

## LEBANON THIS WEEK

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Trade deficit widens by 7% to \$14bn in first 11 months of 2016

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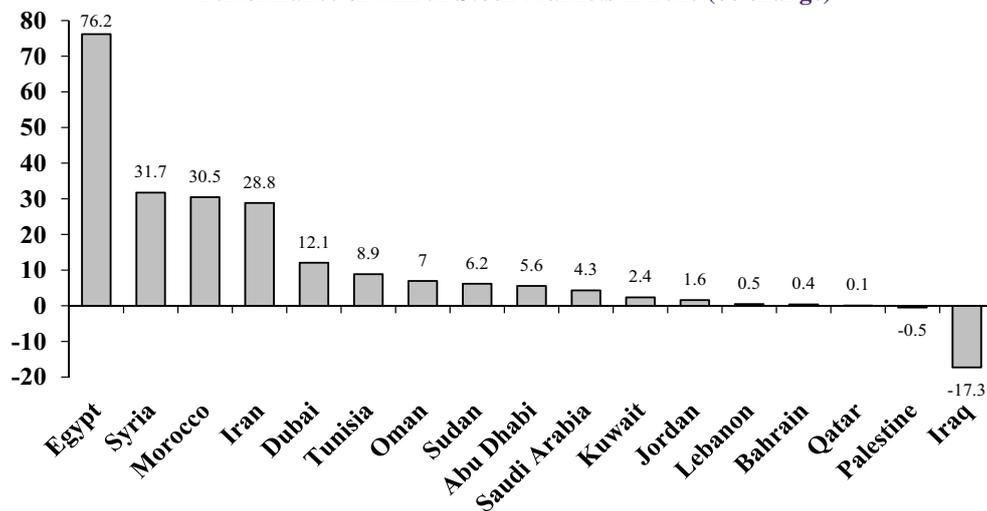
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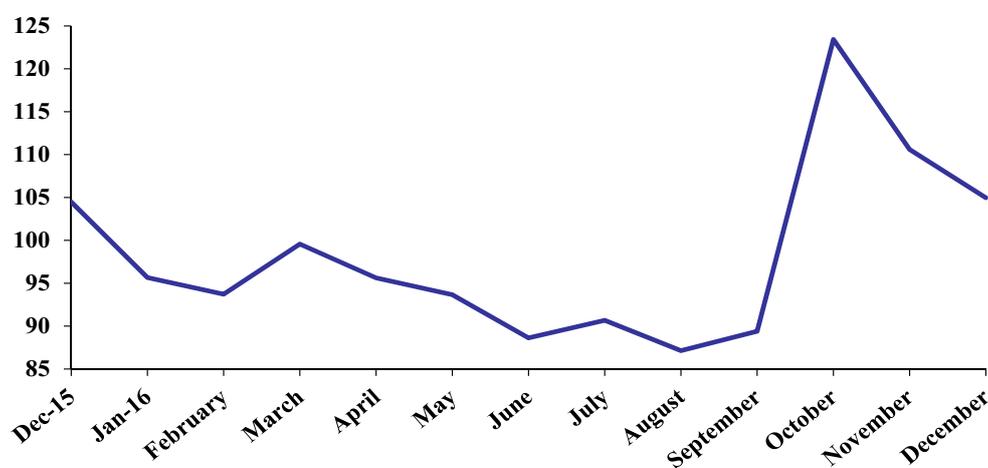
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### Charts of the Week

Performance of MENA Stock Markets in 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

"Upgrading the country's infrastructure would raise the potential growth of the economy."

*The Institute of International Finance, on the drag of the poor quality of infrastructure on Lebanon's economic growth*

### Number of the Week

**62%:** Share of the successive Central Bank stimulus packages since 2013 that went to mortgages, according to the Central Bank of Lebanon

## Lebanon in the News

\$m (unless otherwise mentioned)	2015	Aug 2015	May 2016	Jun 2016	Jul 2016	Aug 2016	% Change*
Exports	2,952	219	237	280	247	340	55.25
Imports	18,069	1,479	1,629	1,533	1,447	1,951	31.91
Trade Balance	(15,117)	(1,260)	(1,392)	(1,253)	(1,200)	(1,611)	27.86
Balance of Payments	(3,354)	(332)	(862)	(13)	352	1,788	-
Checks Cleared in LBP	18,714	1,597	1,591	1,577	1,490	1,616	1.16
Checks Cleared in FC	50,845	4,294	4,018	4,076	3,748	4,205	(2.07)
Total Checks Cleared	69,559	5,891	5,609	5,653	5,238	5,821	(1.20)
Budget Deficit/Surplus	(3,952)	(131.05)	(40.18)	(263.20)	(49.46)	(542.16)	313.71
Primary Balance	724.40	119.82	542.95	103.48	172.32	(262.41)	-
Airport Passengers***	7,241,463	893,708	618,581	572,461	892,417	917,286	2.64

\$bn (unless otherwise mentioned)	2015	Aug 2015	May 2016	Jun 2016	Jul 2016	Aug 2016	% Change*
BdL Gross FX Reserves	30.64	32.77	32.03	33.20	32.70	35.67	8.86
<i>In months of Imports</i>	20.35	22.15	19.66	21.65	22.60	18.28	(17.48)
Public Debt	70.31	68.89	71.49	72.90	73.39	74.05	7.48
Bank Assets	185.99	181.62	188.63	190.36	190.93	195.77	7.79
Bank Deposits (Private Sector)	151.59	149.63	153.89	154.66	155.07	157.09	4.99
Bank Loans to Private Sector	54.22	52.41	55.52	55.88	56.07	56.38	7.57
Money Supply M2	52.15	51.08	52.98	53.25	53.31	54.00	5.71
Money Supply M3	123.62	121.52	125.65	126.38	126.63	128.15	5.46
LBP Lending Rate (%)****	7.45	6.89	8.53	8.31	8.32	8.29	140bps
LBP Deposit Rate (%)	5.56	5.61	5.58	5.56	5.57	5.56	(5bps)
USD Lending Rate (%)	7.06	7.12	7.29	7.20	7.25	7.28	16bps
USD Deposit Rate (%)	3.17	3.19	3.26	3.31	3.30	3.39	20bps
Consumer Price Index**	(3.75)	(4.60)	(2.45)	(0.98)	(0.48)	(0.79)	381bps

\* Year-on-Year \*\* Year-on-Year percentage change \*\*\*includes arrivals, departures, transit

\*\*\*\* Starting January 2016, lending rates in Lebanese pounds are reported before any subsidy or facility from reserve requirements according to Intermediate Circular No 389, and as such they are not comparable year-on-year

Note: bps i.e. basis points

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

## Capital Markets

Most Traded Stocks on BSE	Last Price (\$)	% Change*	Total Volume	Weight in Market Capitalization
Solidere "A"	10.22	(1.54)	74,201	8.60%
BLOM GDR	11.20	1.82	8,931	6.96%
Solidere "B"	10.19	(2.95)	6,944	5.57%
BLOM Listed	10.62	0.19	4,833	19.21%
Byblos Common	1.70	0.00	84	8.09%
Audi Listed	6.80	0.00	-	22.87%
Byblos Pref. 08	102.60	0.00	-	1.73%
Byblos Pref. 09	101.30	0.00	-	1.70%
HOLCIM	11.75	0.00	-	1.93%
Audi GDR	6.50	0.00	-	6.56%

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

Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
Mar 2017	9.00	100.88	4.58
Nov 2018	5.15	99.00	5.72
May 2019	6.00	99.63	6.17
Mar 2020	6.38	99.88	6.42
Apr 2021	8.25	106.00	6.61
Oct 2022	6.10	97.13	6.71
Jun 2025	6.25	94.75	7.09
Nov 2026	6.60	96.38	7.12
Feb 2030	6.65	95.50	7.18
Nov 2035	7.05	97.13	7.33

Source: Byblos Bank Capital Markets

	Jan 3-5	Dec 27-30	% Change	December 2016	December 2015	% Change
<b>Total Shares Traded</b>	98,011	1,500,875	(93.5)	17,811,981	4,158,263	328.4
<b>Total Value Traded</b>	\$1,089,011	\$14,553,886	(92.5)	\$121,409,329	\$32,073,440	278.5
<b>Market Capitalization</b>	\$11.89bn	\$11.90bn	(0.14)	\$11.90bn	\$11.22bn	6.1

Source: Beirut Stock Exchange (BSE)



### Cost of sending remittances from the U.S. declines in fourth 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 5.93% in the fourth quarter of 2016, constituting a decrease from 6.08% in the third quarter of 2016 and an increase from 5.91% in the fourth 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 \$29.65 in the fourth quarter of 2016 relative to \$30.38 in the preceding quarter. Lebanon is the ninth most expensive destination for sending \$500 from the U.S. among 42 countries with available data.

Further, the cost of sending remittances from Canada to Lebanon was 8.11% in the fourth quarter of 2016 for a transfer of CAD500, up from 7.60% in the preceding quarter and from 7.45% in the fourth quarter of 2015. In nominal terms, the cost of sending CAD500 from Canada to Lebanon was CAD40.53 in the fourth quarter of 2016 relative to CAD38.01 in the previous quarter and to CAD37.27 in the same quarter of 2015. Lebanon is the second most expensive destination for sending CAD500 from Canada among 15 countries with available data.

Also, the cost of sending remittances from Australia to Lebanon reached 7.28% in the fourth quarter of 2016 for a transfer of AUD500, down from 7.52% in the third quarter of 2016 and from 7.65% in the fourth quarter of 2015. The cost of sending AUD500 from Australia to Lebanon was AUD36.42 in the fourth quarter of 2016 relative to AUD38.24 in the fourth quarter of 2015. Lebanon is the eighth most expensive destination for sending AUD500 from Australia among 16 countries with available data.

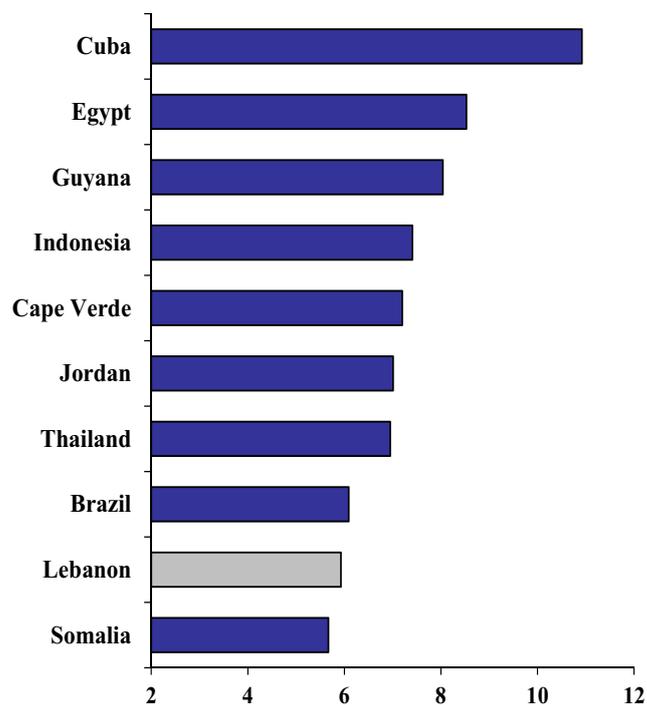
In addition, the cost of sending remittances from France to Lebanon was 6.06% in the fourth quarter of 2016 for a transfer of EUR345, down from 6.88% in the preceding quarter and from 7.94% in the fourth quarter of 2015. In nominal terms, the cost of sending EUR345 from France to Lebanon was EUR20.92 in the fourth quarter of 2016 relative to EUR23.74 in the previous quarter and to EUR27.40 in the fourth quarter of 2015. Lebanon is the fourth most expensive destination for sending EUR345 from France among 16 countries with available data.

Further, the cost of sending remittances from the United Kingdom to Lebanon reached 10.52% in the fourth quarter of 2016 for a transfer of GBP300, up from 9.6% in the preceding quarter. In nominal terms, the cost of sending GBP300 from the UK to Lebanon was GBP31.57 in the fourth quarter of 2016 relative to GBP28.79 in the previous quarter. Lebanon is the second most expensive destination for sending GBP300 from the UK among 33 countries with available data.

Also, the cost of sending remittances from Germany to Lebanon was 8.24% in the fourth quarter of 2016 for a transfer of EUR345, up from 7.22% in the preceding quarter and relative to 7.11% in the fourth quarter of 2015. In nominal terms, the cost of sending EUR345 from Germany to Lebanon was EUR28.42 in the fourth quarter of 2016 relative to EUR24.89 in the previous quarter and EUR24.53 in the fourth quarter of 2015. Lebanon is the third most expensive destination for sending EUR345 from Germany among 24 countries with available data.

Finally, the cost of sending remittances from Saudi Arabia to Lebanon reached 1.83% in the fourth quarter of 2016 for a transfer of SAR1,870, equivalent to \$500, down from 2.08% in the preceding quarter. In nominal terms, the cost of sending SAR1,870 from Saudi Arabia to Lebanon was SAR34.29 in the fourth quarter of 2016 relative to SAR38.97 in the previous quarter. Lebanon is the sixth least expensive destination for sending SAR1,870 from Saudi Arabia among 17 countries with available data.

**Costliest Destinations of Remittances from the United States\* (%)**



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

Source: World Bank, Byblos Research

### **Lebanese banking sector has similar level of vulnerability as sectors in the U.S., Germany and Saudi Arabia**

In its semi-annual risk assessment of 114 banking systems in advanced and emerging economies, Fitch Ratings placed Lebanon's banking sector among 77 banking systems with a "low level of potential vulnerability", the highest category on Fitch's Macro-Prudential Indicator (MPI). The MPI identifies the build-up of potential stress in banking systems due to a specific set of circumstances. It aims to highlight potential systemic stress that could materialize up to three years after an early warning is first detected. As such, it identifies instances of rapid real credit growth over successive two-year periods, along with growth in real property prices, an appreciation in the real exchange rate or a rise in real equity prices. Its assessment is based on three years of annual data, with a trigger in any of the three years determining a country's MPI score. It said that an MPI score of '1' denotes low potential vulnerability, while a score of '2' reflects moderate vulnerability and a score of '3' denotes a high level of vulnerability to potential systemic stress.

Lebanon's MPI score has been unchanged since October 2013, when Fitch upgraded Lebanon's score to '1' from a previous score of '2'. As such, Lebanon, along with Angola, Bahrain, Cameroon, Cape Verde, Egypt, Israel, Kenya, Kuwait, Morocco, Namibia, Nigeria, Oman, Saudi Arabia, the Seychelles, South Africa, Tunisia, the UAE and Uganda have an MPI score of '1' in the Middle East & Africa region. Other countries in this category include Canada, Denmark, France, Germany, Japan and the United States.

In parallel, the agency indicated that Lebanon's banking sector was among 15 banking systems that have a Banking System Indicator (BSI) of 'b'. The BSI is a measure of intrinsic banking system quality or strength, derived from Fitch's Viability Ratings for banks. It deliberately excludes potential support from shareholders or governments since the objective is to highlight systemic weaknesses that might trigger the need for such support. The BSI is an asset-weighted average of bank Viability Ratings for at least two-thirds of banks in any banking system, including systemically important unrated banks. Lebanon came in the 'b' category, along with Egypt and Nigeria in the Middle East & Africa region, as well as with Argentina, Armenia, Ecuador and Kazakhstan, among others, worldwide. Fitch said that 60% of banking systems in developed countries have BSIs of 'a' and higher. It added that only three banking sectors in developed economies have a BSI of 'aa' and only one sector has a BSI of 'ccc' or lower. Also, it indicated that the typical level of banking strength in emerging markets is weaker and is distributed evenly across the 'bbb', 'bb' and 'b' categories, with only three banking sectors in the 'a' and two sectors in the 'ccc' categories. Lebanon, Belarus, the Dominican Republic, Ecuador, Egypt, El Salvador, Kazakhstan, Nigeria, Slovenia, Sri Lanka and Vietnam are the only countries with an MPI score of '1' and a BSI Strength of 'b'.

### **Central Bank regulates banks' proceeds from financial swap operations**

The Central Bank of Lebanon issued Intermediate Circular 446 on December 30, 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 446 replaces Intermediate Circular 440 issued on November 8, 2016 about the excess of funds that banks generated from the Central Bank's recent financial swap operations.

Circular 446 asked banks to book the surplus of funds, which they generated from simultaneously selling local-currency Treasury bonds from their portfolio and buying financial instruments in foreign currency, under deferred liabilities to be included in their Tier Two Capital. It said that banks should use the surplus of funds to meet the collective provisions requirements set by the Central Bank, to comply with the new capital adequacy ratios and to cover any additional costs related to the implementation of the IFRS9 accounting standards. It noted that banks should use the surplus of funds to build provisions in Lebanese pounds to cover the losses from the impact of currency devaluation on the banks' participation in foreign operations. In addition, banks should also cover the goodwill generated from mergers and acquisitions.

The circular indicated that, in case the surplus of funds at banks exceeds the amount they need to meet the previously mentioned requirements, they can release up to 70% of the excess amount. The released amount can be recognized as non-distributable profits eligible under Common Equity Tier One as reserve for capital increase. Further, the circular pointed out that the capital increase is not included in the calculation of the banks' foreign currency position.

### **Central Bank's foreign assets up 10% to \$41bn in 2016**

The Central Bank's interim balance sheet totaled \$102.3bn at the end 2016, constituting a decrease of 1.7% from \$104.1bn at the end of September 2016 and an increase of 12.6% from \$90.9bn at the end of 2015. Assets in foreign currency reached \$40.7bn at the end of 2016, nearly unchanged from \$40.6bn at end-September 2016 and reflecting an increase of 9.7% from \$37.1bn at end-2015. Assets in foreign currency regressed by \$74.6m in January, by \$581.4m in March, by \$558.1m in April, by \$1bn in June, by \$129.2m in September, by \$38m in October and by \$297m in November; while they increased by \$156.5m in February, by \$1.3bn in May, by \$447.2m in July, by \$4bn in August and by \$531.8m in December 2016. This resulted in an aggregate increase of \$3.6bn in 2016. In comparison, the Central Bank's assets in foreign currency increased by \$2.6bn in 2014, while they declined by \$771m in 2015 and by \$445m in 2013.

In parallel, the value of the Central Bank's gold reserves regressed by 12.5% from the end of September 2016 and rose by 8.7% year-on-year to \$10.7bn at end-2016. Also, the Bank's securities portfolio grew by 43.3% year-on-year to \$25.8bn in 2016. Further, deposits of the financial sector at the Central Bank reached \$84.2bn at the end of 2016 and grew by \$2bn, or 2.4% from the end of September 2016 and by \$9.9bn, or 13.3% from end-2015. In comparison, public sector deposits totaled \$5.5bn at the end of 2016 and declined by \$1.46bn, or 21%, from end-September 2016, while they increased by \$105m or 2% year-on-year.

### Financial conditions of Syrian refugees regress

A survey commissioned by the United Nations High Commissioner for Refugees (UNHCR), the World Food Program (WFP) and the United Nations Children's Fund (UNICEF) indicated that Syrian refugees continue to exhaust their limited resources and are adopting more severe coping mechanisms to survive, while their personal debt is on the rise. The survey is part of the 2016 Vulnerability Assessment for Syrian Refugees in Lebanon.

The survey shows that a Syrian refugee in Lebanon spent a mean of \$104 per month in 2016, down by 2.8% from \$107 in 2015. Refugees in Beirut spent \$180 per capita, followed by Syrians in the Metn area at about \$161 per capita, in Jbeil at \$141 per capita and the Kserwan district at about \$140 per capita, while refugees in Hermela and Baalbeck spend around \$60 per capita. It added that per capita expenditures increased in just nine districts in Lebanon, while per capita spending contracted by more than 20% in each of Baabda, Baalbek, Bécharré, Bint Jbeil, Hermel and Jbeil. It indicated that spending on food accounted for 44% of total monthly expenditures in 2016, followed by rent (17%) and healthcare (12%), while other categories, such as hygiene, telecom, water, transport and electricity, represented the remaining 27%. In addition, the survey pointed out that 85% of Syrian households said that they pay rent, and that this category of spending is among the top concerns for them. It noted that the average monthly rent was \$189, with a high of \$327 in Beirut and a low of \$117 in each of the Akkar and Baalbek-Hermel governorates. It added that rent ranges from \$53 for a tent to an average of \$248 for a non-shared apartment or house. Further, the survey revealed that 53% of households spend less than \$87 per month, which is below the Survival Minimum Expenditure Basket that includes basic items needed for the physical survival of a household. It estimated that 71% of Syrian refugee households lived below the poverty line of \$3.84 per person per day in 2016, nearly unchanged from 70% a year earlier, and up from 49% in 2014.

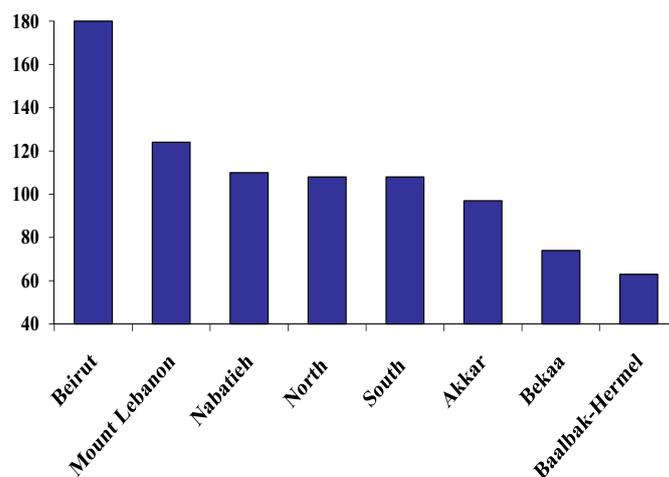
In parallel, the survey indicated that income opportunities remain a challenge for Syrian refugee households. It noted that 53% of households cited informal credit from shops, friends and family as the primary source of income; followed by food vouchers (33%); temporary construction work (32%); work in the services sector (25%); employment in agriculture (21%) and work in manufacturing (8%). As a result, the survey pointed out that households have adopted coping strategies, as 85% of households said that they reduced their spending on food, 77% noted that they bought food on credit and 67% reported a decrease in spending on essential non-food items. It added that refugees in 2016 have increasingly used coping strategies that directly affected the households' livelihood, such as selling household goods, personal assets or real estate held in Syria.

Further, the survey showed that 90% of Syrian households are currently in debt, with 78% of households reporting debt in excess of \$200 each and 44% having debt in excess of \$600 each. It noted that indebted refugees have accumulated an average of \$857 in debt in 2016 per household, up from \$842 in 2015. It added that households in Beirut, the Minieh-Dannieh area and Jezzine have the lowest amount of debt, and that the percentage of households with debt in these districts decreased since 2015. It said that 71% of households reported that they borrowed money to buy food, 38% said that they resorted to debt to cover healthcare expenses and 35% revealed that they borrowed funds to pay rent. Also, 70% of households cited friends and relatives as the main sources of borrowed money, followed by supermarkets and shops (38%) and landlords (8%). The survey was conducted between May and June 2016 for quantitative analysis, and discussion groups were held to gather qualitative information. The data was collected from 4,596 Syrian refugee households across Lebanon.

### Coincident Indicator up 4% year-on-year in first 10 months of 2016

The Central Bank's Coincident Indicator, an index of economic activity in Lebanon, reached 287.1 points in October 2016 compared to 284.2 in September 2016 and 281.4 in October 2015. The Coincident Indicator, an average of 8 weighted economic indicators, increased by 1% month-on-month and by 2% year-on-year in October 2016. The indicator averaged 286.7 in the first 10 months of 2016, up 4.3% from 274.8 in the same period of 2015. Also, the indicator averaged 288.6 in the 12-month ending October 2016, compared to 288.1 in the 12-month ending September 2016 and 275.8 in the 12-month ending October 2015. As a result, the 12-month average coincident indicator rose by a marginal 0.2% month-on-month and by 4.6% year-on-year. In parallel, the indicator improved 21 times, regressed two times and was unchanged one time on a monthly basis in the month of October since 1993. It averaged 249.5 points in 2010, 255.7 points in 2011, 256.6 points in 2012, 264.7 points in 2013, 273.2 points in 2014 and 278.6 points in 2015.

### Spending per Syrian Refugee by Governorate (US\$)



Source: United Nations High Commissioner for Refugees, World Food Program, United Nations Children's Fund, Byblos Research

### New Cabinet sets ambitious agenda

The new Council of Ministers indicated in its Ministerial Statement that the government plans to set a series of priorities in the coming months to restore investor confidence, improve the investment climate, create jobs, and achieve sustainable economic growth in Lebanon. These measures include the ratification of a budget for 2017, the implementation of structural reforms, and putting forth plans for infrastructure and economic development projects. Also, the Cabinet plans to submit a series of draft laws to Parliament that are aimed at improving the business environment in the country, as well as to implement measures to stimulate and improve productive sectors such as tourism, industry and agriculture. Further, the Cabinet noted that macroeconomic stability will remain the cornerstone of Lebanon's economic policy, along with preserving monetary stability.

The Cabinet also pledged in its statement to speed up the processes of approving and formulating the necessary decrees and laws related to the licensing, exploration and extraction of the country's hydrocarbon resources. Further, the government plans to develop the information technology and telecommunication sectors in the country through reducing the cost to end-users and improving the speed and quality of services. In parallel, the government committed to immediately address the chronic issues of public service delivery, including electricity and water, road infrastructure and traffic jams, in addition to the solid waste management problem and the water pollution of the Litani River. Also, the Cabinet intends to expand the country's social safety net, along with achieving a universal healthcare system and giving the right of education for all Lebanese and for all children residing in Lebanon. It aims to continue implementing the national program to fight poverty and, in particular, it committed to secure the necessary funds to combat extreme poverty.

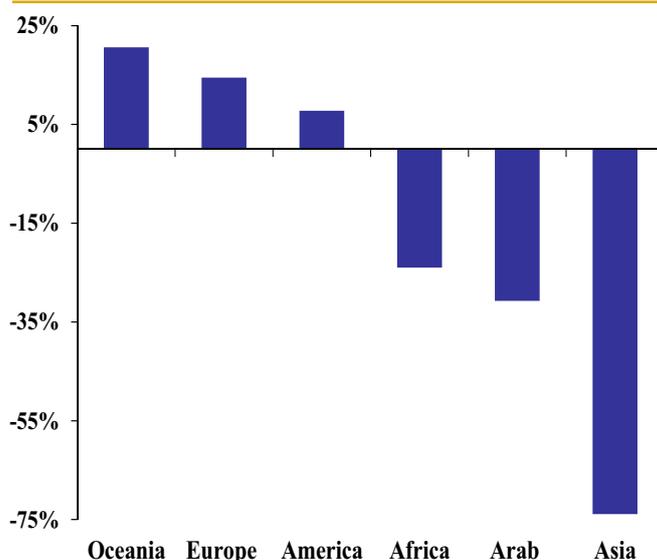
In parallel, the government pledged in its statement to develop a national strategy to fight corruption and to swiftly implement effective measures in the sectors that are prone to fraud. First, it plans to abolish the influence of the political class on supervisory public agencies that were not properly functioning, along with reactivating and improving the supervisory roles of these organizations. Second, the government plans to appoint qualified personnel to the vacant positions in the public administration and at public institutions.

### Tourist arrivals up 11% in first 11 months of 2016

The number of incoming visitors to Lebanon totaled 1,546,820 in the first 11 months of 2016, constituting an increase of 10.9% from 1,394,340 tourists in the same period of 2015, and a drop of 23.3% from 2 million visitors in the first 11 months of 2010. Also, the number of incoming visitors reached 121,725 in November 2016, up by 21.8% from 99,952 in November 2015. Visitors from European countries accounted for 33.5% of the total in the first 11 months of 2016, followed by visitors from Arab economies with 31.1%, the Americas with 17.5%, Asia with 7.3%, Africa with 6.1% and Oceania with 4.4%. Also, tourists from Iraq accounted for 14.3% of total visitors in the covered period, followed by visitors from the U.S. (9.1%), France (8.6%), Canada (5.9%), Germany (5.3%), Jordan (5.2%), Egypt (4.9%) and the United Kingdom (3.7%).

In parallel, the number of visitors from Oceania rose by 24.6% year-on-year in the first 11 months of 2016, followed by visitors from African countries (+22.1%), the Americas (+11.9%), Europe (+10.9%), the Arab region (+9%) and Asia (+2.5%). On a country basis, the number of tourists from Venezuela and Iraq surged by 24.9% each year-on-year in the first 11 months of 2016, followed by visitors from Sweden (+22.5%), Turkey (+19.6%), Germany (+16.4%), the U.S. (+13.1%), Egypt (+11.9%), Jordan (+11.1%), Brazil (+10.3%), Canada (+9.2%), France (+7.5%) and the United Kingdom (+6.7%). In contrast, the number of visitors from the UAE fell by 74.7%, followed by those from Kuwait (-25.1%), Saudi Arabia (-19.1%) and Italy (-0.7%).

Change in the Number of Tourist Arrivals from Main Sources in First 11 Months of 2016\*



\* from the same period of 2010

Source: Ministry of Tourism, Byblos Research

### Occupancy rate at Beirut hotels at 58%, room yields down 15% in first 11 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 11 months of 2016, unchanged from the same period of 2015 and compared to an average rate of 61% in 14 Arab markets included in the survey. The occupancy rate at Beirut hotels was the sixth lowest in the region in the first 11 months of 2016, similar to its rank in the same period of 2015. In comparison, the average occupancy rate in Arab markets fell by 2.8 percentage points year-on-year in the first 11 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, 54% in October and 65% in November 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, 55% in October and 57% in November 2015. The survey noted that the 8% year-on-year increase in Beirut's hotel occupancy in November 2016 could be due to a more stable political environment in Lebanon as a result of the election of a new President.

The average rate per room at Beirut hotels was \$137 in the first 11 months of 2016, ranking the capital's hotels as the third least expensive in the region relative to Abu Dhabi (\$125) and Cairo (\$132). The average rate per room at Beirut hotels regressed by 16.2% 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 \$201.4 that decreased by 3.7% from the same period of 2015.

Further, revenues per available room (RevPAR) were \$81 in Beirut in the first 11 months of 2016, down from \$95 in the same period of 2015 and were, along with those in Amman, the lowest in the region. Beirut's RevPAR decreased by 15.2% year-on-year and posted the fifth 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, \$112 in September, \$72 in October and \$85 in November 2016, compared to \$92 in January, \$91 in February, \$90 in March, \$97 in April, \$118 in May, \$89 in June, \$111 in July, \$113 in August, \$92 in September, \$86 in October and \$85 in November 2015. Makkah posted the highest average rate per room in the region at \$290, Jeddah posted the highest RevPAR at \$207, while Dubai posted the highest occupancy rate at 80% in the first 11 months of 2016.

### Consumer Price Index down 1% in first 11 months of 2016

The Central Administration of Statistics' Consumer Price Index regressed by 1.2% year on-year in the first 11 months of 2016 compared to a decline of 3.8% in first 11 months of 2015. But the CPI increased by 1.8% in November 2016 from November 2015. The prices of clothing & footwear grew by 8% year-on-year in November 2016, followed by actual rents (+7.9%), recreation & entertainment costs (+4.3%), imputed rents (+4.1%), the cost of education (+3.5%), prices at restaurants & hotels (+2.5%), transportation costs (+2%), miscellaneous goods & services (+1.6%), prices of alcoholic beverages & tobacco (+0.9%), those of furnishings & household equipment (+0.8%) and the prices of water, electricity, gas & other fuels (+0.1%). The distribution of actual rents shows that old rents grew by 15.3% annually in November 2016, while new rents increased by 3.1% from the same month of 2015. In contrast, healthcare costs regressed by 1.1% year-on-year in the first 11 months of the year, followed by the prices of food & non-alcoholic beverages (-0.6%) and communication costs (-0.1%).

Further, the CPI grew by 0.4% in November 2016 from the preceding month, relative to a month-on-month increase of 0.9% in October 2016. Prices of clothing & footwear increased by 2.2% month-on-month, followed by the prices of water, electricity, gas & other fuels (+0.8%), prices of food & non-alcoholic beverages and actual rents (+0.5% each), imputed rents (+0.3%), recreation & entertainment costs, furnishings & household equipment and transportation costs (+0.2% each), prices at restaurants & hotels and miscellaneous goods & services (+0.1% each). In contrast, healthcare costs regressed by 0.3% and communication costs decreased by 0.2% from the preceding month, while the prices of alcoholic beverages & tobacco and the cost of education were unchanged month-on-month in November 2016. The CPI increased by 0.8% month-on-month in each of the Bekaa and the North, by 0.5% in Beirut, by 0.3% in the South and by 0.2% in Mount Lebanon, while it regressed by 0.1% in Nabatieh. In parallel, the Fuel Price Index grew by 0.9% month-on-month in November 2016, while the Education Price Index was unchanged from the preceding month.

### Hotel Sector Performance in First 11 Months of 2016

	Occupancy Rate (%)	RevPAR (US\$)	RevPAR % change
Jeddah	72	207	(5.7)
Dubai	80	198	(7.5)
Madina	60	141	(13.6)
Makkah	47	136	(6.5)
Doha	63	136	(17.3)
Muscat	65	121	(13.0)
Ras Al Khaimah	72.6	116	10.9
Riyadh	57	110	(19.2)
Kuwait City	39	105	(15.4)
Manama	50	100	(5.6)
Abu Dhabi	77	97	(16.6)
Cairo City	63	83	54.0
Amman	51	81	(10.5)
<b>Beirut</b>	<b>58</b>	<b>81</b>	<b>(15.2)</b>

Source: EY, Byblos Research

### Number of real estate transactions up 2% in first 11 months of 2016, transactions by foreigners down 23%

Figures released by the Ministry of Finance indicate that there were 57,774 real estate transactions in the first 11 months of 2016, constituting an increase of 2% from 56,637 deals in the same period of 2015. In comparison, the number of real estate transactions dropped by 11.1% in the first 11 months of 2015. There were 12,209 real estate transactions in the Baabda area during the first 11 months of 2016, representing 21.1% of the total. The North followed with 9,253 transactions (16%), then the Zahlé region with 7,220 transactions (12.5%), the Metn district with 6,359 transactions (11%), the Keserwan area with 6,180 transactions (10.7%), the South with 5,814 transactions (10.1%), Nabatieh with 5,302 transactions (9.2%) and Beirut with 3,699 transactions (6.4%).

Also, the aggregate value of real estate transactions reached \$7.5bn in the first 11 months of 2016 and increased by 5.4% from \$7.1bn in the same period of 2015. In comparison, the value of real estate deals totaled \$8.1bn in the first 11 months of 2014. The value of real estate transactions in Beirut reached \$1.9bn and accounted for 25.1% of the total in the covered period. The Baabda district followed with \$1.8bn (24.2%), then the Metn region with \$1.3bn (17.9%), the Keserwan area with \$766.9m (10.2%), the North with \$526.6m (7%), the South with \$512.4m (6.8%), the Zahlé area with \$282.3m (3.8%), and Nabatieh with \$217.8m (2.9%).

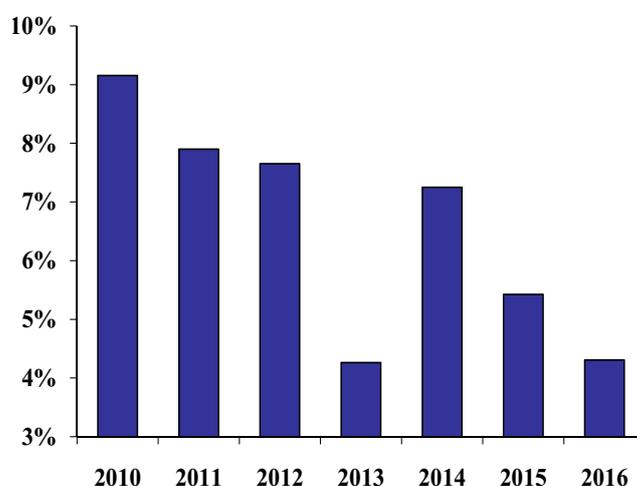
In parallel, the average value per real estate transaction was \$129,623 in the first 11 months of 2016, up by 3.3% from an average value of \$125,490 in the same period of 2015 and relative to \$126,378 in the first 11 months of 2014. Further, there were 967 real estate transactions executed by foreigners in the first 11 months of 2016, which constituted a decrease of 23.3% from 1,260 deals in the same period of 2015, and compared to an annual increase of 23.5% in the first 11 months of 2015 and a drop of 7.7% 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 11 months of 2016 compared to 2.2% of deals in the same period of 2015 and to 1.6% of deals in the first 11 months of 2014. In parallel, 27.9% of the real estate transactions executed by foreigners were in the Baabda district during the first 11 months of 2016, followed by Beirut (19.2%), the Metn region (14.1%), the South (12.6%), the Keserwan area (9.5%), the North (8.7%), Zahlé (5.4%), and Nabatieh (2.3%).

### Number of new construction permits up 16%, surface area up 0.5% in first 11 months of 2016

The Orders of Engineers & Architects of Beirut and of Tripoli issued 15,891 new construction permits in the first 11 months of 2016, constituting an increase of 15.6% from 13,743 permits in the first 11 months of 2015, and relative to a drop of 10.5% in the same period of 2015. Mount Lebanon accounted for 35.7% of newly-issued construction permits in the first 11 months of 2016, followed by the South with 18.8%, the North with 15.8%, Nabatieh with 13.7%, the Bekaa with 9.1% and Beirut with 3.9%. The remaining 3% 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 North rose by 75.2% year-on-year in the first 11 months of 2016, followed by permits for the South (+28.1%), Nabatieh (+19.2%) and the Bekaa (+2.5%). In contrast, the number of new construction permits issued for Beirut dropped by 17.1% year-on-year in the first 11 months of 2016 and those issued for Mount Lebanon regressed by 1.1%, while permits issued for regions located outside northern Lebanon grew by 89.9% year-on-year.

Further, the surface area of granted construction permits reached 11.3 million square meters (sqm) in the first 11 months of 2016, representing a rise of 0.5% from the first 11 months of 2015. In comparison, the surface area of granted construction permits regressed by 10.3% year-on-year in the first 11 months of 2015. Mount Lebanon accounted for 4.9 million sqm, or 42.9% of the total, in the first 11 months of 2016. The North followed with 1.65 million sqm (14.5%), then the South with 1.6 million sqm (14.2%), the Bekaa with 1.15 million sqm (10.2%), Nabatieh with 1.09 million sqm (9.6%), and Beirut with 487,270 sqm (4.3%). The remaining 475,235 sqm, or 4.2% 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 22.7% year-on-year in the covered period, followed by the South (+16.1%), Nabatieh (+15.2%) and the North (+11.1%). In contrast, the surface area of construction permits issued for Beirut decreased by 20.2%, and that issued for Mount Lebanon regressed by 9.8%. The surface area of granted construction permits for regions located outside northern Lebanon declined by 7.3% year-on-year. In parallel, cement deliveries totaled 4.4 million tons in the first 10 months of 2016, constituting an increase of 7.6% from 4.1 million tons in the same period of 2015 and relative to a drop of 12.3% in the first 10 months of 2015.

Surface Area of new Construction Permits in Beirut\* (% of Total)



\* in the first 11 months of each year

Source: Orders of Engineers & Architects of Beirut and Tripoli

### Cabinet approves oil & gas decrees

The new Cabinet approved two decrees related to the development of the offshore oil & gas industry in Lebanon, including block description, the tender protocol and the model exploration and production agreement (EPA). The decrees outline the terms of the EPA for Lebanon's offshore hydrocarbon resources, and specify the maritime border and number of blocks in Lebanon's Exclusive Economic Zone (EEZ) that will be open for bidding. The EPA is an agreement between the government and pre-qualified oil companies that provides the petroleum right holders the exclusive right to explore, develop and produce oil and gas in Lebanon's offshore EEZ. The full details concerning the tender protocol and the model EPA have not been released yet.

The two decrees pave the way for the first licensing round of offshore gas and oil exploration in Lebanon's EEZ, which consists of 10 blocks with the size of each block ranging from 1,259 square kilometers to 2,374 square kilometers. The total area of the blocks is 21,500 square kilometers, in addition to a buffer zone along the coast with an area of 1,200 square kilometers where petroleum activities are not allowed. The Ministry of Energy & Water indicated that Lebanon will offer five offshore blocks for bidding. It estimated the exploration phase to take about five years before extraction begins. It noted that Lebanon could sign its first deal with the winning companies within nine months.

The ministry plans to conduct another pre-qualification round for companies interested in participating in the first licensing round, and that subsequently may be awarded exclusive petroleum rights. In 2013, 46 companies were qualified to take part in the bidding for oil and gas tenders, of which 12 were pre-qualified as right-holder operators and 34 as right-holder non-operators. In parallel, the Cabinet agreed to form a ministerial committee to study the tax regime for the hydrocarbon industry, and another committee to discuss a draft hydrocarbon law.

### Trade deficit widens by 7% to \$14bn in first 11 months of 2016

The total value of imports reached \$17.2bn in the first 11 months of 2016, constituting an increase of 5.8% from the same period of 2015; while the aggregate value of exports increased marginally by 0.6% to reach \$2.7bn in the covered period. As such, the trade deficit widened by 6.8% year-on-year to \$14.4bn in the first 11 months of 2016 due to an increase of \$941.7m in imports. The rise in imports mainly reflects an increase of \$657m, or 23.1%, in the value of imported oil & mineral fuels to \$3.5bn in the first 11 months of 2016. The value of oil & mineral fuels accounted for 20.4% of total imports in the covered period compared to a share of 17.5% in the first 11 months of 2015. The coverage ratio was 15.9% in the first 11 months of 2016 compared to 16.7% in the same period of 2015, while it reached 17.1% in November 2016 relative to 14.4% in the same month of 2015.

In volume terms, imports reached 16.1 million tons in the first 11 months of 2016 compared to 14 million tons in the same period of 2015, while exports regressed by 16.6% annually to 1.5 million tons in the covered period. Imports of oil & mineral fuels increased by 27% year-on-year to 8.2 million tons, while non-hydrocarbon imports grew by 5.4% annually to 7.9 million tons. Also, imported oil & mineral fuels accounted for 50.8% of total imports in the covered period relative to a 46.2% share in the first 11 months of 2015. The increase in the imports of oil & mineral fuels is mainly due to the discrepancy in the data reported by Electricité du Liban (EdL), as EdL's imports' schedule varies from year to year.

China was the main source of imports with \$1.9bn, or 11.2% of the total, in the first 11 months of 2016, followed by Italy with \$1.3bn (7.4%), the United States with \$1.1bn (6.4%), Germany with \$1.07bn (6.2%), Greece with \$940.2m (5.5%), Egypt with \$716.5m (4.2%) and Russia with \$685.2 (\$4%). Imports from Egypt rose by 67.2%, those from Greece grew by 30.6%, imports from United States increased by 16.8%, those from Italy expanded by 7.4% and imports from China grew by 0.4%; while imports from Russia fell by 11.7% and those from Germany declined by 5.2% year-on-year. In parallel, the Port of Beirut was the entry point for 72.7% of Lebanon's imports in the first 11 months of 2016, followed by the Hariri International Airport (19.8%), the Port of Tripoli (5.3%), the Port of Saida (1.4%), the Arida and Masnaa crossing points (0.3% each), and the Abboudieh and Tyre crossing points (0.1% each).

Further, South Africa was the main export destination of Lebanese merchandise with \$608.5m, or 22.3% of total exports, followed by Saudi Arabia with \$245.3m (9%), the UAE with \$219m (8%), Syria with \$169.3m (6.2%), Iraq with \$149m (5.5%) and Jordan with \$93.4m (3.4%). Exports to South Africa grew by 3.3 times year-on-year in the first 11 months of 2016, while those to Iraq contracted by 26%, exports to Saudi Arabia dropped by 24.5%, those to the UAE regressed by 24%, exports to Syria fell by 12.3% and those to Jordan decreased by 10.1% year-on-year.

Lebanon's main exports were jewelry with \$780.5m, which accounted for 28.6% of the total. They were followed by prepared foodstuff at \$404.8m (14.8%), machinery & mechanical appliances at \$307m (11.2%), chemical products at \$278.6m (10.2%), base metals at \$224.7m (8.2%), vegetable products at \$167.4m (6.1%), plastics & rubber at \$123.1m (4.5%) and paper products at \$120m (4.4%). In parallel, the Port of Beirut was the exit point for 46.8% of Lebanon's total exports in the first 11 months of the year, followed by the Hariri International Airport (39.6%), the Port of Tripoli (7.1%), the Masnaa crossing point (3.1%), the Arida crossing point (2%), the Abboudieh crossing point (0.8%) and the Port of Saida (0.5%). Re-exports totaled \$465.1m in the first 11 months of 2016 compared to \$453.4m in the same period of 2015.



### Gross public debt at \$74.54bn at end-November 2016

Lebanon's gross public debt reached \$74.54bn at the end of November 2016, constituting an increase of 6% from \$70.3bn at end-2015 and a rise of 5.8% from \$70.4bn at the end of November 2015. In nominal terms, the gross public debt grew by \$4.2bn in the first 11 months of 2016 relative to an increase of \$3.9bn in the same period of 2015. Debt denominated in Lebanese pounds totaled \$46.4bn at end-November 2016, growing by 7.2% from the end of 2015 and by 7% from end-November 2015; while debt denominated in foreign currency stood at \$28.2bn, constituting a rise of 4.1% from end-2015 and an increase of 3.9% from a year earlier. Local currency debt accounted for 62.2% of the gross public debt at the end of November 2016 compared to 61.5% a year earlier, while foreign currency denominated debt represented the balance of 37.8% relative to 38.5% at end-November 2015. The weighted interest rate on outstanding Treasury bills was 6.94% and that on Eurobonds was 6.45% in November 2016. Further, the weighted life on Eurobonds was 6.24 years, while that on Treasury bills was 1,272 days.

The Central Bank held 43.5% of the Lebanese pound-denominated public debt at the end of November 2016, up from 36.6% a year earlier, followed by commercial banks with 41% of the local debt, down from 46.6% at end-November 2015. Also, public agencies, financial institutions and the public held 15.5% of local debt at end-November 2016, down from 16.8% a year earlier. In parallel, Eurobond holders and special T-bills in foreign currencies accounted for 92.9% of foreign-currency denominated debt at the end of November 2016, followed by multilateral institutions with 3.7%, foreign governments with 3.3% and Paris II loans with 0.1%. Commercial banks held about 46.6% of the total public debt as at end-November 2016 relative to 53.8% of the total at the end of 2015. Also, the gross market debt accounted for about 64% of total the public debt. Gross market debt is the total public debt less the portfolios of the Central Bank, the National Social Security Fund, bilateral and multilateral loans, as well as Paris II and Paris III related debt.

In parallel, Fitch Ratings rates Lebanon's long- and short-term foreign currency sovereign credit ratings at 'B-'. But the Market-Based Credit Default Swap Implied Ratings, an indicator of risk appetite by foreign investors, show that Lebanon's sovereign debt is considered by the market to have a 'B' risk level, which is one notch higher than Fitch's rating as at January 5, 2017.

### Value of cleared checks down 2%, returned checks down 4.5% in first 11 months of 2016

The value of cleared checks reached \$62.3bn in the first 11 months of 2016, constituting a decrease of 2% from \$63.6bn in the same period of 2015. In comparison, the value of cleared checks regressed by 6.9% in the first 11 months of 2015 and increased by 3.4% in the same period of 2014. The value of cleared checks in Lebanese pounds grew by 6% year-on-year to the equivalent of \$18bn in the first 11 months of 2016, while their value in US dollars declined by 5% to \$44.3bn in the covered period. The dollarization rate of cleared checks decreased to 71.1% from 73.3% in the first 11 months of 2015. Further, there were 11.3 million cleared checks in the first 11 months of 2016, down by 1.1% from 11.4 million in the same period last year.

In parallel, the value of returned checks in domestic and foreign currency was \$1.34bn in the first 11 months of 2016 compared to \$1.41bn in the same period of 2015 and \$1.44bn in the first 11 months of 2014. This constituted a drop of 4.5% year-on-year in the first 11 months of 2016 relative to a decrease of 2.2% in the same period of 2015 and an increase of 1.6% in the first 11 months of 2014. Also, there were 208,200 returned checks in the covered period, down by 3.1% from 214,900 checks in the first 11 months of 2015.

### Slight improvement in commercial activity in second quarter of 2016

The Central Bank's quarterly business survey of the opinions of business managers shows that the volume of commercial sales improved in relative terms quarter-on-quarter during the second quarter of 2016, with the balance of opinions standing at -18 compared to -24 during the preceding quarter and to -12 during the second quarter of 2015. The business survey reflects the opinions of enterprise managers about their business activity in order to depict the evolution of a number of key economic variables. The balance of opinions was the lowest in each of Beirut & Mount Lebanon and the Bekaa region at -22, followed by the North (-20) and the South (+20). The survey shows that the balance of opinions about the sales of food items was -1 in the second quarter of 2016 relative to -16 in the preceding quarter and to zero in the same quarter of 2015. The balance of opinions about the sales of non-food products was -23 in the second quarter compared to -30 in the preceding quarter and to -14 in the second quarter of 2015; while it was -26 for inter-industrial goods, relative to -22 in the previous quarter and to -20 in the second quarter of 2015. Also, the balance of opinions for inventory levels in all commercial sub-sectors was -7 in the second quarter of 2016, compared to zero in the previous quarter and to -8 in the second quarter of 2015. Opinions about the level of inventories were the lowest in the North as they reached -28, followed by the South (-20), Beirut & Mount Lebanon (-1) and the Bekaa (+4). The balance of opinions is the difference between the proportion of surveyed managers who consider that there was an improvement in an indicator and the proportion of those who reported a decline in the same indicator.

Commercial Activity: year-on-year evolution of opinions				
Aggregate results	Q2-13	Q2-14	Q2-15	Q2-16
Sales volume	-17	-8	-12	-18
Number of employees	-1	+1	-5	-4
Inventories of finished goods	-4	-1	-7	0
Q2-16 Regional results	Beirut / Mount Lebanon	North	South	Bekaa
Sales volume	-22	-20	-22	-18
Inventories of finished goods	-1	-28	+4	+15

Source: Central Bank business survey for second quarter of 2016

### Commercial banks' assets reach \$201bn at end-November 2016

The consolidated balance sheet of commercial banks operating in Lebanon shows that total assets reached \$201bn at the end of November 2016, constituting an increase of 8% from the end of 2015 and a rise of 9.7% from end-November 2015. Loans extended to the private sector reached \$56.5bn at the end of November 2016, reflecting an increase of 4.2% from the end of 2015 and a rise of 6.2% from end-November 2015. Loans to the resident private sector totaled \$50.7bn and grew by 5.5% from the end of 2015 and by 6.8% year-on-year; while credit to the non-resident private sector reached \$6.3bn, expanding by 1.5% from end-2015 and by 8.8% from end-November 2015. In nominal terms, credit to the private sector increased by \$2.27bn in the first 11 months of 2016 relative to a growth of \$2.32bn in the same period of 2015. Lending to the resident private sector grew by \$2.65bn in the first 11 months of 2016 relative to an increase of \$2.1bn in the same period of 2015, while credit to the non-resident private sector expanded by \$95m in the first 11 months of the year compared to an increase of \$234.2m in the same period of 2015. The dollarization rate in private sector lending regressed to 72.6% at the end of November 2016 from 74.5% a year earlier. In addition, claims on non-resident banks reached \$9.2bn at the end of November 2016, down by 20.6% from the end of 2015, while claims on the public sector stood at \$34.7bn at the end of November, down by 8.2% from end-2015. The average lending rate in Lebanese pounds was 8.26% in November 2016, while the same rate in US dollars stood at 7.16%. Further, the deposits of commercial banks at the Central Bank totaled \$87.9bn at the end of November 2016, constituting a jump of 24.6% from the end of 2015 and a rise of 26.2% from the end of November 2015.

In parallel, private sector deposits totaled \$159.2bn at the end of November 2016, constituting an increase of 5% from the end of 2015 and a rise of 6.3% from end-November 2015. Deposits in Lebanese pounds reached \$55.2bn and grew by 3.7% from end-2015 and by 4.1% from a year earlier; while deposits in foreign currencies totaled \$104bn and increased by 5.7% from the end of 2015 and by 7.5% from end-November 2015. Aggregate non-resident deposits reached \$33.1bn at the end of November and expanded by 3.9% from end-2015 and by 6.9% from a year earlier.

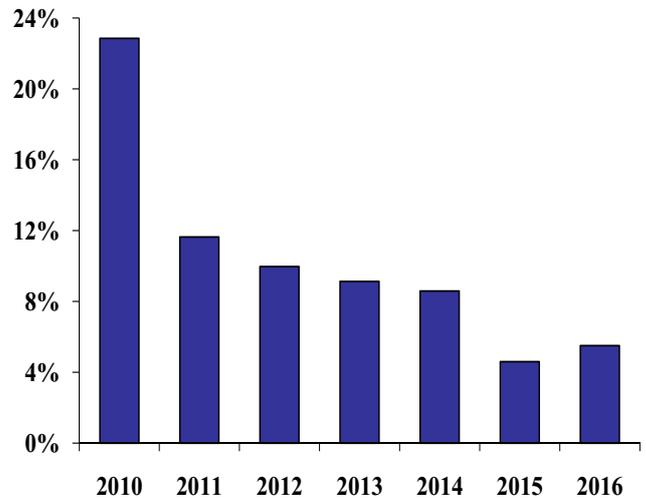
In nominal terms, private sector deposits regressed by \$88.9m in January, by \$80.9m in February and by \$491.5m in October; while they increased by \$1bn in March, by \$486.2m in April, by \$959.2m in May, by \$768.8m in June, by \$409.3m in July, by \$2bn in August, by \$1.05bn in September and by \$1.5bn in November 2016. As such, total private sector deposits rose by \$7.6bn in the first 11 months of 2016 compared to an increase of \$5.4bn in the same period of 2015. Resident private sector deposits grew by \$6.4bn in the first 11 months of 2016 relative to a rise of \$4.7bn in the same period of 2015, while non-resident deposits jumped by \$1.2bn in the first 11 months of the year compared to an increase of \$662m in the same period of 2015. Further, deposits of non-resident banks reached \$6.5bn at the end of November 2016, down marginally by 0.3% from end-2015 and up by 2.4% from a year earlier.

The dollarization rate of deposits was 65.3% at the end of November 2016 relative to 64.6% a year earlier. Further, the average deposit rate in Lebanese pounds was 5.54% in November 2016 compared to 5.56% a year earlier, while the same rate in US dollars was 3.48% relative to 3.17% in November 2015. In addition, the ratio of private sector loans-to-deposits in foreign currency stood at 39.4%, well below the Central Bank's limit of 70% and compared to 41% a year earlier. The same ratio in Lebanese pounds was 28.1% at end-November 2016 relative to 25.6% at the end of November 2015. The ratio of total private sector loans-to-deposits was 35.5%, unchanged from end-November 2015. The banks' aggregate capital base stood at \$17.8bn, up by 6.5% from \$16.7bn at end-2015.

### Stock market index up 0.5% in 2016

Figures released by the Beirut Stock Exchange (BSE) indicate that trading volume reached 120.5 million shares in 2016, constituting an increase of 61.4% from 74.6 million shares traded in 2015; while aggregate turnover amounted to \$971.6m, up by 54.5% from a turnover of \$629m in 2015. Market capitalization grew by 6.1% from the end of 2015 to \$11.9bn, with banking stocks accounting for 83.1% of the total, followed by real estate shares (14.5%), industrial firms (2.1%) and trading stocks (0.3%). The market liquidity ratio was 8.2% in 2016 compared to 5.6% in 2015. Banking stocks accounted for 92.2% of the aggregate trading volume in 2016, followed by real estate equities with 7.6% and industrial shares with 0.2%. Also, banking stocks represented 89.6% of the aggregate value of shares traded, followed by real estate equities with 10.1% and industrial stocks with 0.3%. The average daily traded volume for the period was 493,739 shares for an average daily value of \$4m. The figures reflect an increase of 59.4% in volume and a rise of 52.6% in value year-on-year. In parallel, the Capital Markets Authority's Market Value-Weighted Index for stocks traded on the BSE increased by 0.5% in 2016, while the CMA's Banks Market Value-Weighted Index rose by 13.6% from end-2015.

### Resident Private Sector Lending Growth\* (% Change)



\* in the first 11 months of each year

Source: Association of Banks in Lebanon, Byblos Research

### **Contracts of electricity distribution service providers extended until 2020**

State-owned utility company Electricité du Liban (EdL) announced that it renewed for four years the contracts of three electricity distribution service providers (DSPs), BUTEC Utility Services sal (BUS), KVA sal and the National Electricity Utility Company sal (NEU Company). The terms of the renewed contracts remained unchanged from the original version. The renewed contracts need to be ratified by the Ministry of Energy & Water and the Ministry of Finance to go into effect. EdL provided two four-month extensions to the contracts of the three DSPs in 2016, after the original contracts expired in April 2016. The extensions of the contracts were attributed to the labor strikes of EdL's contractual workers in 2012 and 2014, when workers shut down EdL's facilities, which contributed to delaying the implementation of the contracts.

In April 2012, EdL, in association with the Ministry of Energy & Water, awarded BUS, KVA sal and the NEU Company four-year contracts to provide various services on behalf of EdL, including the installation of smart meters. The contracts stipulate that, in case of delays in the execution of certain contractual obligations that fall within the DSP's responsibility, the latter would be penalized. However, the contracts would be extended automatically and for a mutually agreed time period with EdL, in case the delays were the result of external factors that are unrelated to the DSP's performance. Also, EdL has the right to terminate the contracts at will but may bear some consequences to its decision.

The DSPs are in charge of operating and maintaining the electricity distribution networks across Lebanon, along with customer and metering services on behalf of EdL. They also collect subscription fees, install electric meters, conduct network surveys, as well as manage assets, among other responsibilities. BUS, a subsidiary of the BUTEC Group, manages the network in the North and the northern parts of Mount Lebanon; KVA provides its services to Beirut and the Bekaa Valley areas; while NEU Company, which is part of the Debbas Group, covers six regions and 16 divisions in Mount Lebanon and the South.

### **Banks renew collective labor agreement with Federation of Bank Employees**

The Association of Banks in Lebanon renewed the collective labor agreement (CLA) with the Federation of Bank Employees for two additional years, retroactive as of the beginning of January 2016. The CLA governs the professional relationship between the management of commercial banks and their employees. The 2016-2017 CLA maintains the currently adopted payroll plan and working hours that were agreed upon in the 2013-2014 CLA, as well as the school and university tuition stipends, transportation remuneration, marriage and maternity bonuses, and cashiers' allowances, among other benefits.

Further, the agreement maintained the banks' financial contribution towards their current employees' medical treatment that is conducted at venues other than hospitals. In addition, the CLA indicated that employees with a minimum of 25 years of continuous employment and who claim their end-of-service indemnity from the National Social Security Fund will receive an additional financial compensation, equivalent to five or six months of salary, depending on the number of years of service.

In parallel, banks need to ensure that their employees have the right to adhere to a second class hospitalization coverage insurance plan known as the Conversion Privilege Options (CPO) system. Bank employees would benefit from health coverage following their retirement either through the services of an insurance company or a hospitalization mutual fund. Also, employees would have the right to adhere to the coverage plan within 90 days following the start of their retirement and would be required to pay an insurance premium for the coverage. Further, the coverage plan would allow bank employees to purchase the CPO plan for their spouse, provided that they bear the insurance premium. In parallel, the CLA stipulates that the CPO plan would remain in effect as long as banks do not implement a private insurance system for retirees that would provide more services than the CPO system. There were 24,638 employees in the banking sector in Lebanon at the end of 2015, up by 15.5% from 21,338 employees in 2010.

### **Lucid Investment Bank officially added to list of banks in Lebanon**

The Central Bank of Lebanon indicated in December 2016 that it removed Lucid Investment Corporation sal from the list of financial institutions and added it to the list of banks under the name of Lucid Investment Bank sal. Lucid Investment received the Central Bank of Lebanon's approval on December 22, 2015 to change the financial institution to a specialized bank. The bank increased its capital from LBP7.8bn to LBP30bn at the end of 2015 in order to meet the minimum regulatory capital requirement that banks must adhere to in order to operate in Lebanon. The bank will continue to provide investment banking services including corporate finance, advisory on mergers and acquisitions, initial public offering, and underwriting. It will also offer asset management services including wealth management, among other brokerage and financial services. There are currently 67 commercial and specialized banks and 50 financial institutions licensed to operate in Lebanon. Lucid Investment was established in 2003 as a specialized corporate financial advisory firm offering financial advisory and management consulting services to medium sized businesses in the Middle East & Africa region.

## 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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