Issue 484
March 6-18, 2017

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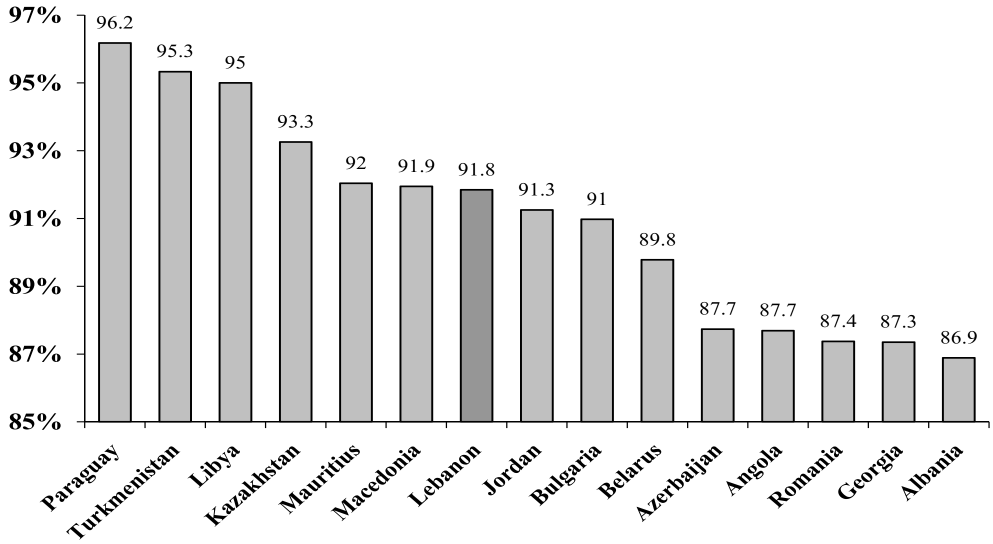
Economic Research & Analysis Department

LEBANON THIS WEEK

In This Issue

Charts of the Week

Tax Burden Index for Select Upper Middle Income Countries for 2017* (%)



Tax Burden Index for Lebanon* (%)

**A higher score reflects a lower tax burden*
Source: Heritage Foundation/Wall Street Journal 2017 Index of Economic Freedom, Byblos Research

Quote to Note

"There are substantial shortcomings and material gaps in the dissemination of macroeconomic data, as well as reporting delays."

S&P Global Ratings, on the need to upgrade Lebanon's statistical system

Number of the Week

1.54%: The spread between the weighted average cost of funds and the weighted return on the uses of funds in US dollars at commercial banks in Lebanon as at end-January 2017, according to the Association of Banks in Lebanon

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)	(548.00)	(163.91)	(706.12)	(513.35)	(27.86)
Primary Balance	724.40	(338.61)	(29.21)	281.60	(40.58)	(111.56)	(67.05)
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
Byblos Common	1.75	0.57	85,500	8.00%
BLOM GDR	12.65	0.00	38,799	7.56%
BLOM Listed	11.75	(1.26)	36,999	20.43%
Solidere "A"	9.11	0.11	31,433	7.37%
Audi Listed	6.81	0.15	26,477	22.01%
Solidere "B"	9.00	(0.77)	17,893	4.73%
Audi GDR	6.77	0.30	16,448	6.56%
Byblos Pref. 08	102.50	0.39	892	1.66%
HOLCIM	11.50	3.51	150	1.81%
Byblos Pref. 09	103.50	0.00	-	1.67%

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

Sovereign Eurobonds	Coupon %	Mid Price $	Mid Yield %
Mar 2017	9.00	100.00	8.62
Nov 2018	5.15	101.19	4.39
May 2019	6.00	102.50	4.77
Mar 2020	6.38	103.88	4.96
Apr 2021	8.25	110.00	5.47
Oct 2022	6.10	101.38	5.81
Jun 2025	6.25	98.00	6.57
Nov 2026	6.60	98.75	5.00
Feb 2030	6.65	98.00	6.00
Nov 2035	7.05	99.00	7.15

Source: Byblos Bank Capital Markets

	Mar 13-17	Mar 6-10	% Change	February 2017	February 2016	% Change
Total Shares Traded	258,252	377,619	(31.6)	3,077,394	4,962,188	(38.0)
Total Value Traded	$1,994,465	$2,868,654	(30.5)	$30,071,143	$42,938,845	(30.0)
Market Capitalization	$12.37bn	$12.38bn	(0.12)	$12.38bn	$11.09bn	11.6

Source: Beirut Stock Exchange (BSE)

Beirut ranks 180th worldwide, 16th in MENA region in quality of living

The 2017 Mercer survey on the quality of living around the world ranked Beirut as the 180th most desirable city for overall living standards among 231 cities worldwide and in 16th place among 25 cities in the Middle East & North Africa (MENA) region. Also, Beirut ranked in 48th place among 59 cities in upper-middle income countries (UMICs) included in the survey. In comparison, Beirut ranked in 180th place among 230 cities globally and in 16th place among 25 cities in the MENA region in the 2016 survey. Based on the 221 cities that were included in both the 2010 and 2017 surveys, Beirut came in 170th place globally in 2017 and improved by two spots from 172nd place in the 2010 survey. It was among 108 cities whose rank improved, while the rank of 82 cities regressed and that of 31 cities was unchanged during the seven-year period.

The study evaluates the cities on the basis of 39 key quality-of-living determinants grouped in 10 categories that include political, economic and socio-cultural factors, in addition to healthcare & sanitation, schools & education, public services & transportation, recreation, consumer goods, housing, and the natural environment.

On a global basis, the quality of living in Beirut is better than in Cotonou in Benin, Maputo in Mozambique and San Salvador in El Salvador; and is less appealing than in Tirana in Albania, Almaty in Kazakhstan and Blantyre in Malawi. Also, Beirut's quality of living is higher than in Algiers, Tbilisi in Georgia and Caracas in Venezuela; and is less appealing than in Tirana, Saint Petersburg in Russia and Almaty among UMICs.

Vienna has the highest quality of living in the world and Dubai remains the city with the highest living standards in the MENA region; while the survey considered Baghdad to be the world's least appealing city in terms of quality of living. Mercer conducts the survey annually to help multinational companies assess international hardship allowances and incentives for their expatriate workers. It collected the data for the survey between September and November 2016 and regularly updates it to take into account the changing circumstances. Mercer is a global consulting firm in human resources and related financial advice, products and services.

Quality of Living Rankings in 2017

City	MENA Rank	Global Rank	Change in Rank*
Dubai	1	74	+3
Abu Dhabi	2	79	+6
Tel Aviv	3	105	+2
Muscat	4	107	-1
Doha	5	108	+7
Tunis	6	114	-15
Rabat	7	117	-
Amman	8	119	+9
Casablanca	9	125	+1
Kuwait City	10	126	+1
Istanbul	11	133	-15
Manama	12	134	-17
Cairo	13	165	-29
Riyadh	14	166	+2
Jeddah	15	169	-
Beirut	**16**	**180**	**+2**
Algiers	17	184	+8
Djibouti	18	189	-3
Tehran	19	199	-6
Tripoli	20	218	-41
Nouakchott	21	221	+3
Damascus	22	225	-42
Khartoum	23	227	+1
Sana'a	24	229	-4
Baghdad	25	231	-

**between 2010 and 2017*
Source: Mercer 2017, Byblos Research

Electronic cards are main source of income for two thirds of Syrians in Lebanon

The World Food Program (WFP) indicated that it provided food assistance to 656,651 vulnerable Syrian refugees in Lebanon who are registered with the United Nations High Commissioner for Refugees (UNHCR) through an electronic card system. The WFP provides food assistance to vulnerable Syrian refugees registered with the UNHCR through electronic cards, which are filled each month with $27 per person and can be used to buy food in any of the 500 contracted outlets across Lebanon. The WFP said that food assistance reached 126,160 Syrian refugee households in January 2017, of which 22% were headed by a female while 29% had a high number of dependents, and that 95% of total vouchers were redeemed during the covered month, up from 93% in November 2016.

The WFP noted that 62% of WFP-assisted households said that food assistance through e-cards was the main source of income in January 2017, followed by unskilled work (14%) and other cash assistance (12%). In comparison, 36% of non-assisted households said that unskilled work was their main source of income, down from 50% in November 2016, followed by credit or borrowing (27%).

In parallel, the survey indicated that WFP-assisted Syrian households have spent an average of $568 per month in January 2017, or $99 per capita; while non-assisted households spent an average of $497 per month, equivalent to $125 per capita. It indicated that spending on food accounted for 46% of WFP-assisted households' total expenditures in January 2017, followed by spending on rent (18%) and on healthcare (10%). The WFP added that debt is a burden for most Syrian refugee households. It noted that assisted households reported an average debt level of $933 per household in the first month of the year; up from $760 in November 2016 and relative to $680 in January 2016; while the average debt level per non-assisted household stood at $943 in January 2017, down from $1,022 in November 2016 and compared to $907 a year earlier.

Further, the survey showed that 79% of WFP-assisted households stated that they have bought food on credit to cope with their financial needs, while 77% borrowed money and 60% reduced healthcare expenditure in January 2017. In comparison, it indicated that 85% of non-assisted households resorted to borrowing money in times of crisis, while 83% purchased food on credit and 60% decreased healthcare spending. The WFP launched the Food Security Outcome Monitoring (FSOM) in 2016 to measure food security trends among recipients and non-recipients of food assistance on a quarterly basis. The WFP and its partners interviewed 583 displaced Syrian households in January 2017, of which 327 were being assisted by the WFP and 256 were not. The FSOM questionnaire included close-ended questions to mainly evaluate food security and expenditures.

Weak institutions and public finance imbalances are main sources of sovereign vulnerability

In its sovereign assessment on Lebanon, Moody's Investors Service indicated that Lebanon's 'B2' government bond rating balances the country's very high debt burden, wide fiscal and current account deficits and challenging domestic political environment, with its resilient bank deposit base, strong external liquidity and full and timely debt repayment. It said that the 'negative' outlook on the rating reflects the downside risks from the delay in policy action and reforms that would help narrow the fiscal deficit, as well as the increased risks to the country's financing capacity from the slowdown in deposit growth, wide current account deficit and heightened political and geopolitical risks. The agency indicated that its sovereign methodology is based on assessing countries on four factors that are Economic Strength, Institutional Strength, Fiscal Strength, and Susceptibility to Event Risk.

Moody's ranked Lebanon's Economic Strength at "Low", the fifth lowest level on a scale of 15 notches that range from "Very High (+)" to "Very Low (-)". It noted that its assessment reflects the country's moderate income per capita, positive real GDP growth amid destabilizing shocks, weakened competitiveness and moderate medium-term growth prospects. It noted that the lack of infrastructure investment and the absence of economic reforms since 2011 have reduced the country's competitiveness, and would prevent economic growth from returning to its pre-2011 levels, even if political risks recede. It projected Lebanon's real GDP growth to accelerate from 1.7% in 2016 to 2.8% in 2017, supported by renewed political stability.

In parallel, the agency assessed Lebanon's Institutional Strength as "Low", the fifth lowest level on a scale of 15 notches. This category evaluates the government's ability and willingness to pursue policies that support its timely debt payments. Moody's indicated that its assessment for Lebanon reflects an unpredictable governance framework, and balances a very weak fiscal policy effectiveness with a strong monetary policy system and the government's strong willingness to service its debt. It said that political polarization has significantly weakened policy effectiveness, while consensus on economic and fiscal reforms could remain uncertain despite recent positive political developments. But it pointed out that the Banque du Liban has maintained confidence in monetary policy and the currency peg to the US dollar, and has prevented a deterioration in the country's Institutional Strength assessment.

Further, the agency evaluated Lebanon's Fiscal Strength as "Very Low (-)", which reflects a very high debt burden that continues to increase due to a wide fiscal deficit and subdued economic activity. Lebanon's assessment on this category is the lowest on a scale of 15 notches. The agency expected the fiscal deficit to average 9% of GDP annually during the 2017-18 period, due to rising transfers to Electricité du Liban and higher outlays on current spending. It considered that the endorsement of the salary-scale adjustment for the public sector would offset the impact of new revenue measures on public finances. It expected the public debt level, excluding debt owed to public entities, to increase from 133.4% of GDP in 2016 to 138.4% of GDP in 2017.

Finally, Moody's ranked Lebanon's Susceptibility to Event Risk at "Moderate (+)", the seventh lowest level on a scale of 15 notches, which balances the country's high exposure to destabilizing political and geopolitical events with the limited impact of such events on growth, and on the stability of the banking sector and exchange rate. This factor assesses a country's vulnerability to sudden events that would impact materially the government's creditworthiness. It noted that such events include political risks, as well as government liquidity risks, banking sector risks and external vulnerability risks.

It indicated that the country's high and stable gross foreign currency reserves continue to provide a buffer to external shocks, and increase confidence in the currency peg and the financial system despite weak public finances. In addition, it said that large remittance and deposit inflows continue to support the balance of payments and the banking system. Further, it considered that commercial banks act as the government's primary creditor, and that they remain willing and able to purchase and roll over government debt given their significant deposit-funded resources, which would alleviate government liquidity risks. However, it noted that deposit growth in 2016 was artificially inflated by Banque du Liban's swap operations, which attracted significant non-resident deposits in the second half of 2016.

Airport passengers up 1% in first two months of 2017

Figures released by the Hariri International Airport (HIA) show that there were 1,001,694 airport passengers (arrivals, departures and transit) in the first two months of 2017, constituting an increase of 1.3% from 988,821 passengers in the same period of 2016. The number of arriving passengers grew by 1.6% year-on-year to 467,730 in the first two months of 2017, compared to an increase of 9.7% in the same period of last year and to a rise of 10.2% in the first two months of 2015. Also, the number of departing passengers grew by 1.9% year-on-year to 533,379 in the first two months of 2017, relative to a rise of 10.2% in the same period of last year and to an increase of 7% in the first two months of 2015.

In parallel, the airport's aircraft activity regressed by 6.6% year-on-year to 9,934 take-offs and landings in the first two months of 2017 compared to a growth of 11.6% in the same period of 2016 and to an increase of 3% in the first two months of 2015. In addition, the HIA processed 11,341 metric tons of freight in the first two months of 2017 that consisted of 7,947 tons of import freight and 3,394 tons of export freight. Middle East Airlines had 3,698 flights in the first two months of 2017 and accounted for 37.2% of HIA's total aircraft activity.

Merrill Lynch maintains Lebanon's external debt at Marketweight, Eurobonds post 16th highest return in EMs

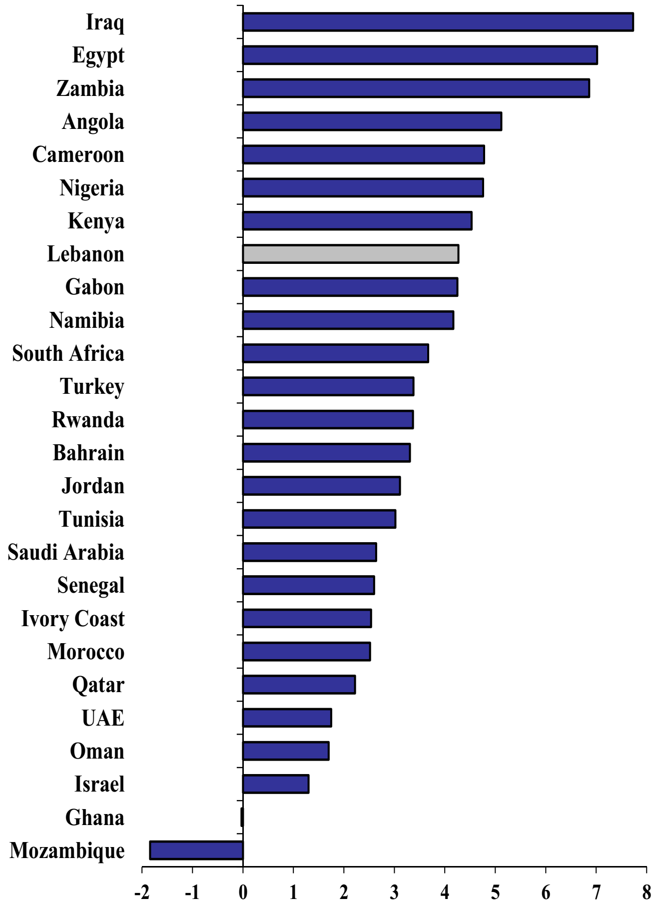
Figures issued by Merrill Lynch indicate that Lebanon's external debt posted a return of 4.27% in the first two months of 2017, constituting the eighth highest return among 43 markets in the Central & Eastern Europe and the Middle East & Africa (CEEMEA) region, as well as the 16th highest return among 75 emerging markets included in Merrill Lynch's External Debt EM Sovereign Index. Lebanon outperformed the overall emerging markets' return of 3.14% during the covered period. Further, Lebanon's external debt posted the eighth highest return among 26 countries in the Middle East & Africa region in the first two months of the year, behind only Iraq (+7.73%), Egypt (+7.02%), Zambia (+6.86%), Angola (+5.12%), Cameroon (+4.78%), Nigeria (+4.76%) and Kenya (+4.53%).

In parallel, Merrill Lynch maintained its recommendation for Lebanon's external debt at "Marketweight" in its emerging markets portfolio of external debt. It attributed its decision to the strong performance of Lebanese Eurobonds and to the improved economic outlook in case structural reforms are implemented. It indicated that the successful election of a president, the relatively stable domestic conditions, a potential de-escalation of the conflict in Syria would all support Lebanon's outlook and credit fundamentals.

Further, Lebanon's external debt posted a return of 1.75% in February 2017, constituting the 20th highest return in the CEEMEA region and the 37th highest in emerging markets during the covered month. Lebanon underperformed the emerging markets' return of 1.82% in February 2017.

In parallel, Lebanon's external debt posted the eighth lowest return in the Middle East & Africa region in February 2017. It underperformed Mozambique (+9.58%), Iraq (+7.2%), Egypt (+5.21%), Zambia (+5.02%), Angola (+4.86%), Gabon (+4.79%), Cameroon (+3.84%), Nigeria (+3.79%), Senegal (+3.03%), Rwanda (+2.66%), Turkey (+2.4%), Namibia (+2.39%), Jordan (+2.28%), the Ivory Coast (+2.24%), Bahrain (+2.05%), South Africa (+2.02%), Oman (+1.93%) and Kenya (+1.9%).

External Debt Performance in the Middle East & Africa in First Two Months of 2017 (%)



Source: Merrill Lynch, Byblos Research

Further, Merrill Lynch indicated that the option-adjusted spread on Lebanese Eurobonds was 404 basis points at the end of February 2017 compared to 496 basis points at end-February 2016, constituting the 16th widest spread in the CEEMEA region and the 24th widest among emerging markets. The spread on Lebanese Eurobonds was wider than the emerging markets' overall spread of 279 basis points at the end of February 2017. Lebanon has a weight of 2.65% on Merrill Lynch's External Debt EM Sovereign Index, the sixth largest weight in the CEEMEA universe and the 12th largest among emerging economies. Lebanon accounted for 5.1% of allocations in the CEEMEA region.

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

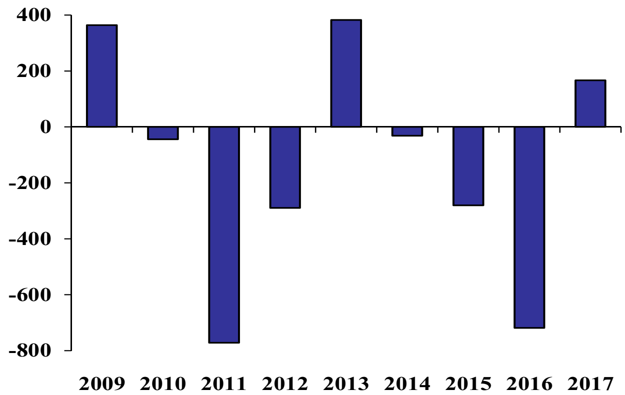
The Association of Banks in Lebanon (ABL) recommended to its member banks to decrease the Beirut Reference Rate (BRR) in US dollars to 6.65% in April 2017 from 6.67% in March 2017. The rate, considered as the reference rate for lending in foreign currency, replaced the London Interbank Offered Rate (LIBOR) in 2009, as the ABL decided that the LIBOR does not reflect the cost of funding and lending in Lebanon. Additionally, the ABL recommended to its member banks to reduce the BRR in Lebanese pounds to 8.65% in April 2017 from the March 2017 rate of 8.67%. The BRR in US dollars and Lebanese pounds were adopted in March and May 2009, respectively. The ABL considers that the BRR does not replace the Beirut Prime Lending Rate in each currency, but constitutes the basis to calculate the prime rate after adding to the prime lending rate the cost of liquidity and refinancing, credit risk and the profitability of banks.

Balance of payments posts surplus of $167m in January 2017

Figures issued by Banque du Liban show that Lebanon's balance of payments posted a surplus of $166.7m in January 2017 compared to a surplus of $909.8m in December 2016 and a deficit of $718.9m in January 2016. The January 2017 surplus was caused by an increase of $299.3m in the net foreign assets of the Central Bank, which was partly offset by a decrease of $133m in those of banks and financial institutions.

The balance of payments posted surpluses of $7.9bn in 2009, $3.3bn in 2010 and $1.2bn in 2016, and deficits of $2bn in 2011, $1.5bn in 2012, $1.1bn in 2013, $1.4bn in 2014 and $3.4bn in 2015.

Balance of Payments* (US$m)



**In the first month of each year*
Source: Banque du Liban

Rise in U.S. interest rates could impact capital inflows to Lebanon

In the monthly meeting between Banque du Liban, the Banking Control Commission of Lebanon (BCC) and the Association of Banks in Lebanon (ABL), Governor Riad Salamé reiterated that the BdL would maintain its policy of exchange rate and interest rate stability. He indicated that the recent increase in U.S. interest rates by 25 basis points will be followed by two similar increases later in 2017. He added that Gulf Cooperation Council (GCC) economies have increased their policy rates in tandem with the rise in U.S. interest rates, which could negatively impact capital inflows to Lebanon from these countries. He noted that the yields on the new Lebanese Eurobond issue would be about 4.4% above the yields on 10-year U.S. Treasury bills, and that the increase in U.S. interest rates would not affect the yields on the Eurobonds, given that the increase did not affect those on 10-year U.S. Treasury bills.

In parallel, the ABL pointed out that the increase in taxes that the government and Parliament are adopting should be part of a broader economic plan for the country. It added that the cost of the public sector salary-scale increase could be covered by tax proceeds of about $850m from revenues that Lebanese banks generated from the BdL's financial swap operations in 2016, instead of increasing taxes

Further, Governor Salamé indicated that he will follow up on the implementation of the common reporting standards (CRS) imposed by the Organization for Economic Co-operation and Development (OECD) on financial institutions, as well as on the cancelation of clause 69 of the Lebanese Tax Code. The cancelation of clause 69 would encourage Lebanese expatriates to choose Lebanon as their tax residency, as they would be taxed on the income they generate in Lebanon rather than on the income they generate in other markets. Further, several countries that compete with Lebanon for foreign capital, such as Cyprus, Malta and Switzerland, are exempting non-residents from reporting their income generated abroad, and are providing incentives for non-residents to place their deposits at local banks, such as residency and nationality incentives. In addition, the ABL did not expect the Ministry of Finance to generate additional revenues from the automatic exchange of tax information. The ABL has repeatedly cautioned from the adverse impact of the automatic exchange of tax information on capital transfers to Lebanon.

In parallel, Governor Salamé agreed to form a joint committee between the BdL, the ABL and the BCC in order to address the implementation challenges related to Circular 437 about credit facilities to real estate companies that want to purchase built properties with the aim of selling them later on. Also, the ABL and the BdL agreed that the latter would start publishing the Beirut Reference Rate (BRR) on its website. Further, Governor Salamé highlighted the need to continue strengthening and expanding correspondent banking relationships with other important financial markets, such as Brussels and Frankfurt, following the ABL's recent visit to New York and Paris.

Ministry of Public Works signs agreement with MEA to expand Beirut airport

The Ministry of Public Works & Transport signed an agreement with national flag carrier Middle East Airlines (MEA) to prepare a master plan for the expansion of the Rafic Hariri International Airport. The MEA provided a grant of $742,000 to the ministry to conduct the study over a period of four to five months. The project would allow the Rafic Hariri International Airport to accommodate 12 million travelers following the completion of the project, up from its current capacity of six million passengers, by building a new terminal and providing more spacious waiting halls at the airport and larger parking stations for airplanes.

According to figures released by the Rafic Hariri International Airport, there were 7.6 million airport passengers (arrivals, departures and transit) in 2016, constituting an increase of 37.1% from 5.5 million passengers in 2010. In parallel, the airport's aircraft activity reached 70,740 take-offs in 2016, up by 7% from 66,124 take-offs in 2010.

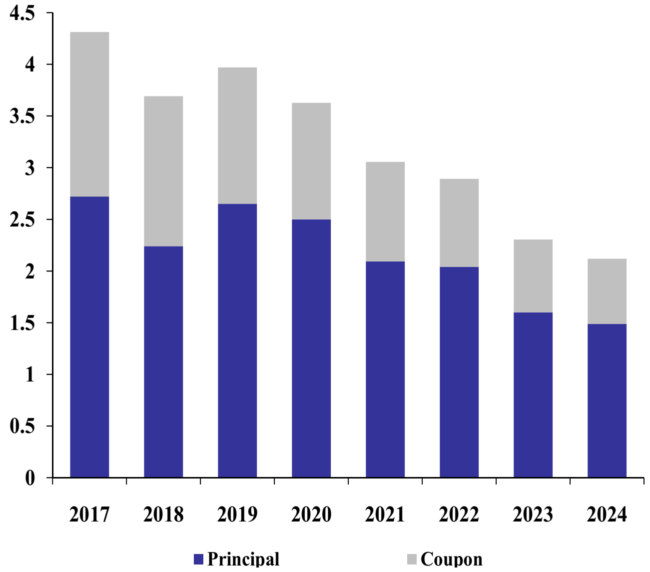
Finance Ministry announces managers of Eurobond issuance

The Ministry of Finance announced that it mandated Byblos Bank sal, Barclays plc, J.P. Morgan Chase & Co and Société Générale de Banque au Liban sal as joint lead managers to arrange the offering of between $1.5bn to $2bn in Eurobonds under the Lebanese Republic's Global Medium Term Note Program. The proceeds of the issuance will mainly be used to replace a $1.5bn Eurobond that matures on March 20, 2017. The ministry indicated that the Eurobond issuance is divided into three tranches.

The first tranche will consist of a 10-year Eurobond that matures in 2027, the second series is a 15-year Eurobond that matures in 2032, while the third series will consist of a 20-year Eurobond that matures in 2037. The ministry did not disclose the size of each tranche and the corresponding yields.

Lebanon's gross public debt reached $76.2bn at the end of January 2017, constituting an increase of 7.8% from $70.6bn a year earlier. Debt denominated in Lebanese pounds totaled $48bn at end-January 2017, while debt denominated in foreign currency stood at $28.2bn. Foreign currency denominated debt represented 37% of the debt at the end of January 2017 relative to 38.4% at end-January 2016. S&P Global Ratings affirmed on March 3, 2017 Lebanon's long- and short-term foreign and local currency sovereign credit ratings at 'B-/B' with a 'stable' outlook on the ratings. Lebanon's gross public debt reached 144% of GDP in 2016, up from 138.4% of GDP a year earlier.

Redemption Profile of Lebanese Eurobonds (US$bn)



Source: Ministry of Finance, Byblos Research

The most recent Eurobond issue took place in April 2016, when the Lebanese Republic issued a $1bn dual-tranche Eurobond under the Republic of Lebanon's Global Medium Term Note Program. The first series consists of an eight-year $700m Eurobond that matures on April 22, 2024 and that carries an annual coupon rate of 6.65%, while the second series consists of a 15-year $300m Eurobond that is due on April 22, 2031 and that carries an annual coupon rate of 7%.

Launch of two agricultural projects

The Food and Agriculture Organization of the United Nations (FAO), in collaboration with the Ministry of Agriculture, launched two agricultural projects that aim to benefit vulnerable communities, improve the performance of the agricultural sector, and contribute to sustainable rural development in Lebanon. The total cost of the projects is estimated at $13.45m and is funded by the Netherlands as part of a larger package that it has provided to assist Lebanon in coping with the impact of the Syrian refugee crisis.

The first project, which costs $8.25m, aims to develop the Green Plan, a government ecological initiative under the Ministry of Agriculture to support small-scale Lebanese farmers through investing in agricultural infrastructure, mainly in land reclamation and water reservoirs. It also intends to create work opportunities for displaced Syrians and for Lebanese in host communities. The project seeks to benefit more than 1,200 Lebanese farmers and to create 800,000 temporary job opportunities. It also aims to conserve 25,000 cubic meters of water and plant 3,000 seedlings.

The second project, which costs $5.2m, aims to upgrade seven technical agricultural schools and to offer enrollment opportunities to young Syrian and Lebanese students. The project, in partnership with the Ministry of Agriculture, Italian non-governmental organization Associazione Volontari per il Servizio Internazionale (AVSI), the International Labor Organization (ILO), and in collaboration with United Nations International Children's Emergency Fund (UNICEF), would give Lebanese students more access to the job market. It would also equip displaced Syrians in Lebanon with the necessary technical qualifications and diplomas for the post-conflict reconstruction of their country upon their return to Syria. The project would benefit around 2,373 secondary students and 100 teachers and trainers.

Fiscal deficit widens by 25% to $5bn in 2016, equivalent to 33% of expenditures and 9.4% of GDP

Figures released by the Finance Ministry show that the fiscal deficit reached $4.9bn in 2016 and widened by 25.1% from $3.95bn in 2015. The deficit was equivalent to 33.3% of total budget and Treasury expenditures compared to 29.2% in 2015. Government expenditures reached $14.9bn and increased by 9.9% from last year, while revenues grew by 3.6% annually to $9.9bn. As such, the widening of the deficit reflects a rise of $1.34bn in overall expenditures that was partly offset by an increase of $347.6m in total revenues during 2016.

On the revenues side, tax receipts grew by 2.6% year-on-year to $7bn, of which 30.5%, or $2.1bn, were in VAT receipts that increased by 2.4% year-on-year. Tax receipts accounted for 75.8% of budgetary revenues and for 70.8% of total Treasury and budgetary receipts. The distribution of other tax revenues shows that receipts from taxes on income, profits & capital gains grew by 4.4% to $2bn in 2016; revenues from customs increased by 2.6% to $1.4bn; receipts from property taxes rose by 3.8% to $812.3m; while revenues from taxes on goods & services regressed by 3.4% to $357.5m and receipts from stamp fees decreased by 2% to $311m.

The distribution of income tax receipts shows that the tax on profits accounted for 37.9% of income tax revenues in 2016, followed by the tax on interest deposits with 27.2%, taxes on wages & salaries with 23.3% and the capital gains tax with 9.6%. Receipts from the tax on interest deposits grew by 6.8% in the covered period, those from taxes on wages & salaries rose by 5.1%, revenues from taxes on profits improved by 3.7% and receipts from capital gains increased by 1.8% in 2016. Also, the distribution of property taxes shows that revenues from real estate registration fees grew by 3.7% to $531.9m in 2016 and receipts from the built property tax expanded by 6.9% to $169.4m, while revenues from the inheritance tax were nearly unchanged at $110.9m. Further, non-tax budgetary receipts increased by 2.6% year-on-year to $2.2bn. They mainly included $1.6bn in revenues generated from government properties that rose by 2.8% year-on-year, as well as $516.3m in receipts generated from administrative fees and charges that decreased by 1.8% year-on-year. Receipts from telecom services increased by 2.5% to $1.27bn and accounted for 80.2% of income from government properties and for 56.2% of non-tax budgetary revenues.

On the expenditures side, budgetary spending, which includes general expenditures and debt servicing, increased by 7.8% to $12.9bn in 2016. General budgetary spending grew by 8.8% to $8bn. It included $1.2bn in outlays from previous years that rose by 28.9% year-on-year and $926.9m in transfers to Electricité du Liban that declined by 18.3% year-on-year, among others. Also, debt servicing totaled $5bn in 2016 and grew by 6.2% from 2015. Debt servicing accounted for 33.4% of total expenditures and for 38.3% of budgetary spending, while it absorbed 50% of overall revenues and 53.5% of budgetary receipts. Interest payments on Lebanese pound-denominated debt grew by 6.5% to $3.1bn in 2016, while debt servicing on foreign currency debt rose by 7.6% to $1.7bn. Also, the repayment of principal on foreign debt, including concessional loans earmarked for project financing, regressed by 8.9% to $198.4m in 2016. In addition, Treasury transfers rose by 26.7% to $1.9bn in 2016, mainly due to an increase of 66.2% to $1bn in transfers to municipalities, in order to finance the municipal and mayoral elections that were held in May 2016. Excluding debt servicing, the primary budget balance posted a surplus of $1.3bn in 2016, or 10% of budgetary expenditures, relative to a surplus of $1.7bn, or 14.2% of budgetary spending, a year earlier. The overall primary balance posted a surplus of $20.6m, or 0.14% of spending, compared to a surplus of $724.4m, or 5.4% of total expenditures, in 2015.

Comparative Fiscal Results

	2015 (US$m)	2016 (US$m)	Change (%)
Budget revenues	**9,045**	**9,280**	**2.6**
Tax revenues	6,853	7,030	2.6
Non-tax revenues	2,192	2,250	2.6
of which Telecom revenues	*1,234*	*1,265*	*2.5*
Budget expenditures	**12,012**	**12,947**	**7.8**
Budget Surplus/Deficit	**(2,967)**	**(3,667)**	**23.6**
In % of budget expenditures	*(24.7%)*	*(28.3%)*	
Budget Primary Surplus	**1,710**	**1,298**	**(24.1)**
In % of budget expenditures	*14.2%*	*10%*	
Treasury Receipts	531	643	21.3
Treasury Expenditures	1,516	1,920	26.7
Total Revenues	**9,576**	**9,923**	**3.6**
Total Expenditures	**13,528**	**14,867**	**9.9**
Total Deficit	**(3,952)**	**(4,944)**	**25.1**
In % of total expenditures	*(29.2%)*	*(33.3%)*	
Total Primary Surplus/Deficit	**724.4**	**20.6**	**(97.2)**
In % of total expenditures	5.4%	0.14%	

Source: Ministry of Finance, Byblos Research

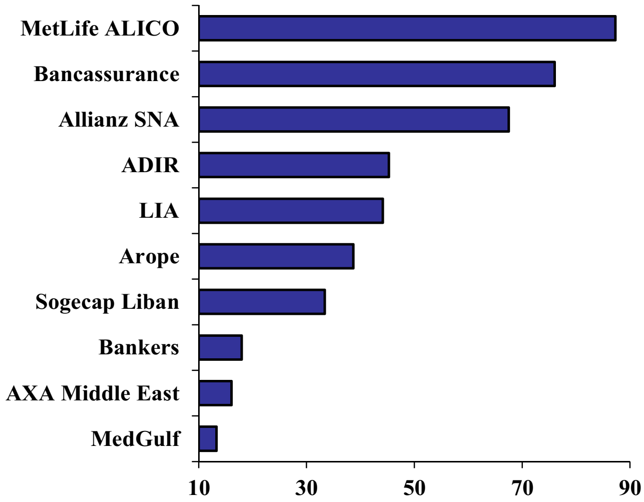
Life premiums up 7% to $505m in 2016

The annual survey by *Al-Bayan* magazine of the insurance sector in Lebanon indicates that total life premiums generated in the Lebanese market reached $504.6m in 2016, constituting an increase of 7.1% from $471.1m in 2015, and compared to annual increases of 5.5% and 6.2% in 2014 and 2015, respectively. Life premiums generated in the Lebanese market totaled $369.8m in 2011, $391.6m in 2012, $420.5m in 2013 and $443.7m in 2014.

MetLife ALICO maintained its market lead with $87.3m in life premiums, equivalent to a 17.3% market share in 2016 relative to 18.7% in 2012. It was followed by Bancassurance with $76m and a market share of 15.1%, Allianz SNA with $67.5m (13.4%), ADIR with $45.3m (9%), and LIA with $44.2m (8.7%) as the top five firms among 33 providers of life insurance in Lebanon. Commercial Insurance registered the highest jump in the rankings from 2015, moving from 29th to 25th place in 2016. In parallel, 19 life insurance providers posted increases in their premiums last year, with one firm posting a triple-digit growth rate, nine firms registering double-digit growth rates and nine companies posting single-digit growth. Also, 12 firms saw a decline in their life premiums, while the premiums of two firms were unchanged year-on-year. Further, nine of the top 10 life insurers posted increases in their premiums.

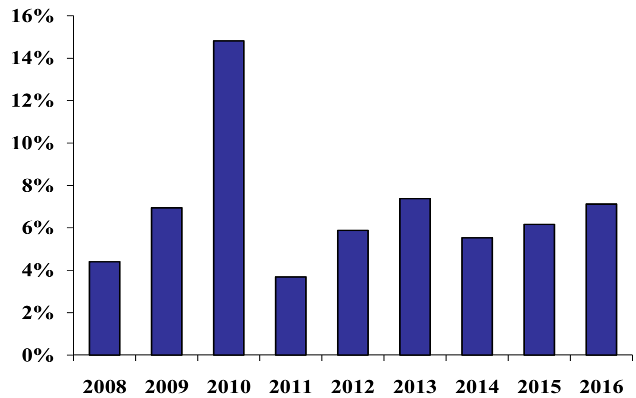
Byblos Bank's insurance affiliate ADIR registered a 10.6% increase in life premiums, posting the third best performance among the top 10 providers of life insurance and the second best performance among providers that are majority-owned by banks. In parallel, MedGulf posted a 9% drop in its premiums, constituting the only fall among the top 10 insurers in 2016. The composition of the top 10 insurers was unchanged from 2015. Bankers improved by two spots to eighth place, while MedGulf regressed by two spots to 10th place. The survey shows that the top 10 providers of life insurance in Lebanon accounted for 87.1% of the life insurance market, while the top 20 firms generated 97.8% of life premiums in 2016. The top 5 life insurers in Lebanon accounted for 63.5% of the market in 2016 compared to 63.7% in 2015 and 62.8% in 2014. Their aggregate premiums reached $320.3m in 2016 compared to $300m in 2015 and $278.5m in 2014.

Life Premiums of the Top 10 Insurers in 2016 (US$m)



Source: Al-Bayan, Byblos Research

Growth in Life Premiums (%)



Source: Al-Bayan, Byblos Research

Further, *Al-Bayan's* survey shows that overall life and non-life premiums rose by 4.3% to $1.6bn in 2016, compared to a growth rate of 3.5% in 2015, with life premiums accounting for 31.6% of the total. The top 10 insurers in Lebanon accounted for 63.8% of the combined life and non-life markets, while the top 20 firms represented 86.3% of aggregate premiums in 2016. Allianz SNA led all insurers with $131.1m in total life and non-life premiums in 2016, followed by Metlife ALICO with premiums of $122.6m and Bankers with $117.5m.

Cedrus Invest Bank completes capital increase

Cedrus Invest Bank sal, the holding company of Cedrus Bank sal, announced that it raised its capital from LBP138.3bn ($91.7m) to LBP319.03bn ($211.6m) through the issuance of 162,561 new nominal shares at a par value of LBP1,111,725 ($737.5) per share. The bank pointed out that existing shareholders and third party investors subscribed to the new issuance at a premium price. The bank's Extraordinary General Assembly verified the capital increase on March 6, 2017. The new shares will not be listed on the Beirut Stock Exchange, in line with previous issuances.

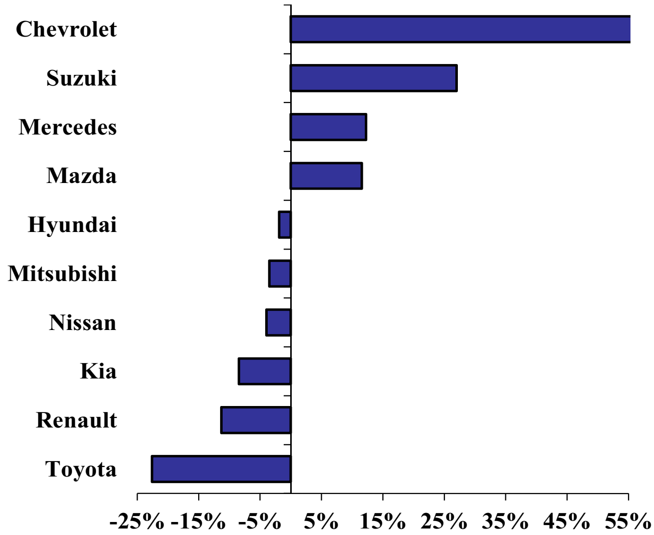
Following the issuance, the bank’s share capital consists of 286,971 nominal shares. Cedrus Invest Bank posted unaudited net profits of $7.1m in 2016 relative to audited net earnings of $6m in 2015. Its assets totaled $246.5m at the end of 2016 compared to $177.4m at end-2015. Established in 2011, Cedrus Invest Bank is the largest specialized bank in Lebanon in terms of capitalization, with more than $500m in assets under management and administration.

New car sales down 4% in the first two months of 2017

Figures released by the Association of Automobile Importers in Lebanon show that dealers sold 4,982 new passenger cars in the first two months of 2017, constituting a decrease of 4.3% from 5,204 cars sold in the same period of 2016. Consumers purchased 2,420 new cars in January and 2,562 vehicles in February 2017.

Japanese automobiles accounted for 35.4% of total sales in the first two months of 2017, followed by Korean cars with a 33.1% share, European automobiles (22.2%), American vehicles (8%) and Chinese cars (1.2%). The sales of new Chinese cars grew by 3.8 times and demand for American vehicles increased by 60.5% year-on-year in the first two months of 2017; while the number of European cars sold decreased by 11.1%, the sales of Japanese cars fell by 8.8% and the number of Korean cars sold dropped by 6.1% year-on-year in the covered period. Kia is the leading brand in the Lebanese market with 975 vehicles sold in the first two months of 2017, followed by Hyundai with 670 new cars sold, Toyota (634), Nissan (362), Suzuki (287), Renault (267) and Chevrolet (222). In parallel, 335 new commercial vehicles were sold in the first two months of 2017, down by 12.3% from 382 commercial vehicles purchased in the same period of 2016. Overall, car dealers sold 5,317 new passenger automobiles and commercial vehicles in the first two months of 2017, down by 4.8% from 5,586 cars sold in the same period of 2016.

Sales of Top 10 Car Brands in First Two Months of 2017 (% change*)



** year-on-year*
Source: AIA, Byblos Research

In parallel, the number of new vehicles sold by Lebanon's top five distributors reached 3,499 in the first two months of 2017 and accounted for 65.8% of new car sales. NATCO sal sold 975 vehicles, equivalent to 18.3% of the total, followed by Boustany United Machineries sal with 705 automobiles (13.3%), Century Motor Co. sal with 679 vehicles (12.8%), Rasamny Younis Motor Co. sal with 653 cars (12.3%) and Bassoul Heneiné sal with 487 vehicles (9.2%).

Kafalat loan guarantees down 33% to $11.7m in the first two months of 2017

Figures released by the Kafalat Corporation show that loans extended to small- and medium-size companies under the guarantee of Kafalat reached $11.7m in the first two months of 2017, constituting a decrease of 32.9% from $17.4m in the same period of 2016. Kafalat provided 96 loan guarantees in the covered period, down by 18% from 117 guarantees in the first two months 2016. The average loan size reached $121,433 in the first two months of 2017 compared to $148,392 in the same period of 2016. Mount Lebanon accounted for 39.6% of the total number of guarantees, followed by the Bekaa with 24%, the South with 14.6%, Nabatieh with 8.3%, Beirut with 7.3% and the North with 6.3%. Also, the agricultural sector accounted for 46.9% of the total number of guarantees in the first two months of 2017, followed by the industrial sector with 27.1%, tourism with 17.7%, specialized technologies with 5.2% and handicraft with 3.1%.

Kafalat is a state-sponsored organization that provides financial guarantees for loans of up to $400,000 earmarked for the setup and expansion of small- and medium-size companies in productive sectors. It guarantees up to 75% of the loan amount and a similar percentage of the interest that accrues during the grace period. It also guarantees up to 90% of the loan amount for innovative start-ups and a similar percentage of the interest that accrues during the grace period.

Economy Ministry pushes for insurance sector consolidation

The Ministry of Economy & Trade indicated that it finalized a draft law that encourages the merger of insurers in Lebanon through different incentives, which include subsidized loans. It noted that the consolidation of the insurance sector would raise its competitiveness, enable firms to increase their capital and, in turn, would improve the quality of products and services that insurance firms offer in Lebanon. There are currently 51 insurance companies operating in Lebanon, while the minimum capital requirement is $1.5m.

Companies operating in the life insurance segment generated an average of $15.3m per insurer in 2016, while insurers active in the non-life segments generated an average of $24.3m per firm last year. However, these numbers mask wide differences between insurers in Lebanon, as the sector is concentrated. The top 10 insurers in the non-life segment, which control 64.5% of the non-life segment, generated an average of $70.4m in premiums per firm in 2016, while the top five insurers in the life market, which control 63.5% of the life segment in 2016, generated an average of $64.1m in premiums per company last year.

In parallel, the ministry issued a decision that prohibits mutual funds in Lebanon from selling insurance policies directly or indirectly to the public. It added that the decision would be carried out by the Insurance Control Commission. It noted that mutual funds are competing against insurance firms by illegally offering different types of insurance coverage that are beyond their jurisdiction.

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	Mar 2015	Feb 2016	Mar 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*	Mar 2015	Feb 2016	Mar 2016	Change**	Risk Level
Political Risk Rating	57.9	57.7	57.7	▲	High
Financial Risk Rating	39.6	40.2	40.0	▼	Very Low
Economic Risk Rating	34.4	31	31.6	▲	Moderate
Composite Risk Rating	65.9	64.4	64.6	▲	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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