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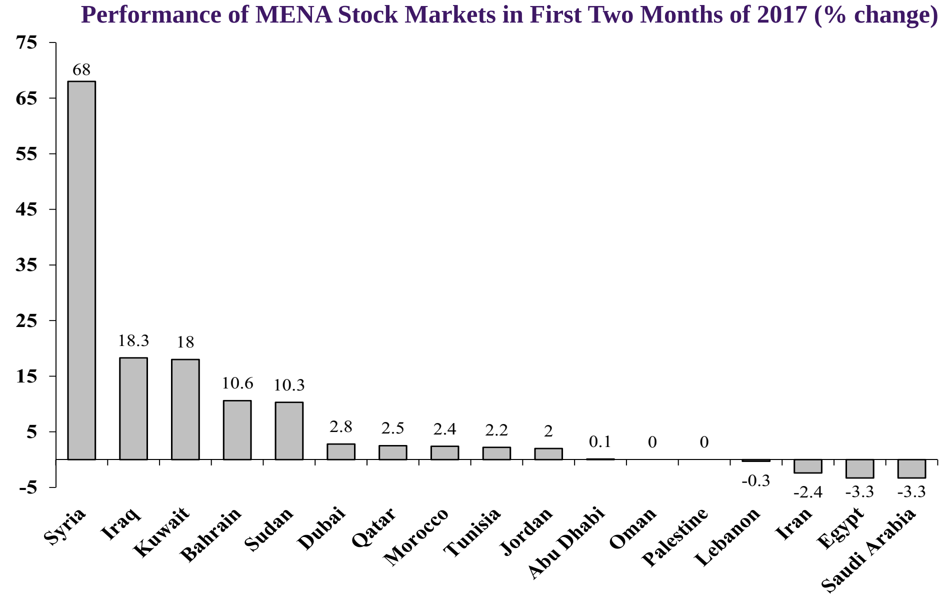
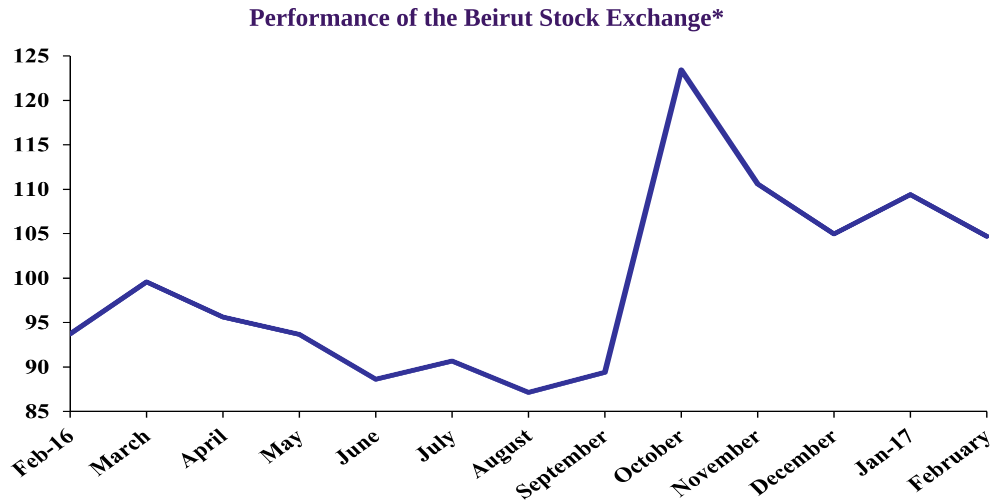
BYBLOS BANK SAL
Economic Research & Analysis Department

LEBANON THIS WEEK

In This Issue

Charts of the Week





**Capital Markets Authority Value Weighted Index end of month values*
Source: Local Stock Markets, Capital Markets Authority, Byblos Bank

Quote to Note

"Modernization of the insurance law is a precondition for supporting the sound growth of the sector."

The International Monetary Fund, on the need to ratify the insurance reform draft law

Number of the Week

$16.7m: Aggregate exports of Lebanese wine in 2016, according to the Lebanese Customs Administration

Lebanon in the News

$m *(unless otherwise mentioned)*	2015	Dec 2015	Sep 2016	Oct 2016	Nov 2016	Dec 2016	% Change*
Exports	2.952	236	254	257	247	244	3.4
Imports	18,069	1,841	1,448	1,479	1,450	1,536	(16.6)
Trade Balance	(15,117)	(1,605)	(1,194)	(1,222)	(1,203)	(1,292)	(19.5)
Balance of Payments	(3,354)	(372)	189	(680)	453	910	-
Checks Cleared in LBP	18,714	1,709	1,722	1,780	1,684	1,879	10.0
Checks Cleared in FC	50,845	4,265	4,054	4,216	3,968	3,880	(9.0)
Total Checks Cleared	69,559	5,974	5,776	5,996	5,652	5,759	(3.6)
Budget Deficit/Surplus	(3,952)	(711.58)	-	-	-	-	-
Primary Balance	724.40	(338.61)	-	-	-	-	-
Airport Passengers***	7,240,397	616,258	819,886	554,122	555,931	598,009	(3.0)

$bn *(unless otherwise mentioned)*	2015	Dec 2015	Sep 2016	Oct 2016	Nov 2016	Dec 2016	% Change*
BdL Gross FX Reserves	30.64	30.64	34.17	34.74	34.38	34.03	11.06
In months of Imports	*20.35*	*16.64*	*23.60*	*23.49*	*23.71*	*22.15*	33.1
Public Debt	70.33	70.33	74.73	74.52	74.55	74.89	6.48
Bank Assets	185.99	185.99	198.07	199.67	200.95	204.3	9.85
Bank Deposits (Private Sector)	151.59	151.59	158.15	157.66	159.19	162.5	7.20
Bank Loans to Private Sector	54.22	54.22	56.65	56.69	56.49	57.18	5.45
Money Supply M2	52.15	52.15	54.17	53.83	54.12	54.68	4.84
Money Supply M3	123.62	123.62	129.12	128.74	130.04	132.8	7.42
LBP Lending Rate (%)****	7.45	7.45	8.44	8.35	8.26	8.23	78bps
LBP Deposit Rate (%)	5.56	5.56	5.58	5.53	5.54	5.56	-
USD Lending Rate (%)	7.06	7.06	7.20	7.06	7.16	7.35	29bps
USD Deposit Rate (%)	3.17	3.17	3.43	3.43	3.48	3.52	35bps
Consumer Price Index**	(3.75)	(3.40)	1.03	1.13	1.78	3.14	-

** 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"	9.13	(3.59)	76,455	7.40%
Solidere "B"	9.00	(4.36)	73,079	4.74%
BLOM GDR	12.75	2.08	15,466	7.64%
Audi Listed	6.75	0.00	13,011	21.87%
Audi GDR	6.66	(0.60)	11,667	6.47%
HOLCIM	12.60	9.85	4,318	1.99%
BLOM Listed	11.70	0.43	3,050	20.39%
Byblos Common	1.72	0.00	-	7.88%
Byblos Pref. 09	105.50	0.00	-	1.71%
Byblos Pref. 08	102.10	0.00	-	1.66%

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

Sovereign Eurobonds	Coupon %	Mid Price $	Mid Yield %
Mar 2017	9.00	100.25	2.46
Nov 2018	5.15	100.88	4.60
May 2019	6.00	101.75	5.15
Mar 2020	6.38	103.00	5.28
Apr 2021	8.25	109.25	5.69
Oct 2022	6.10	100.63	5.97
Jun 2025	6.25	97.75	6.61
Nov 2026	6.60	99.25	6.70
Feb 2030	6.65	98.38	6.84
Nov 2035	7.05	99.38	7.11

Source: Byblos Bank Capital Markets

	Feb 27-Mar 3	Feb 20-24	% Change	February 2017	February 2016	% Change
Total Shares Traded	240,505	614,324	(60.9)	3,077,394	4,962,188	(38.0)
Total Value Traded	$2,397,447	$6,880,641	(65.2)	$30,071,143	$42,938,845	(30.0)
Market Capitalization	$12.34bn	$12.35bn	(0.14)	$12.38bn	$11.09bn	11.6

Source: Beirut Stock Exchange (BSE)

S&P affirms Lebanon's sovereign ratings, outlook 'stable'

S&P Global Ratings affirmed Lebanon's long- and short-term foreign and local currency sovereign credit ratings at 'B-/B' with a 'stable' outlook on the ratings. It indicated that the 'stable' outlook reflects its expectations that continued deposit inflows to the financial system will remain sufficient to support the government's borrowing requirements and the country's external deficit over the next 12 months.

The agency pointed out that the government's debt servicing capacity is dependent on the financial sector's willingness and ability to continue to subscribe to government securities, which, in turn, relies mainly on non-resident deposit inflows. It considered that the country's reliance on the banking sector to finance its needs, as well as the divisive domestic political environment and regional tensions, constitute structural weaknesses that have constrained the ratings.

In parallel, the agency said the ratings are supported by Lebanon's external profile, as the country's liquid external assets exceed its external debt. However, it anticipated a gradual worsening of the external profile, as non-resident deposit inflows continue to finance the country's large twin deficits.

Further, S&P anticipated a period of relative political stability in the country, following the presidential elections of October 2016 and the formation of a national unity govenment. It noted that this should bode well for confidence and, along with the authorities' efforts to normalize relations with Gulf Cooperation Council states, would support economic growth.

Further, the agency projected the current account deficit to remain wide and to average 17.1% of GDP during the 2017-2020 period. It expected the end of the domestic political paralysis and higher global oil prices to support remittance inflows and tourism from Lebanese expatriates in the GCC countries. However, it anticipated that a higher import bill from a rebound in oil prices and improving domestic demand would keep the current account deficit from narrowing. It forecast the country's overall external financing requirements at 127.4% and 131.4% of current account receipts and usable reserves in 2017 and 2018, respectively.

Further, the agency forecast the fiscal deficit to stabilize at around 8.5% of GDP through 2020. It expected Lebanon's fiscal balance to be supported by higher government revenues, given a slight improvement in economic activity. But it considered that public finances and fiscal flexibility would remain constrained by structural expenditures, which include high public sector personnel costs and transfers to the state-owned Electricité du Liban. It expected the net public debt level to stabilize at around 130% of GDP starting in 2018.

It considered that non-resident deposit inflows are sensitive to swings in confidence and have decelerated in the first quarter of 2016 due to the domestic political vacuum and, to a lesser extent, the economic slowdown in the GCC. It pointed out that the Central Bank conducted financial swap operations in 2016, which have successfully encouraged foreign inflows back to the economy, increased the Central Bank's foreign currency reserves, and reversed a large balance-of-payments deficit. It noted, however, that the need for such operations highlights the risks related to Lebanon's structural weakness stemming from its dependence on external funding.

S&P indicated that it would downgrade the ratings in the coming 12 months, in case the political and economic situation deteriorates, which would result in a decline in deposit growth and in foreign currency reserves. It added that it would upgrade the ratings if the country's policy-making framework becomes more predictable, which would support foreign capital inflows and improve the sustainability of public finances.

Value of cleared checks down 1%, returned checks down 14.2% in January 2017

The value of cleared checks reached $5.7bn in January 2017, constituting a decrease of 1.2% from $5.8bn in the same month of 2016. In comparison, the value of cleared checks regressed by 0.8% in January 2016 and decreased by 7.4% in the same month of 2015. The value of cleared checks in Lebanese pounds grew by 1.4% year-on-year to the equivalent of $1.7bn in January 2017, while their value in US dollars declined by 2.3% to $4bn in the covered month. The dollarization rate of cleared checks decreased to 69.6% from 70.4% in January 2016. Further, there were 989,000 cleared checks in January 2017, down by 2.3% from 1 million in the same month last year.

In parallel, the value of returned checks in domestic and foreign currency was $109m in January 2017, compared to $127m in the same month of 2016 and $165m in January 2015. This constituted a drop of 14.2% year-on-year in January 2017 relative to a decrease of 23% in the same month of 2016 and an increase of 32% in January 2015. Also, there were 18,300 returned checks in the covered period, down by 5.2% from 19,300 returned checks in January 2016.

Central Bank reduces reserves on housing loans

The Central Bank of Lebanon issued Intermediate Circular 450 on February 15, 2017, which amends Basic Circular 23 dated March 7, 1996 about the facilities that the Central Bank can provide to commercial banks and financial institutions. The Central Bank extends loan facilities to domestic banks on a first-come first-served basis at an interest rate of 1% per year, as part of its stimulus package. In turn, banks would extend loans to the private sector at reduced interest rates. The circular stipulates that banks can use the facilities from the Central Bank to fund 60% of a housing loan extended in local currency before February 8, 2017, and 75% of a housing loan granted after February 7, 2017. Also, banks can extend 80% of a housing loan granted before February 8, 2017, based on the protocol with the Public Housing Corporation, and 90% of a mortgage extended after February 7, 2017. Further, the circular stated that the Housing Bank can benefit from facilities at a 1% interest rate contingent that the interest and commissions on the mortgages extended to its clients do not exceed 3% per year.

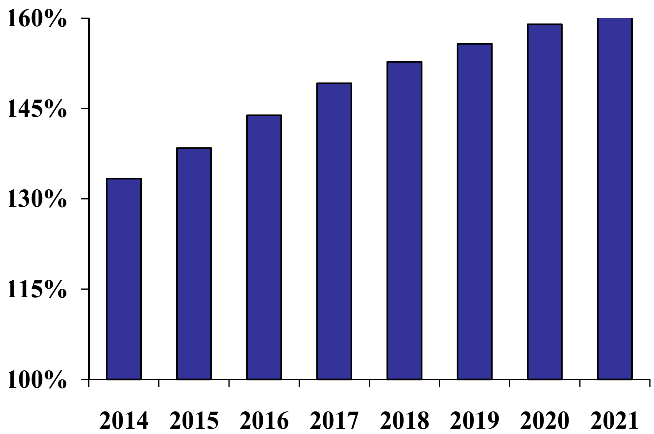
In parallel, the Central Bank of Lebanon issued Intermediate Circular 451 on February 15, 2017, which amends Basic Circular 84 dated June 2, 2001, about the reserve requirements of commercial banks. The amended circular stipulates that banks can reduce their reserve requirements by 80% from the balance of Lebanese pounds-denominated housing loans extended before February 8, 2017 based on the protocol signed with the Public Housing Corporation. However, banks can lower their reserve requirements by 90% from the balance of housing loans granted after February 7, 2017, contingent that the interest and commissions of the granted loans do not exceed 10% of the one-year Treasury bill yield plus a 2.75% spread calculated annually from the time of loan issuance.

Further, the circular states that the minimum reserves required from banks can be decreased by 60% from the balance of housing loans granted in Lebanese pounds before February 8, 2017, by 75% from the balance of housing loans granted after February 7, 2017, and by 60% from the balance of non-subsidized non-housing loans granted in Lebanese pounds. The circular indicates that the interest and commissions on the housing loans extended before February 8, 2017 should not exceed 40% of the one-year Treasury bill yield plus a 3% fix spread, in order for banks to be able to reduce their reserve requirements. However, the interest and commissions should not exceed 25% of the one-year Treasury bill yield plus a 2.9% fixed spread of the housing loans granted after February 7, 2017 in order for the banks to qualify for a reduction in their reserve requirements.

Gross public debt at $76.2bn at end-January 2017

Lebanon's gross public debt reached $76.17bn at the end of January 2017, constituting an increase of 1.7% from $74.9bn at end-2016 and a rise of 7.8% from $70.6bn at the end of January 2016. In nominal terms, the gross public debt grew by $1.26bn in the first month of the year relative to an increase of $309.1m in January 2016. Debt denominated in Lebanese pounds totaled $48bn at end-January 2017, growing by 2.6% from the end of 2016 and by 10.3% from end-January 2016; while debt denominated in foreign currency stood at $28.2bn, constituting a marginal growth of 0.3% from end-2016 and an increase of 3.8% from a year earlier. Local currency debt accounted for 63% of the gross public debt at the end of January 2017 compared to 61.6% a year earlier, while foreign currency denominated debt represented the balance of 37% relative to 38.4% at end-January 2016. The weighted interest rate on outstanding Treasury bills was 6.87% and that on Eurobonds was 6.46% in January 2016. Further, the weighted life on Eurobonds was 6.11 years, while that on Treasury bills was 1,298 days.

Lebanon's Gross Public Debt (% of GDP)



Source: International Monetary Fund, Byblos Research

Commercial banks held 43.8% of the Lebanese pound-denominated public debt at the end of January 2017, down from 44.5% a year earlier; followed by the Central Bank with 41.5% of the local debt, up from 38.7% at end-January 2016. Also, public agencies, financial institutions and the public held 14.6% of local debt at end-January 2017, 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 January 2017, followed by multilateral institutions with 3.7%, foreign governments with 3.3% and Paris II loans with 0.1%. Commercial banks held about 47.5% of the total public debt as at end-January 2017 relative to 53.5% of the total at the end of January 2016. Also, the gross market debt accounted for about 61% 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 March 2, 2017.

Ministry of Public Health encourages sales of local generic medicine

The Ministry of Public Health announced a decision that gives pharmacists in Lebanon the choice to sell locally-made generic drugs instead of the ones manufactured abroad, contingent on the prescribing doctor's permission. The decision aims to improve the consumption of locally produced pharmaceutical products.

The ministry considered that the pharmaceuticals industry in Lebanon possesses the required technical expertise and production capacity to meet the needs of the local market, as well as the capacity to export locally-produced generic drugs. Further, the ministry noted that the Lebanese market consumes about $1.3bn per year in medicine, of which only about 7% is produced locally. Imports of pharmaceutical products in Lebanon reached $1.2bn in 2016, while exports stood at only $54m. There are currently 11 pharmaceutical manufacturers operating in Lebanon that develop and produce more than 650 types of medicine to treat chronic and other diseases.

In parallel, the Ministry of Public Health launched a One Stop Shop to facilitate the administrative procedures of Lebanese citizens at the ministry. It noted that all administrative transactions would be recorded in an information system, known as the Transactions and Workflow Management System Application, to keep track of incoming and outgoing administrative transactions, connect all the administrative units within the ministry, and electronically preserve the records of patients. Further, citizens would be able to conduct some of their transactions electronically through the ministry's website. In addition, the ministry noted that it will notify the involved parties via text message or electronic mail, once their transaction is finalized. Also, it indicated that it will provide citizens with a tracking number that allows them to follow online the progress of their transactions with the ministry.

Number of new construction permits up 5%, surface area up 1% in January 2017

The Orders of Engineers & Architects of Beirut and of Tripoli issued 1,175 new construction permits in January 2017, constituting an increase of 4.8% from 1,121 permits in the same month of 2016, relative to a rise of 15.2% in January 2016. Mount Lebanon accounted for 38.7% of newly-issued construction permits in January 2017, followed by the South with 16.1%, the North with 14.5%, Nabatieh with 13.1%, the Bekaa with 9.6% and Beirut with 5.3%. The remaining 2.7% are 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 47.8% year-on-year in January 2017, followed by permits for Beirut (+37.8%), Mount Lebanon (+8.1%) and the Bekaa (+5.6%). In contrast, the number of new construction permits issued for Nabatieh dropped by 17.2% year-on-year in January 2017 and those for the South fell by 16.7%, while permits issued for regions located outside northern Lebanon grew by 60% year-on-year.

Further, the surface area of granted construction permits reached 832,317 square meters (sqm) in January 2017, representing a rise of 0.8% from 825,303 sqm in January 2016. In comparison, the surface area of granted construction permits regressed by 3% year-on-year in the same month of 2016. Mount Lebanon accounted for 300,275 sqm, or 36.1% of the total, in January 2017. The North followed with 123,464 sqm (14.8%), then the South with 113,925 sqm (13.7%), the Bekaa with 82,752 (9.9%), Nabatieh with 76,260 sqm (9.2%) and Beirut with 64,195 sqm (7.7%). The remaining 71,446 sqm, or 8.6% 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 Beirut grew by 26.4% year-on-year in January 2017, followed by the Bekaa (+9.1%) and the North (+1.7%). In contrast, the surface area of construction permits issued for the South decreased by 9.6%, followed by Mount Lebanon (-9.1%) and Nabatieh (-2.5%). Also, the surface area of granted construction permits for regions located outside northern Lebanon increased by 67.7% year-on-year in January 2017. In parallel, cement deliveries totaled 5.2 million tons in 2016, constituting a year-on-year increase of 4.1% from 5 million tons and relative to a drop of 8.6% in 2015.

Ministry of Tourism launches media campaign to attract tourists

The Ministry of Tourism, in coordination with national flag carrier Middle East Airlines (MEA), Lebanese hotels and travel agencies, launched on March 1, 2017 a media campaign to encourage tourists from Egypt, Iraq, Jordan, Kuwait, Qatar, Saudi Arabia, the UAE and Armenia to visit Lebanon at reduced costs. The package deals include the MEA airfare, a three-night stay at a four-star hotel, and airport transfer from and to the airport. Visitors from each of Kuwait and Egypt would be able to purchase the vacation package for a total of $330 per tourist, followed by visitors from Jordan ($354), those from Saudi Arabia ($451), tourists from Iraq ($462), visitors from Armenia ($471), those from the UAE ($477) and tourists from Qatar ($529). The vacation package has a validity of three months ending on May 31, 2017 and would be mainly advertised through social media channels. Also, the offer would be co-financed by MEA, travel agencies and hotels in Lebanon, and would not require any funding from the ministry.

The number of incoming visitors to Lebanon totaled 1,688,357 in 2016, constituting an increase of 11.2% from 1,517,927 tourists in the same period of 2015, and a drop of 22.1% from 2,167,989 visitors in 2010. Tourists from Iraq surged by 23.2% to 236,013 in 2016 and accounted for 14% of total visitors last year; those from Jordan rose by 11.2% to 86,693 and represented 5.1% of the total; visitors from Egypt increased by 10.3% to 83,337 and accounted for 4.9% of incoming visitors; tourists from Saudi Arabia declined by 15.6% to 40,391 and accounted for 2.4% of the total; visitors from Kuwait decreased by 19.7% to 25,653 and represented 1.5% of the total; and those from the UAE dropped by 74.3% to 2,114 and accounted for 0.1% of total visitors in 2016.

Occupancy rate at Beirut hotels at 57%, room yields up 3% in January 2017

EY's benchmark survey of the hotel sector in the Middle East indicated that the average occupancy rate at hotels in Beirut was 56.7% in January 2017, up from 55.7% in January 2016 and compared to an average rate of 58.4% in 14 Arab markets included in the survey. The occupancy rate at Beirut hotels was the seventh highest in the region in January 2017, while it was the fifth lowest in the same month of 2016. Also, the occupancy rate at hotels in Beirut rose by one percentage point year-on-year, constituting the fourth highest increase among the 14 Arab markets. In comparison, the average occupancy rate in Arab markets fell by 5.8 percentage points year-on-year in January 2017.

The average rate per room at Beirut hotels was $144 in January 2017, ranking the capital's hotels as the third least expensive in the region relative to Cairo ($91) and Abu Dhabi ($126). The average rate per room at Beirut hotels increased by 0.8% year-on-year and constituted the third highest rise among all markets in the region. The average rate per room in Beirut came below the regional average of $181.9 in January 2017, which decreased by 6.4% from the same month of 2016.

Hotel Sector Performance in January 2017

	Occupancy Rate (%)	RevPAR (US$)	RevPAR % change
Dubai	85.7	246	(7)
Doha	64.9	120	(21)
Jeddah	52.8	115	(28)
Ras Al Khaimah	68.4	114	(10)
Kuwait City	48.2	112	7
Madina	48.1	108	3
Muscat	61.1	105	(27)
Riyadh	56.6	103	(33)
Makkah	42.7	97	(23)
Abu Dhabi	77	97	(12)
Manama	47	96	(24)
Beirut	**56.7**	**82**	**3**
Cairo City	70.2	64	160
Amman	37.7	54	(6)

Source: EY, Byblos Research

Further, revenues per available room (RevPAR) were $82 in Beirut in January 2017, up from $79 in January 2016 and were the third lowest in the region compared to Amman ($54) and Cairo ($64). Beirut's RevPAR increased by 2.6% year-on-year and posted the fourth highest increase among Arab markets. Dubai posted the highest occupancy rate at 85.7%, the highest average rate per room in the region at $287 and the highest RevPAR at $246 in January 2017.

Trade deficit widens by 5% to $1.4bn in January 2017

The total value of imports reached $1.6bn in January 2017, constituting an increase of 7.3% from the same month of 2016; while the aggregate value of exports grew by 24.9% to reach $231.6m in January 2017. As such, the trade deficit widened by 4.9% to $1.37bn in January 2017 due to an increase of $109.8m in imports. The rise in imports mainly reflects an annual increase of $120.2m, or 10.7%, in the value of non-hydrocarbon imports to $1.24bn in January 2017. In parallel, the value of imported oil & mineral fuels dropped by $10.4m, or 2.8% year-on-year, to 824,267 tons in the covered month. The value of oil & mineral fuels accounted for 22.6% of total imports in January 2017 compared to a share of 24.9% a year earlier. The coverage ratio was 14.4% in January 2017 compared to 12.4% in the same month of 2016.

In volume terms, imports reached 1.46 million tons in January 2017 compared to 1.48 million tons in the same month last year, while exports rose by 25.9% to 131,848 tons in January 2017. Imports of oil & mineral fuels increased by 4.6% to 824,267 tons in January 2017, while non-hydrocarbon imports dropped by 8% annually to 638,210 tons. Also, imported oil & mineral fuels accounted for 56.4% of total imports in January 2017 relative to a 53.2% share in the same month last year.

Greece was the main source of imports with $156m, or 9.7% of the total, in January 2017, followed by China with $140.4m (8.8%), the United States with $116.3m (7.2%), Germany with $92.7m (5.8%), Russia with $87.9m (5.5%), Italy with $86.2m (5.4%) and Egypt with $71.8m (4.5%). Imports from Egypt increased by three times year-on-year in January 2017, those from Greece grew by 2.5 times, imports from the United States increased by 14.9% and those from Germany expanded by 14.5%; while imports from China decreased by 27.1%, those from Italy regressed by 10.2% and imports from Russia fell by 3.2% year-on-year. In parallel, the Port of Beirut was the entry point for 67.5% of Lebanon's imports in January 2017, followed by the Hariri International Airport (21.2%), the Port of Tripoli (7.5%), the Port of Saida (2.7%), the Arida crossing point (0.5%), the Masnaa crossing point (0.3%), the Tyre crossing point (0.2%) and the Abboudieh crossing point (0.1%).

Further, South Africa was the main export destination of Lebanese merchandise with $42.8m, or 18.5% of total exports in January 2017, followed by Switzerland with $22.7m and Syria with $22.6m (9.8% each), the UAE with $17.2m (7.4%), Saudi Arabia with $14.6m (6.3%), Iraq with $11.7m (5.1%) and Qatar with $8.4m (3.6%). Exports to Switzerland jumped by 16.8 times in January 2017, those to South Africa grew by 2.4 times, exports to Syria increased by 72.9%, those to Qatar rose by 29.2% and exports to Iraq improved by 1.2%; while exports to Saudi Arabia dropped by 33.2% and those to the UAE regressed by 16.7%.

Lebanon's main exports were jewelry at $71.6m in January 2017 and accounted for 30.9% of the total. They were followed by prepared foodstuff at $32.2m (13.9%), base metals at $26m (11.2%), machinery & mechanical appliances at $23.5m (10.2%), chemical products at $19.4m (8.4%), vegetable products at $16m (6.9%), paper products at $11.1m (4.8%) and plastics & rubber $8.4m (3.7%). In parallel, the Port of Beirut was the exit point for 44.1% of Lebanon's total exports in January 2017, followed by the Hariri International Airport (39%), the Port of Tripoli (6.9%), the Masnaa crossing point (5.1%), the Arida crossing point (2.9%), the Abboudieh crossing point (1.5%) and the Port of Saida (0.5%). Re-exports totaled $74.9m in January 2017 compared to $32.8m in the same month of 2016.

Industrial exports down 14.5% to $2.5bn in 2016

Figures released by the Ministry of Industry show that industrial exports totaled $2.5bn in 2016, constituting a decrease of 14.5% from $3bn in 2015. Industrial exports reached $216.3m in December 2016, up by 11.7% from $193.7m in the preceding month, and down by 6.4% from $231.1m in December 2015.

Exports of machinery & mechanical appliances totaled $590m and accounted for 23.4% of aggregate industrial exports in 2016, followed by prepared foodstuffs with $459.4m (18.2%), chemical products with $432m (17.1%), base metals with $257.7m (10.2%), and plastics & articles with $141.1m (5.6%). Arab countries were the destination of 55.6% of Lebanese industrial exports during 2016, followed by European economies with 16.1%, African countries with 12.7%, Asian economies with 9.7%, countries in the Americas with 4.3%, and markets in Oceania with 0.6%. On a country basis, Saudi Arabia was the main destination of Lebanese industrial exports and accounted for 12.2% of the total in 2016, followed by the UAE with 10%, Iraq with 8.8%, Syria with 7.5% and Jordan with 3.7%. In December 2016, 14 Arab states, 10 African countries, 9 European economies, seven Asian economies, two countries in the Americas and one market in Oceania imported $1m or more each in industrial products from Lebanon.

In parallel, industrial imports reached $235.5m in 2016, down by 3.2% from $243.4m a year earlier. China was the main source of such imports and accounted for 21.7% of the total in the covered period, followed by Italy with 21% and Germany with 14.2%. Further, imports of industrial equipment and machinery reached $18m in December 2016, decreasing by 4.4% from the same month of 2015. China was the main source of imports of industrial equipment to Lebanon in December 2016 and accounted for 30% of the total, followed by Italy with 20.5% and Germany with 10.3%.

Compensation of public-sector personnel up 6% in first eight months of 2016, absorbs 35% of fiscal spending

Figures issued by the Ministry of Finance show that the compensation of public-sector personnel totaled $3.26bn in the first eight months of 2016, constituting an increase of 5.6% from $3.1bn in the same period of 2015. Salaries, wages and related benefits accounted for 65.6% of the total in the first eight months of 2016, followed by retirement benefits (24.4%), transfers to public institutions to cover salaries (5.5%) and end-of-service indemnities (4.5%). 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, transfers to public institutions to cover salaries and end-of-service indemnities. The compensation of public-sector personnel represented the largest component of total budgetary primary spending and accounted for 67% of such expenditures in the covered period compared to 66% in the first eight months of 2015. The compensation of public-sector personnel absorbed 35% of fiscal spending in the first eight months of 2016 relative to 36% in the same period of 2015.

In parallel, salaries, wages and related benefits paid to public-sector employees amounted to $2.14bn in the first eight months of 2016, constituting an increase of 6.5% from $2bn 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 $1.3bn and accounted for 61.4% of salaries, wages and related benefits paid to the public sector in the covered period. They were followed by educational personnel with $499.5m (23.4% of the total), civil staff with $201.7m (9.4%), the government's contribution to the employees' cooperative with $106.8m (5%) and customs employees with $15.9m (0.7%). Also, the Lebanese Army's salaries totaled $839.8m in the first eight months of 2016 and represented 64% of military personnel's salaries and benefits. The salaries of the Internal Security Forces followed with $360.9m (27.5%), those of the General Security Forces with $86.2m (6.6%) and the State Security Forces with $25.9m (2%).

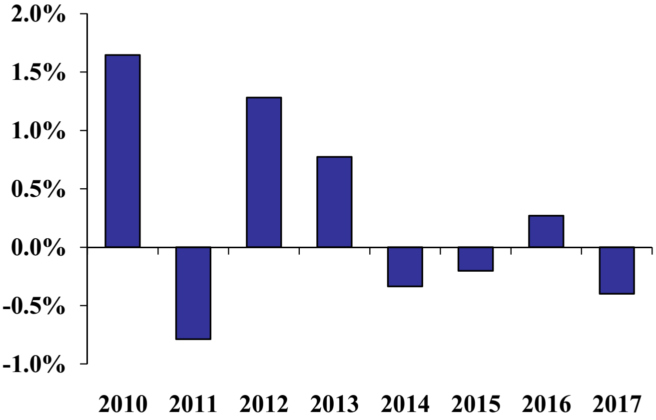
The overall increase in salaries, wages and related benefits paid to public-sector employees reflects a growth of $139.3m in basic salaries and a rise of $1.3m in employment benefits, which were partly offset by a decrease of $8m in other payments such as bonuses given to non-military bodies and a drop of $663,350 in allowances. Overall, basic salaries grew by 9.5% year-on-year to $1.6bn in the first eight months of 2016 and employment benefits rose by 1.4% to $95.5m, while other payments disbursed to non-military bodies decreased by 5.3% to $143.3m. In parallel, allowances remained almost unchanged at $278.6m in the first eight months of 2016.

Commercial banks' assets reach $204.4bn at the end of January 2017

The consolidated balance sheet of commercial banks operating in Lebanon shows that total assets reached $204.4bn at the end of January 2017, nearly unchanged from the end of 2016 and constituting an increase of 9.8% from end-January 2016. Loans extended to the private sector totaled $56.95bn at the end of January 2017, reflecting a decline of 0.4% from the end of 2016 and an increase of 4.7% from a year earlier. Loans to the resident private sector totaled $50.84bn, down by 0.4% from the end of 2016 but up by 5.5% year-on-year; while credit to the non-resident private sector reached $6.1bn at end-January 2017 and regressed by 0.5% from end-2016 and by 1.7% from a year earlier.

In nominal terms, credit to the private sector contracted by $230.8m in January 2017 relative to an increase of $167.2m in the same month of 2016. Lending to the resident private sector declined by $203.6m in January 2017 relative to an increase of $129.4m in the same month of 2016, while credit to the non-resident private sector regressed by $27.9m in the first month of 2017 compared to an increase of $37.8m in January 2016. The dollarization rate in private sector lending regressed to 72.3% at the end of January 2017 from 74.8% a year earlier.

Resident Private Sector Lending Growth* (% Change)



** in January of each year*
Source: Association of Banks in Lebanon, Byblos Research

In addition, claims on non-resident banks reached $11.22bn at the end of January 2017, nearly unchanged from the end of 2016, while claims on the public sector stood at $36.1bn at the end of January 2017, up by 4.1% from end-2016. The average lending rate in Lebanese pounds was 8.47% in January 2017, while the same rate in US dollars stood at 7.26%. Further, the deposits of commercial banks at the Central Bank totaled $88bn at end-January 2017, constituting a decline of 1.5% from end-2016 and an increase of 24% from a year earlier.

In parallel, private sector deposits totaled $162.7bn at the end of January 2017, nearly unchanged from the end of 2016 and up by 7.4% from end-January 2016. Deposits in Lebanese pounds reached $55.6bn at end-January and grew by 3.9% year-on-year; while deposits in foreign currencies totaled $107.1bn and increased by 9.4% from the end of January 2016. Aggregate non-resident deposits reached $34bn at the end of January 2017, unchanged from end-2016 and up by 6.2% from a year earlier. In nominal terms, private sector deposits grew by $239.5m in January 2017 relative to a decrease of $88.9m in the same month of 2016. Resident private sector deposits grew by $226.9m in January 2017 relative to a contraction of $213.6m in January 2016, while non-resident deposits rose by $13.3m in the first month of 2017 compared to an increase of $124.7m in the same month of 2016.

In parallel, deposits of non-resident banks reached $6.4bn at the end of January and decreased by 32.4% from end-2016 and by 4.6% from a year earlier. The dollarization rate of deposits was 65.8% at the end of January 2017 relative to 64.7% a year earlier. Further, the average deposit rate in Lebanese pounds was 5.55% in January 2017, up from 5.52% a year earlier, while the same rate in US dollars was 3.52% relative to 3.22% in January 2016.

The ratio of private sector loans-to-deposits in foreign currency stood at 38.4%, well below the Central Bank's limit of 70% and compared to 41.5% a year earlier. The same ratio in Lebanese pounds was 28.4% at end-January 2017 relative to 25.6% at the end of January 2016. The ratio of total private sector loans-to-deposits was 35%, down from 35.9% at end-January 2016. The banks' aggregate capital base stood at $18.3bn at the end of January 2017, nearly unchanged from the end of 2016.

Stock market index down by 0.3% in the first two months of 2017

Figures released by the Beirut Stock Exchange (BSE) indicate that trading volume reached 10,273,380 shares in in the first two months of 2017, constituting an increase of 8.8% from 9,440,784 shares traded in the same period of 2016; while aggregate turnover amounted to $76.9m, down by 5.6% from a turnover of $81.4m in the first two months of 2016. Market capitalization grew by 11.6% from the end of February 2016 to $12.4bn, with banking stocks accounting for 85.2% of the total, followed by real estate shares (12.4%), industrial firms (2.2%) and trading stocks (0.3%). The market liquidity ratio was 0.6% in the covered period, compared to 0.7% in the first two months of 2016. Banking stocks accounted for 39.4% of the aggregate trading volume in the first two months of the year, followed by trading stocks for 30.5%, real estate equities with 29.3%, and industrial shares with 0.8%. Also, banking stocks represented 49.4% of the aggregate value of shares traded, followed by real estate equities with 37.6%, trading stocks with 12.5% and industrial stocks with 0.5%. The average daily traded volume for the period was 270,352 shares for an average daily value of $2m. The figures reflect an increase of 11.7% in volume and a decrease of 3.1% in value year-on-year. In parallel, the Capital Markets Authority's Market Value-Weighted Index for stocks traded on the BSE decreased by a marginal 0.3% in the first two months of 2017, while the CMA's Banks Market Value-Weighted Index rose by 18.9% in the covered period.

Launch of $20m fund to support Lebanese startups

Flat6Labs Beirut, a partnership between Regional accelerator Flat6Labs and ArabNet, a hub for digital professionals and entrepreneurs, launched the $20m Lebanon Seed Fund (LSF). The fund seeks to provide capital to 100 Lebanese startups at the seed and early stages in the information & communications technology, electronics, manufacturing solutions and green technology sectors over the next five years, in exchange for a minor equity stake in the companies. The fund plans to invest between $30,000 and $50,000 in high potential technology startups at the seed stage that would be chosen to take part in the 16-month seed program. It also intends to invest between $100,000 and $500,000 in select early stage startups and provide them access to Flat6Labs Beirut's resources and operational guidance.

Established in 2011, Flat6Labs provides seed funding, strategic mentorship, training and a creative workspace, and directly supports startups through a network of partner entities, mentors and investors. Flat6Labs currently operates in Abu Dhabi, Beirut Cairo, Jeddah and Tunisia. It has more than 110 investments in different startups from various sectors in Egypt, Saudi Arabia and the UAE. It has more than 200 mentors and speakers, as well as 30 local, regional and global partners that have provided 10,000 hours of training to support entrepreneurs during the previous three years. Founded in 2009, ArabNet provides a platform to help grow the web and mobile sectors in the Arab digital knowledge economy, and seeks to support the creation of new businesses and job opportunities for youth in the Arab region.

Lebanon & Gulf Bank's net income at $35m in 2016

Lebanon & Gulf Bank sal (LGB Bank) announced unaudited consolidated net profits of $35.4m in 2016, constituting a rise of 15.6% from net earnings of $30.7m in 2015. Net operating income increased by 12.6% annually to $76.3m in 2016, with net interest income growing by 4.5% to $51.2m and net fees & commissions receipts dropping by 5.9% to $9.4m. Total operating expenditures increased by 10.1% to $33.8m, with staff expenses expanding by 8.2% to $19.7m and general & administrative expenses increasing by 17.6% to $11.7m in 2016. The bank's cost-to-income ratio regressed to 40.5% in 2016 from 42.1% in 2015. The bank's return on average assets was nearly unchanged at 0.92% in 2016, while its return on average equity was 10.6% last year compared to 10.3% in 2015 .

In parallel, total assets reached $4.1bn at end-2016, constituting an increase of 14.9% from $3.6bn a year earlier; while loans & advances to customers, excluding loans & advances to related parties, grew by 4.1% annually to $1.4bn. Also, customer deposits, excluding deposits to related parties, totaled $3.6bn at the end of 2016 and increased by 14.7% from a year earlier. The loans-to-deposits ratio regressed to 40.5% at end-2016 from 44.5% a year earlier. Further, the bank's shareholders' equity grew by 9.4% from $320.1m at the end of 2015 to $350.2m at end-2016.

Distributor of healthcare products raises funds through securitization vehicle

Tamer Frères sal raised $10m in funds through securitizing a portfolio of trade receivables to be collected from hospitals, medical centers, clinics and laboratories across Lebanon. The securitization investment fund, TFH SIF, consists of senior notes with an expected weighted average life of 3.43 years and a fixed annual interest rate of 7% paid on a quarterly basis during the revolving period. The fund offers a three-year revolving period during which additional eligible assets could be financed through the same structure. Further, the fund is expected to mature at the end of 2020, while its legal maturity date is at end-2026. TFH SIF was established under the Lebanese securitization Law No. 705 of December 2005, following the authorization of the Capital Markets Authority. The deal represents the first securitization fund for Tamer Frères. The company currently has more than $25m in receivables in the medical sector.

Established in 1945, Tamer Frères is a distributor of healthcare equipment, luxury products, chemical and raw materials, tobacco products as well as banking and information technology solutions in Lebanon. The deal was co-arranged by LUCID Investment Corporation, a financial institution that provides investment and private banking services, and Bemo Securitisation sal (BSEC), a wholly-owned subsidiary of Banque BEMO sal. It was also structured and managed by BSEC.

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	1.26
Public Debt in Local Currency / GDP	81.9	84.6	89.6	4.98
Gross Public Debt / GDP	133.1	137.6	144.0	6.42
Total Gross External Debt / GDP**	170.0	174.7	176.6	1.90
Trade Balance / GDP	(34.4)	(29.5)	(30.0)	(0.47)
Exports / Imports	16.2	16.6	16.1	(0.49)
Fiscal Revenues / GDP	21.8	18.7	19.6	0.86
Fiscal Expenditures / GDP	27.9	26.5	28.2	1.72
Fiscal Balance / GDP	(6.1)	(7.7)	(8.6)	(0.86)
Primary Balance / GDP	2.6	1.4	1.4	0.00
Gross Foreign Currency Reserves / M2	66.5	58.7	62.7	3.94
M3 / GDP	235.4	241.9	250.0	8.11
Commercial Banks Assets / GDP	351.4	364.0	392.9	28.9
Private Sector Deposits / GDP	288.9	296.6	312.5	15.8
Private Sector Loans / GDP	101.8	106.1	108.7	3.85
Private Sector Deposits Dollarization Rate	65.7	64.9	65.0	0.10
Private Sector Lending Dollarization Rate	75.6	74.8	73.6	(1.23)

**Change in percentage 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	Feb 2015	Jan 2016	Feb 2016	Change**	Risk Level
Political Risk Rating	54.5	54.5	54.5	↔	High
Financial Risk Rating	39.0	36.5	36.5	↑	Low
Economic Risk Rating	33.0	30.5	30.5	↑	Moderate
Composite Risk Rating	63.25	60.75	60.75	↑	Moderate

MENA Average*	Feb 2015	Jan 2016	Feb 2016	Change**	Risk Level
Political Risk Rating	57.9	57.7	57.7	↑	High
Financial Risk Rating	40.1	39.7	40.2	↓	Very Low
Economic Risk Rating	34.8	30.3	31.0	↑	Moderate
Composite Risk Rating	66.4	63.8	64.4	↑	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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