central Bank has ample buffers to safeguard against unexpected developments.

### **Compensation of public-sector personnel up 4.5% in first half of 2016, absorbs 33% of fiscal spending**

Figures issued by the Ministry of Finance show that the compensation of public-sector personnel totaled \$2.41bn in the first half of 2016, constituting an increase of 4.5% from \$2.3bn in the same period of 2015. Salaries, wages and related benefits accounted for 65.3% of the total in the first half of 2016, followed by retirement benefits (24.6%), transfers to public institutions to cover salaries (5.3%) and end-of-service indemnities (4.8%). The rise in the compensation of public-sector personnel reflects a year-on-year increase in salaries, wages and related benefits, as well as in retirement benefits and end-of-service indemnities. The compensation of public-sector personnel represented the largest component of total budgetary primary spending and accounted for 68% of such expenditures in the covered period compared to 65% in the first half of 2015. The compensation of public-sector personnel absorbed 33% of fiscal spending in the first half of 2016, nearly unchanged from 34% in the same period of 2015.

In parallel, salaries, wages and related benefits paid to public-sector employees amounted to \$1.57bn in the first half of 2016, constituting an increase of 4.1% from \$1.51bn in the same period last year. 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 civil and religious judges, and employees at the Parliament. Salaries and benefits of military personnel reached \$997m and accounted for 63.4% of salaries, wages and related benefits paid to the public sector in the covered period. They were followed by educational personnel with \$335.7m (21.3% of the total), civil staff with \$151.2m (9.6%), the government's contribution to the employees' cooperative with \$76.9m (4.9%) and customs employees with \$11.9m (0.8%). Also, the Lebanese Army's salaries totaled \$625.5m in the first half of 2016 and represented 62.7% of military personnel's salaries and benefits. The salaries of the Internal Security Forces followed with \$282.6m (28.3%), those of the General Security Forces with \$68.3m (4.3%) and the State Security Forces with \$20.6m (1.3%).

The overall increase in salaries, wages and related benefits paid to public-sector employees reflects a rise of \$75m in basic salaries, a growth of \$21.2m in other payments such as bonuses given to non-military bodies, and an increase of \$2.7m in employment benefits, which were partly offset by a decrease of \$39.1m in allowances. Overall, basic salaries grew by 6.9% year-on-year to \$1.16bn in the first half of 2016, other payments disbursed to non-military bodies increased by 25.6% to \$104.1m and employment benefits rose by 3.8% to \$73m in the covered period. In contrast, allowances declined by 14.9% to \$223.5m in the first half of 2016.



### **Capital Markets Authority issues regulations on business and market conduct**

The Capital Markets Authority (CMA), Lebanon's securities regulator, issued in November 2016 two regulations that licensed institutions and/or registered persons must abide with when trading financial instruments, issuing investment recommendations and conducting other services related to tradable securities.

First, the business conduct regulation, or Series 3000, sets the rules and code of conduct that a licensed financial institution must comply with when carrying out securities transactions and dealing with clients. The Series 3000 defines the policies, procedures, systems, corporate governance and controls that a licensed institution must establish and maintain. It also sets the rules for the handling of client money and client assets. In addition, the Series 3000 regulation lists the rules and code of conduct that a registered person must comply with when carrying out his/her responsibilities at a licensed institution. Also, the institution must provide the CMA, without delays, with the records or documents that the Authority requests. The Series 3000 regulation does not apply to banking or credit activities regulated by the Banque du Liban.

Second, the market conduct regulation, or Series 4000, regulates the conduct of parties involved in the securities markets. It also sets out details about the ban on insider trading and market manipulation, and stipulates the details of licensed institutions' obligations in carrying out transactions in the market. The regulation stipulates that a licensed institution or a registered person must not accept or execute a client order if evidence exists that the client is engaging in market manipulation or insider trading. Also, the institution must not aggregate a client's order with those of other clients or its own orders, except with the written consent of the client, while it must retain any records made for 10 years from the record date of the trade. Further, the Series 4000 forbids a licensed institution from advising a client, or making a trade on his/her behalf, in a traded security, that is contrary to any of that institution's current research recommendations, unless it discloses the recommendation to the client before providing the advice or making the trade. Further, the CMA may impose administrative sanctions on any person who violates the provisions of this regulation, in accordance with Laws No. 160 and No. 161 of August 17, 2011.

The CMA indicated that the two regulations will become effective upon their publication in the Official Gazette. However, the institutions that were previously licensed to carry on securities-related business in Lebanon will be granted until January 2, 2017 to fully comply with the new regulations. The CMA is an independent, autonomous regulatory body established by the Capital Markets Law No. 161 in 2011. It aims to promote and develop the Lebanese capital markets and protect investors from fraudulent activities through the issuance of regulations in line with international best practices.

### **Output losses from Syrian conflict equivalent to 5.6% of GDP between 2011 and 2015**

The United Nation's Economic and Social Commission for Western Asia (ESCWA) estimated Lebanon's total output losses as a result of the Syrian conflict at \$13.1bn between 2011 and 2015, which is equivalent to 5.6% of the country's aggregate GDP in the covered period, with losses of \$5.6bn, or 11% of GDP in 2015 alone. Further, it noted that the Syrian conflict has weighed on the economic performance of Lebanon, given the close economic ties between the two countries, and as all land routes for the transport of goods from Lebanon go through Syria. It indicated that the Syrian conflict has reduced Lebanon's real GDP growth by about 2.9 percentage points per year from 2012 to 2014. It expected economic growth in Lebanon to remain weak as geopolitical factors continue to weigh on economic prospects. In parallel, it estimated the aggregate output loss of Arab countries affected directly or indirectly by conflicts since 2011 at about \$613.8bn between 2011 and 2015, equivalent to 6% of the Arab region's total GDP during the covered period.

Further, the ESCWA indicated that the fiscal stance of Lebanon is fragile, with weak domestic revenue underlining the need for foreign aid to sustain government expenditures related to the Syrian refugees. It added that, despite repeated requests from Lebanon, international financial support for spending on Syrian refugees has been slow to materialize. It noted that Lebanon needs larger amounts of funding and more reliable external assistance to deal with the impact of the Syrian conflict. It said that the Lebanese government estimated international assistance to have accounted for only 50% of the amount of funding needed to cope with the massive presence of refugees in Lebanon.

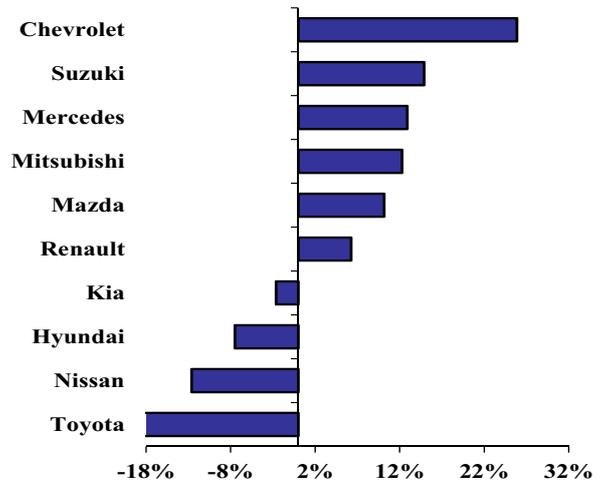
According to the United Nations and the World Bank, the government needs to spend around \$2.5bn in order to return public service provision in Lebanon to its pre-2011 level. This would include spending on healthcare, education, poverty safety nets, infrastructure, water supply and sanitation, electricity, transport, and solid waste management. Further, the ESCWA pointed out that tourist arrivals in Lebanon have dropped since the start of the Syrian crisis in 2011 due to concerns about the spillovers from the conflict and the political unrest in the region.

In parallel, the ESCWA considered that the influx of Syrian refugees and weak job creation have led to a two-fold increase in Lebanon's unemployment rate to about 20%. It added that most Syrian refugees work in the informal sector, as access for refugees to work in the formal economy is challenging. It also noted that the percentage of Syrian refugee households in Lebanon that live below the poverty line is estimated to have increased from 50% in 2014 to 70% in the first quarter of 2016.

## New car sales down 5% in first 10 months of 2016

Figures released by the Association of Automobile Importers in Lebanon (AIA) show that dealers sold 31,141 new passenger cars in the first 10 months of 2016, constituting a decrease of 5.1% from 32,811 cars sold in the same period of 2015. Consumers purchased 2,411 new cars in January, 2,793 automobiles in February, 2,786 cars in March, 3,109 vehicles in April, 3,165 automobiles in May, 4,180 cars in June, 3,700 automobiles in July, 3,418 cars in August, 3,017 vehicles in September and 2,562 vehicles in October 2016. Japanese automobiles accounted for 37.2% of total sales in the first 10 months of 2016, followed by Korean cars with a 34.7% share, European automobiles (20.5%), American vehicles (6.8%) and Chinese cars (0.7%). The sales of new American vehicles increased by 12.1% year-on-year in the first 10 months of the year and sales of Chinese cars grew by 4%; while the number of Japanese cars sold dropped by 8.7% year-on-year, that of Korean cars regressed by 4.6% and the number of European automobiles declined by 4.3%. Kia is the leading brand in the Lebanese market with 6,151 vehicles sold in the first 10 months of 2016, followed by Hyundai with 4,619 in new car sales, Toyota (4,199), Nissan (2,977), Renault (1,513) and Suzuki and Chevrolet (1,358 each). In parallel, 2,176 new commercial vehicles were sold in the first 10 months of 2016, up by 13.1% from 1,924 vehicles purchased in the same period of 2015. Overall, car dealers sold 33,317 new passenger automobiles and commercial vehicles in the first 10 months of 2016, down by 4.1% from 34,735 cars sold in the same period of 2015.

## Sales of Top 10 Car Brands in first 10 months of 2016 (% change\*)



\* from the same period of 2015  
Source: AIA, Byblos Research

In parallel, the number of new vehicles sold by Lebanon's top five distributors reached 22,505 in the first 10 months of 2016 and accounted for 67.5% of new car sales. NATCO sal sold 6,151 vehicles, equivalent to 18.5% of the total, followed by Century Motor Co. sal with 4,709 automobiles (14.1%), Boustany United Machineries sal with 4,635 vehicles (13.9%), Rasamny Younis Motor Co. sal with 3,963 cars (11.9%) and Bassoul Heneiné sal with 3,047 automobiles (9.1%).

## Top five freight forwarders' import activity up 5% in first nine months of 2016, exports up 1%

Figures released by the Port of Beirut show that overall import shipping operations by the top five freight forwarders through the port reached 265,795 20-foot equivalent units (TEUs) in the first nine months of 2016, constituting an increase of 4.9% from 253,486 TEUs in the same period of 2015. The top five freight forwarders accounted for 87.9% of imports to the Lebanese market and for 62.8% of the total import freight forwarding market during the covered period. Mediterranean Shipping Company (MSC) handled 84,238 TEUs in imports in the first nine months of 2016, equivalent to a 20% share of the total freight forwarding import market. Metz Group followed with 53,240 TEUs (12.6%), then Merit Shipping with 48,482 TEUs (11.4%), Sealine Group with 46,824 TEUs (11.1%) and Gezairy Transport with 33,011 TEUs (7.8%). Further, Gezairy Transport registered a year-on-year increase of 53.3% in import shipping volume, the highest among the top five freight forwarders, while Sealine Group posted the steepest decline at 17.4%.

In parallel, export shipping operations by the top five freight forwarders through the Port of Beirut reached 65,482 TEUs in the first nine months of 2016, constituting an increase of 1.2% from 64,707 TEUs in the same period of 2015. The top five freight forwarders accounted for 97.3% of exported Lebanese cargo and for 15.5% of the total export freight forwarding market in the first nine months of 2016. Merit Shipping handled 31,448 TEUs of freight in the covered period, equivalent to 46.7% of the Lebanese cargo export market. Metz Group followed with 14,776 TEUs (22%), then Sealine Group with 12,938 TEUs (19.2%), MSC with 3,399 TEUs (5.1%) and Gezairy Transport with 2,921 TEUs (4.3%). Further, Merit Shipping registered a year-on-year rise of 29.8% in export shipping volume, while Sealine Group posted the steepest decline at 20.5%.

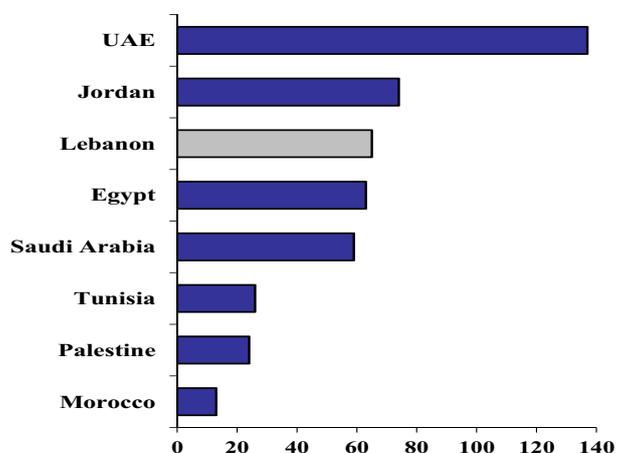
### Lebanese technology startups attract 65 investments between 2013 and 2015

Figures released by ArabNet, a hub for Arab digital professionals and entrepreneurs, show that MENA-based investment funds made 65 investments worth \$66m in technology startups in Lebanon between 2013 and 2015. The number of investments in Lebanese technology startups was the third highest among 14 MENA countries, as it came lower than only the UAE (137 deals) and Jordan (74 transactions) during the covered period. Further, the value of equity-based investments in Lebanese technology startups was the fourth highest in the MENA region, as it was lower than investments in Egypt (\$340m), the UAE (\$286m) and Saudi Arabia (\$105m).

In parallel, the value of investments in Lebanon accounted for 8.7% of total equity-based investments in the 14 MENA markets between 2013 and 2015. ArabNet indicated that it surveyed seven venture capital (VC) funds, two seed funds, two growth-stage VC funds, one network of angel investors and one accelerator fund in Lebanon.

Further, MENA-based investors made 34 equity-based investments worth \$31m in technology startups in Lebanon in 2015, the second highest number of deals in the 14 MENA markets, lower than only 55 deals in the UAE (\$139m). In comparison, Lebanon attracted 21 investments in 2014 worth \$29m, the fifth highest number of deals in the region, as well as 10 deals in 2013 (\$6m), the fifth highest number of transactions among the covered markets. Further, the value of investments in Lebanon accounted for 14% of total investments in the region in 2015, compared to 7.8% of total investments in 2014 and to 3.6% of the total in 2013. ArabNet noted that Banque du Liban's Intermediate Circular 331 has supported VC activity in the country. Overall, Lebanon attracted 25% of the total number of investments among the top five markets in 2015, up from 14% in 2014 and 10% in 2013. The findings are based on data collected from 48 investors and accelerators in Algeria, Bahrain, Egypt, Jordan, Kuwait, Lebanon, Morocco, Palestine, Saudi Arabia, Tunisia and the UAE.

Number of Investments by MENA Funds in Technology Startups\*



\* Between 2013 and 2015

Source: ArabNet, Byblos Research

### Régie to start production of three international cigarette brands in 2017

The Régie Libanaise des Tabacs & Tombacs signed on November 13, 2016 a partnership agreement with Imperial Tobacco, a subsidiary of British multinational company Imperial Brands plc, to manufacture Gitanes Blondes, Gauloises and West cigarette brands in Lebanon. Local production of the three international cigarette brands is expected to start in March 2017 at the Régie's facilities under the supervision of international experts. Further, the Régie aims to produce additional international cigarette brands for Imperial Tobacco or other companies.

The partnership agreement is expected to increase the Régie's production from 35,000 cigarette packs to 45,000 packs per month, which accounts for about 60% of Lebanon's average monthly cigarette consumption. The Régie invested \$17m in 2015 for the renovation of its factory in eastern Beirut, which allowed the company to increase its production capacity. In parallel, the ISO-certified Régie inaugurated on November 11, 2016 a tobacco assorting plant in the southern town of Ghazieh, that is considered to be the most advanced in the Middle East.

The Régie Libanaise des Tabacs & Tombacs is a public organization controlled by the Lebanese Ministry of Finance. It aims to manage the plantation, manufacturing, trade and transport of tobacco in Lebanon. In parallel, Imperial Tobacco manufactures and sells a range of cigarettes, fine cut and smokeless tobacco products and mass market cigars, among other products.

### BLF exercises call option on preferred shares and issues new common shares

Banque Libano-Française (BLF) sal, one of Lebanon's top 14 banks in terms of assets, redeemed and cancelled 1,500,000 Series '3' Preferred Shares. Concurrently, the bank said that it covered the LBP15bn (\$9.95m) deficit in the capital account as a result of the redemption through the issuance of 1,500,000 new common shares at a par value of LBP10,000 (\$6.6) per share. The call option was exercised on November 14, 2016 and the new shares were distributed gratis to existing shareholders, while the bank covered the cost of the newly-issued shares through an internal transfer from its reserves account to its capital account. The bank's share capital currently consists of 23,500,000 common shares and 3,000,000 Series 'B' Preferred Shares, with total equity of \$1.1bn.

BLF posted unaudited net profits of \$52m in the first half of 2016, down by 6.2% from the same period of 2015. Its aggregate assets reached \$11.7bn at the end of June 2016 and grew by 1.2% from end-2015. The bank's total loans & advances to customers, excluding loans & advances to related parties, stood at \$4bn at the end of June 2016 and regressed by 2.8% from end-2015. Also, customer deposits, excluding deposits from related parties, totaled \$9.7bn at end-June 2016 and increased by 1.6% from the end of 2015.



### **BLOM Bank to acquire HSBC Bank operations in Lebanon**

BLOM Bank sal announced that it has signed an agreement to acquire the assets and liabilities of HSBC Bank Middle East Limited – Lebanon for an undisclosed amount. It indicated that the acquisition is subject to the Central Bank of Lebanon's approval, which is expected to be granted during the first half of 2017. It added that the acquisition is part of the bank's strategy to diversify its revenue base and assets. HSBC Lebanon was established in 1946. It has three branches, 200 employees, and assets of \$953m as at the end of June 2016. Further, BLOM bank noted that it will ensure employment continuity to all employees of the acquired bank.

HSBC Bank Middle East Limited – Lebanon posted net profits of \$16.3m in 2015, down by 11.1% from \$18.4m in 2014. Its total assets reached \$995m at the end of 2015 and regressed by 5.6% from end-2014. The bank's loans & advances to customers, excluding loans & advances to related parties, stood at \$516.5m at the end of 2015 and decreased by 13.4% from end-2014. Also, customer deposits, excluding deposits from related parties, totaled \$824m at end-2015 and declined by 2.6% from the end of 2014. In parallel, BLOM Bank declared net profits of \$344.1m in the first nine months of 2016. Its aggregate assets reached \$30.1bn at the end of September 2016, with loans & advances to customers at \$7.5bn. Also, the bank's customer deposits totaled \$25.45bn as at the end of September 2016.

### **IBL Bank increases capital through issuance of preferred shares**

IBL Bank sal, one of Lebanon's top 14 banks in terms of assets, announced that it increased its capital from LBP150bn (\$99.5m) to LBP155.63bn (\$103.2m) through the issuance of 750,000 Series '3' Preferred Shares. The shares, which were issued on November 18, have an issue price of \$100 per share, of which LBP7,500 (\$5) is par value and the remaining \$95 constitute the issue premium. The Series '3' Preferred Shares are non-cumulative, redeemable and perpetual, and they carry an annual dividend rate of 7.5% of the issue price. The Series '3' shares are not listed on the Beirut Stock Exchange, in line with previous issuances. As such, the dividends are subject to a 10% withholding tax. IBL has the option to call the shares within 90 days after the Ordinary General Assembly meets to approve the bank's financials for fiscal year 2021, and every year thereafter, at a call price of \$100 per share plus any declared but unpaid dividends. The capital increase was approved by the bank's Extraordinary General Assembly on September 15, 2016 and by the Central Bank on September 28, 2016. The bank's share capital currently consists of 20,750,000 shares that include 20,000,000 common shares and 750,000 Series '3' Preferred Shares.

IBL posted unaudited consolidated net profits of \$38.4m in the first half of 2016, up by 10.7% from \$34.7m in the same period of 2015. Its assets reached \$6.1bn at end-June 2016; while net loans & advances to customers, excluding loans & advances to related parties, decreased by 4.3% from end-2015 to \$1.05bn at the end of June 2016. Also, customer deposits, excluding deposits from related parties, totaled \$5.3bn at end-June, up by 3.9% from the end of 2015.



## Ratio Highlights

(in % unless specified)	2014	2015	2016e	Change*
Nominal GDP (\$bn)	50.0	51.1	52.0	
Public Debt in Foreign Currency / GDP	51.2	53.0	54.2	217
Public Debt in Local Currency / GDP	81.9	84.6	89.6	645
Gross Public Debt / GDP	133.1	137.6	143.8	862
Total Gross External Debt / GDP**	170.0	174.7	176.6	190
Trade Balance / GDP	(34.4)	(29.5)	(30.0)	47
Exports / Imports	16.2	16.6	16.1	(49)
Fiscal Revenues / GDP	21.8	18.7	19.6	118
Fiscal Expenditures / GDP	27.9	26.5	28.2	218
Fiscal Balance / GDP	(6.1)	(7.7)	(8.6)	99
Primary Balance / GDP	2.6	1.4	1.4	1
Gross Foreign Currency Reserves / M2	66.5	58.7	62.7	394
M3 / GDP	235.4	241.9	250.0	1230
Commercial Banks Assets / GDP	351.4	364.0	392.5	3483
Private Sector Deposits / GDP	288.9	296.6	307.7	1618
Private Sector Loans / GDP	101.8	106.1	109.2	495
Private Sector Deposits Dollarization Rate	65.7	64.9	65.0	10
Private Sector Lending Dollarization Rate	75.6	74.8	73.6	(123)

\* Change in basis points 15/16

\*\*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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