

## LEBANON THIS WEEK

### In This Issue

**Economic Indicators.....1**  
**Capital Markets.....1**  
**Lebanon in the News.....2**

Lebanon has seventh highest Facebook account penetration rate in Arab world

Association of Banks amends reference rate on US dollar lending, keeps Lebanese pound rate unchanged

Market risk perception improves since start of the year

Gross public debt at \$77.2bn at end-March 2017

Average annual hotel occupancy rate in Beirut at 54% during past 20 years

Airport passengers up 8% in first four months of 2017

Lebanon has 18th highest level of gold reserves globally, second highest among Arab countries

Revenues through Port of Beirut at \$57.5m in first quarter of 2017

Treasury transfers to Electricité du Liban down 18% to \$927m in 2016

Illicit financial flows from Lebanon at between \$3.1bn and \$3.6bn annually in 2005-14 period

### Corporate Highlights .....7

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

New car sales down 4% in first four months of 2017

Kafalat loan guarantees down 29% to \$23.6m in first four months of 2017

Balance sheet of financial institutions up 7% in first quarter of 2017

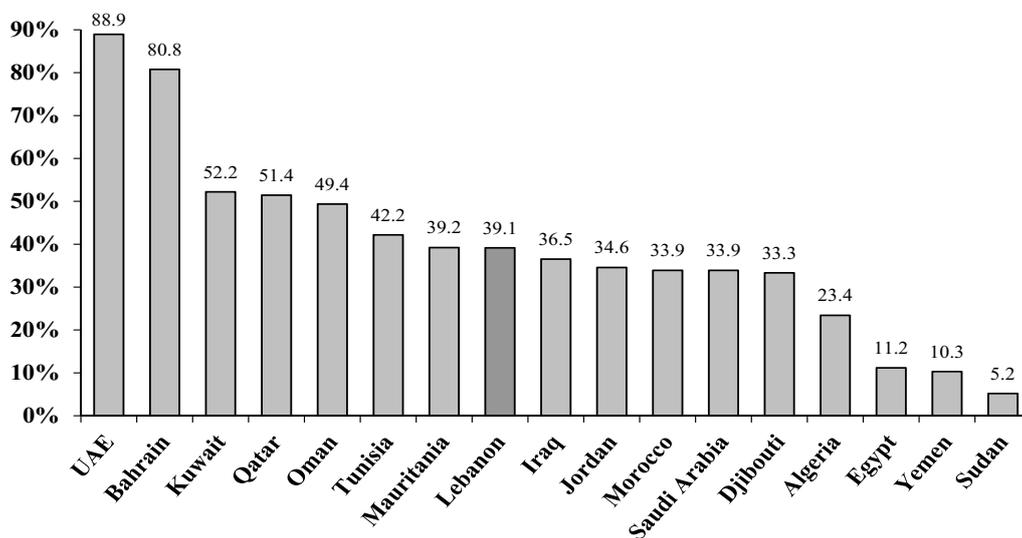
Arope's net income up 6% in 2016

Bank of Beirut's dividend payout ratio at 38% for 2016

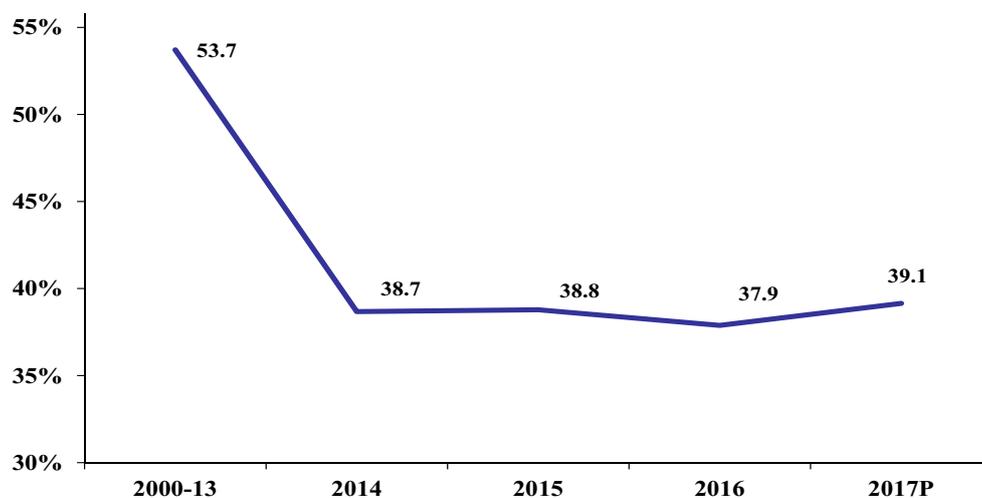
**Ratio Highlights.....9**  
**Risk Outlook .....9**  
**Ratings & Outlook.....9**

### Charts of the Week

Projected Exports of Goods & Services from Arab Countries in 2017 (% of GDP)



Exports of Goods & Services from Lebanon (% of GDP)



Source: International Monetary Fund - April 2017, Institute of International Finance, Byblos Bank

### Quote to Note

"Private sector participation is imperative in key infrastructure development and public service delivery, and helps to foster increased competitiveness, economic growth and job creation."

The World Bank, on the importance of ratifying the public-private partnership draft law by the Lebanese Parliament

### Number of the Week

**55%:** Percentage of young Lebanese who are very concerned about unemployment, according to the ASDA'A Burson-Marsteller 2017 Arab Youth Survey

## 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
<i>In months of Imports</i>	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	1.62	(3.57)	207,971	7.80%
Solidere "A"	9.00	0.22	150,478	7.67%
BLOM GDR	11.70	(0.17)	46,240	7.36%
BLOM Listed	10.70	0.00	36,781	19.59%
Solidere "B"	8.80	0.34	35,451	4.87%
HOLCIM	11.90	(1.57)	11,242	1.98%
Byblos Pref. 09	100.90	0.30	9,103	1.72%
Audi Listed	6.39	(0.93)	4,087	21.76%
Byblos Pref. 08	100.50	0.30	3,800	1.71%
Audi GDR	6.35	(1.85)	1,110	6.49%

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

Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
Dec 2017	4.00	99.75	4.67
Nov 2018	5.15	101.25	4.28
May 2019	6.00	102.63	4.62
Mar 2020	6.38	103.50	5.02
Oct 2022	6.10	102.63	5.53
Jun 2025	6.25	100.00	6.25
Nov 2026	6.60	101.25	6.42
Feb 2030	6.65	100.13	6.63
Apr 2031	7.00	101.25	6.86
Nov 2035	7.05	100.25	7.03

Source: Byblos Bank Capital Markets

	May 8-12	May 2-5	% Change	April 2017	April 2016	% Change
Total shares traded	546,579	689,066	(20.7)	5,417,218	3,131,933	73.0
Total value traded	\$8,223,742	\$9,653,702	(14.8)	\$35,834,027	\$34,700,460	3.3
Market capitalization	\$11.74bn	\$11.82bn	(0.71)	\$11.77bn	\$11.05bn	6.5

Source: Beirut Stock Exchange (BSE)



### Lebanon has seventh highest Facebook account penetration rate in Arab world

Figures compiled by the Dubai-based Mohammed bin Rashid School of Government indicate that the penetration rate of Facebook accounts in Lebanon, or the ratio of Facebook accounts to the total population, reached 56% as at January 2017, significantly higher than the Arab average penetration rate of 39%. As such, Lebanon has the seventh highest penetration rate of Facebook accounts among 22 Arab countries, behind Qatar (95%), the UAE (94%), Bahrain (73%), Kuwait (71%), Jordan (66%) and Saudi Arabia (58%).

In addition, the penetration rate of Facebook accounts in Lebanon grew by 5.6 percentage points between June 2014 and January 2017, compared to an average increase of 11.4 percentage points among Arab countries. Lebanon posted the ninth lowest increase in the penetration rate in the region, better than Somalia (+5 percentage points), Palestine (+4.7 percentage points), Oman (+4.5 percentage points), Mauritania and Comoros (+4 percentage points), Syria (+3.4 percentage points), Sudan (+3.1 percentage points) and Yemen (+1.5 percentage points).

In parallel, there were 1.1 million new Facebook users in Lebanon between June 2014 and January 2017. In comparison, the number of Facebook users increased by 14.1 million users in Egypt, by 9.4 million users in Algeria, by 7.3 million users in Iraq, by 5.8 million users in Saudi Arabia, by 5.5 million users in Morocco, by 2.7 million users in the UAE, by 1.7 million users in Jordan, by 1.5 million users in Tunisia and by 1.2 million users in Libya. The number of Facebook users in Lebanon accounted for 2% of the total number of Facebook users in the Arab world as at January 2017.

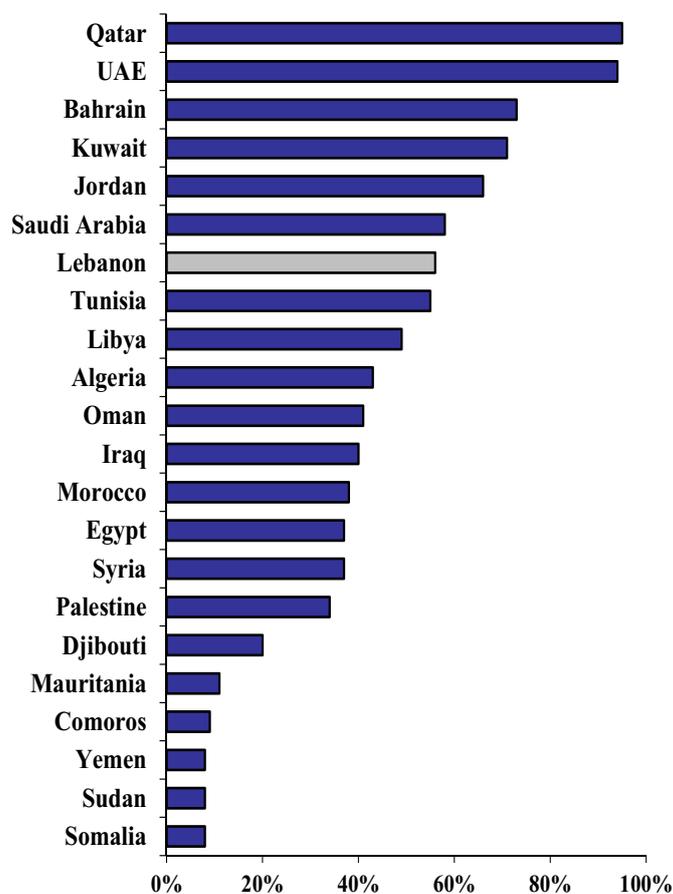
In addition, the figures show that 55.1% of Facebook users in Lebanon are between 15 and 29 years old compared to 64.3% of users who are in the same age bracket in Arab countries; while 44.9% of users in Lebanon are above 30 years old. Also, 58.4% of Facebook users in Lebanon are males, while 41.6% of users are females. In comparison, female users account for 32.3% of total Facebook users in the Arab region.

Further, 35.1% of Facebook users in Lebanon are daily active users, or users who navigate their Facebook account at least once a day. As such, Lebanon has the seventh most active population on Facebook in the Arab region as at January 2017, behind only Qatar (64.5%), the UAE (60.4%), Jordan (41.3%), Bahrain (40.1%), Kuwait (37.4%) and Tunisia (35.2%). The demographic data of Facebook users in the 22 Arab countries was collected periodically between October 2015 and January 2017.

### Association of Banks amends reference rate on US dollar lending, keeps Lebanese pound rate unchanged

The Association of Banks in Lebanon (ABL) recommended to its member banks to reduce the Beirut Reference Rate (BRR) in US dollars to 6.66% in June 2017 from 6.72% a month earlier. 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 maintain the BRR in Lebanese pounds at 8.67% in June 2017. 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.

Facebook Penetration Rate in Arab Countries  
(% of Population)



Source: Mohammed bin Rashid School of Government, Byblos Research

### Market risk perception improves since start of the year

Moody's Investors Service indicated that Lebanon's five-year sovereign Expected Default Frequency (EDF) reached 1.51% on April 28, 2017 relative to 1.83% at the end of 2016 and 1.04% on April 28, 2016. Moody's sovereign EDF measures forward-looking probabilities of sovereign default that are extracted from credit default swap (CDS) spreads. Lebanon's five-year sovereign EDF has been gradually rising from 0.98% at the start of 2016 and peaked at 2.03% on January 6, 2017. It fluctuated between a low of 1.37% and a high of 1.83% since then. Moody's pointed out that Lebanon's latest EDF figure reflects an implied sovereign rating of 'B2', which is aligned with the agency's current rating for Lebanon.

Lebanon's five-year sovereign EDF on April 28, 2017 was the seventh highest among 71 sovereigns with available figures, and came lower than Venezuela (15.48%), Greece (3.74%), Ukraine (2.79%), Iraq (2.50%), El Salvador (1.76%) and Nigeria (1.58%). In comparison, Lebanon's five-year sovereign EDF was 1.04% on April 28, 2016, the eighth highest globally. Lebanon's five-year sovereign EDF rose by 47 basis points between April 28, 2016 and April 28, 2017, constituting the third largest increase among the 71 covered countries, relative to El Salvador (+78 basis points) and Guatemala (+54 basis points).

Further, Lebanon's one-year sovereign EDF was 0.22% on April 28, 2017 compared to 0.38% at the end of 2016 and 0.16% a year earlier. It was the eighth highest among the 71 covered countries on April 28, 2017, while it was the 12th highest a year earlier. Lebanon's one-year sovereign EDF rose by six basis points year-on-year, the third largest increase globally behind El Salvador (+25 basis points) and Guatemala (+14 basis points).

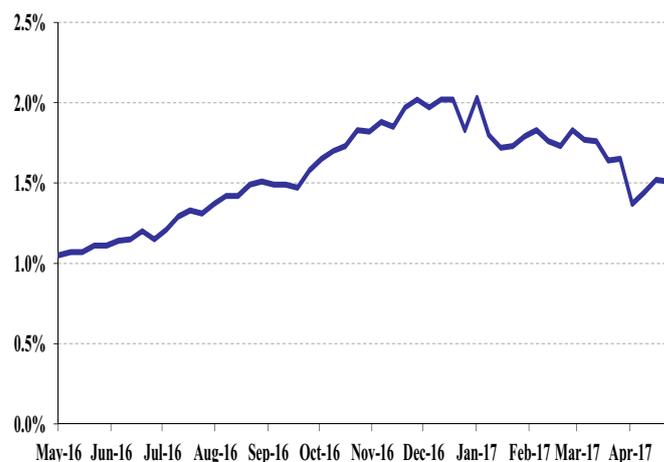
### Gross public debt at \$77.2bn at end-March 2017

Lebanon's gross public debt reached \$77.2bn at the end of March 2017, constituting an increase of 3% from \$74.9bn at end-2016 and a rise of 8.6% from \$71.05bn at the end of March 2016. In nominal terms, the gross public debt grew by \$2.28bn in the first quarter of 2017 relative to an increase of \$724.4m in the same quarter of 2016. Debt denominated in Lebanese pounds totaled \$47.3bn at end-March 2017, growing by 1.1% from the end of 2016 and by 8% from end-March 2016; while debt denominated in foreign currency stood at \$29.9bn, constituting an increase of 6.3% from end-2016 and a rise of 9.6% from a year earlier. Local currency debt accounted for 61.3% of the gross public debt at the end of March 2017 compared to 61.6% a year earlier, while foreign currency denominated debt represented the balance of 38.7% relative to 38.4% at end-March 2016. The weighted interest rate on outstanding Treasury bills was 6.89% and that on Eurobonds was 6.38% in March 2017. Further, the weighted life on Eurobonds was 7.19 years, while that on Treasury bills was 1,330 days.

Commercial banks held 49% of the public debt as at end-March 2017 relative to 53.7% of the total at the end of March 2016. Commercial banks held 45.4% of the Lebanese pound-denominated public debt at the end of March 2017 relative to 44% a year earlier; followed by Banque du Liban with 39.2% of the local debt, compared to 39.7% at end-March 2016. Also, public agencies, financial institutions and the public held 15.4% of local debt at end-March 2017, down from 16.3% 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 March 2017, followed by multilateral institutions with 3.9%, foreign governments with 3.1% and Paris II loans with 0.1%. Also, the gross market debt accounted for about 62% of the total public debt. Gross market debt is the total public debt less the portfolios of Banque du Liban, the National Social Security Fund, bilateral and multilateral loans, as well as Paris II related debt.

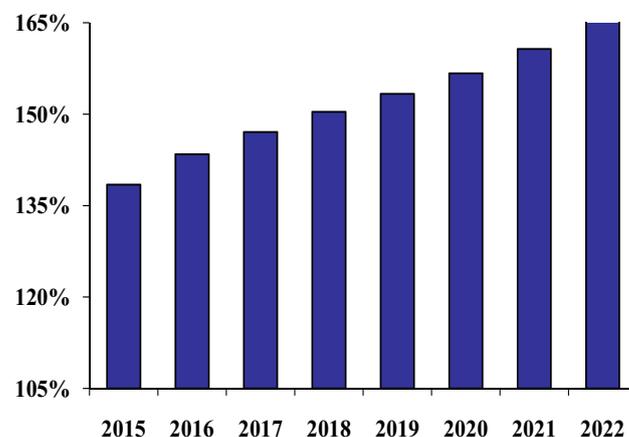
In parallel, S&P Global Ratings rates Lebanon's long-term foreign and local currency sovereign credit ratings at 'B-'. But the agency's Credit Default Swap Market Derived Signal Score, an indicator of risk appetite by foreign investors, shows that Lebanon's sovereign debt is considered by the market to have a 'B' risk level, which is one notch higher than the S&P rating as at May 10, 2017.

### Lebanon's Five-Year Sovereign Expected Default Frequency



Source: Moody's Investors Service, Byblos Research

### Lebanon's Gross Public Debt (% of GDP)



Source: International Monetary Fund, Byblos Research

### Average annual hotel occupancy rate in Beirut at 54% during past 20 years

The annual survey of the Middle East hotel sector by global hotel consulting firm HVS indicated that the average occupancy rate at Beirut hotels was 54% during the 1996-2016 period, constituting the lowest rate among 14 cities in the Middle East for which complete data is available over the covered period. The survey showed that the average rate per room at Beirut hotels grew at a compound annual growth rate (CAGR) of zero percent during the 1996-2016 period, while revenues per available room (RevPAR) increased by a CAGR of 1% during the covered period, constituting the third lowest rate in the Middle East.

In parallel, HVS said that the average occupancy rate at Beirut hotels was 54% in 2016 and constituted the 17th lowest rate among 36 Arab cities covered in the survey. The occupancy rate at Beirut hotels decreased by 3% in 2016 from the previous year, similar to the decrease of 3% in average occupancy across Arab cities. The survey pointed out that Beirut was among 23 Arab cities that posted a decrease in occupancy rates. Further, the occupancy rate at Beirut hotels in 2016 was the seventh lowest rate in Lebanon since 1996. In comparison, the occupancy rate at Beirut hotels was 39% in 2007, 45% in 1996, 48% in each of 2006 and 2013, 49% in 2014 and 52% in 2005.

In addition, HVS indicated that RevPAR at Beirut hotels were \$88 in 2016, the 12th highest in the region. RevPAR at Beirut hotels contracted by 12% year-on-year, the sixth smallest decrease in the region, behind Luxor (-6%), Al Ain and Kuwait City (-4% each) and Alexandria and Ajman (-1% each). In comparison, the average RevPAR at hotels in the Middle East stood at \$70 in 2016, reflecting a decline of 12% year-on-year. Further, RevPAR at Beirut hotels in 2016 were the ninth highest in Lebanon during the past 20 years.

HVS said that the average rate per room at Beirut hotels reached \$164 in 2016, down by 6% from 2015 and compared to an average of \$129 for the region that fell by 6% year-on-year. The average room rate at Beirut hotels in 2016 was the 11th highest in the region. Further, the average room rate at hotels in Beirut in 2016 was the 11th highest in Lebanon since 1996. In comparison, the average rate per room at Beirut hotels was \$166 in 1996, \$168 in 2004, \$173 in 1997, \$174 in 2013, \$175 in each of 2014 and 2015, \$220 in 2011, \$241 in 2012, \$263 in 2010 and \$281 in 2009.

### Airport passengers up 8% in first four months of 2017

Figures released by the Rafic Hariri International Airport show that there were 2,240,970 airport passengers (arrivals, departures and transit) in the first four months of 2017, constituting an increase of 7.7% from 2,081,538 passengers in the same period of 2016. The number of arriving passengers grew by 8.2% year-on-year to 1,089,218 in the first four months of 2017, compared to an increase of 5.5% in the same period of last year and to a rise of 10.8% in the first four months of 2015. Also, the number of departing passengers grew by 7.6% year-on-year to 1,150,537 in the first four months of 2017, relative to an increase of 5.3% in the same period of last year and to a rise of 8.7% in the first four months of 2015.

In parallel, the airport's aircraft activity regressed by 2.9% year-on-year to 20,740 take-offs and landings in the first four months of 2017, compared to a growth of 7.4% in the same period of 2016 and to an increase of 4.5% in the first four months of 2015. In addition, the HIA processed 26,441 metric tons of freight in the first four months of 2017 that consisted of 18,029 tons of import freight and 8,412 tons of export freight. Middle East Airlines had 7,514 flights in the first four months of 2017 and accounted for 36.2% of HIA's total aircraft activity.

### Hotel Performance in the Middle East during 1996-2016

	Avge Annual Occupancy Rate	Room Rate CAGR	RevPar CAGR
Dubai	73%	3%	3%
Abu Dhabi	69%	0%	1%
Hurghada	68%	1%	-2%
Cairo	66%	2%	2%
Doha	64%	5%	3%
Jeddah	64%	3%	3%
Sharm El Sheikh	64%	0%	-4%
Muscat	63%	1%	1%
Damascus	60%	2%	2%
Riyadh	60%	3%	2%
Manama	59%	3%	3%
Amman	58%	3%	1%
<b>Beirut</b>	<b>54%</b>	<b>0%</b>	<b>1%</b>
Kuwait City	54%	0%	1%

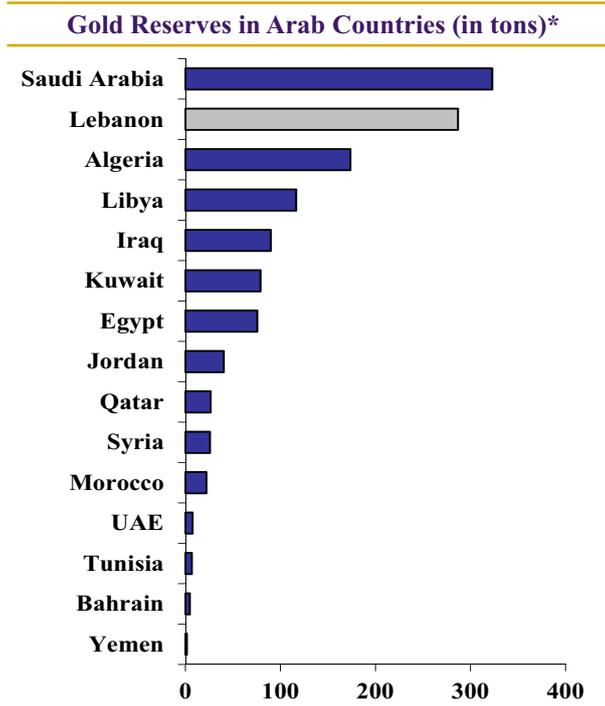
Source: HVS, Byblos Research

### Lebanon has 18th highest level of gold reserves globally, second highest among Arab countries

Figures released by the World Gold Council ranked Lebanon in 18th place in terms of gold holdings among 96 countries, and the International Monetary Fund, the West African Economic Monetary Union, the European Central Bank and the Bank for International Settlements. Also, Lebanon ranked in sixth place among 67 non-OECD countries and in second place among 15 Arab countries included in the survey.

Lebanon held 286.8 tons in gold reserves at the end of March 2017. Globally, Lebanon had more gold reserves than Spain (281.6 tons), Austria (280 tons) and Kazakhstan (267.7 tons); while it held fewer reserves than Portugal (382.5 tons), Saudi Arabia (322.9 tons) and the United Kingdom (310.3 tons). It ranked ahead of Kazakhstan and behind Saudi Arabia among non-OECD countries. The United States was the top holder of gold in the world with 8,133.5 tons, while Mongolia came in last place with 1.46 tons in gold reserves.

The value of Lebanon's gold reserves was equivalent to \$10.4bn at the end of March 2017, based on a price of \$1,244.85 per troy ounce as published by the London Bullion Market Association. Lebanon's gold holdings accounted for 22.4% of the Arab region's aggregate reserves, for 3.7% of the holdings of non-OECD countries and for 0.9% of total gold reserves in the world.



\*As of March 2017

Source : World Gold Council, Byblos Research

Further, Lebanon's gold holdings were equivalent to 20.8% of the country's official assets in foreign currency plus gold reserves at the end of March 2017, which ranked Lebanon in 18th place globally, in seventh place among non-OECD countries and in first place among Arab countries. Globally, Lebanon's share of gold holdings out of its foreign assets was higher than that of Finland (18.6%), Spain (17.5%) and Bolivia (17.4%); while it was smaller than that of Kazakhstan (35.7%), Belarus (32.5%) and Laos (25.5%). Also, Lebanon's share of gold holdings out of its foreign assets was higher than that of Russia (16.9%) and lower than that of Cyprus (64.8%) among non-OECD countries. Tajikistan's gold reserves were equivalent to 84.5% of its total foreign exchange reserves, highest share in the world, while Hong Kong's gold holdings accounted for 0.02% of its total foreign currency reserves, the lowest such share globally.

### Revenues through Port of Beirut at \$57.5m in first quarter of 2017

Figures released by the Port of Beirut show that the port's overall revenues were \$57.5m in the first quarter of 2017, down by 2.7% from \$59m in the same quarter of 2016. The Port of Beirut handled an aggregate freight of 2.18 million tons in the covered quarter, nearly unchanged from 2.17 million tons in the first quarter of 2016. Imported freight amounted to 1.9 million tons in the first quarter of 2017 and accounted for 89.1% of the total, while the remaining 237,000 tons, or 10.9%, consisted of export cargo. A total of 461 ships docked at the port in the covered quarter compared to 510 vessels in the first quarter of 2016.

In parallel, revenues generated through the Port of Tripoli reached \$4.66m in the first quarter of 2017, constituting an increase of 2.1% from \$4.57m in the same quarter of 2016. The Port of Tripoli handled an aggregate of 527,531 tons of freight in the covered quarter, constituting a rise of 7.5% from 490,616 tons in the first quarter of 2016. Imported freight amounted to 410,375 tons and accounted for 77.8% of the total, while the remaining 117,156 tons, or 22.2%, were export cargo. A total of 210 vessels docked at the port in the first quarter of 2017, constituting an increase of 5.5% from 199 ships in the same quarter of 2016.

### Treasury transfers to Electricité du Liban down 18% to \$927m in 2016

Figures released by the Finance Ministry show that Treasury transfers to Electricité du Liban (EdL) totaled \$926.9m in 2016, constituting a decline of 18.3% from \$1.13bn in 2015. The ministry said that reimbursements to the Kuwait Petroleum Corporation (KPC) and to the Algerian energy conglomerate Sonatrach totaled \$913.3m, or 98.5% of transfers, last year, while EdL's debt servicing represented the balance of \$13.6m, or 1.5% of the total. It attributed the decline in transfers to a decrease of \$202.5m, or 18.1%, in payments to KPC and Sonatrach in 2016, as well as to a drop of \$5.6m, or 29%, in debt servicing.

The ministry said that the decline in payments to KPC and Sonatrach reflects a 15% year-on-year decrease in oil prices at the time the oil contracts were executed, which was partly offset by a 16.3% increase in the quantity of imported fuel oil. Also, it pointed out that EdL contributed 5.6% of the repayments to the two oil suppliers in 2016, up from 4.7% in 2015. EdL transfers accounted for 9.4% of primary expenditures in 2016, compared to 12.8% in 2015. They constituted the third largest expenditures item after debt servicing and public sector salaries & wages in overall fiscal spending. EdL transfers were equivalent to 5.1% of GDP in 2012, 4.2% of GDP in each of 2013 and 2014, 2.2% of GDP in 2015 and 1.8% of GDP in 2016.

### Illicit financial flows from Lebanon at between \$3.1bn and \$3.6bn annually in 2005-14 period

Global Financial Integrity, a Washington-based non-profit research and advocacy organization, estimated Lebanon's cumulative illicit financial flows (IFFs) at between \$30.7bn and \$35.9bn during the 2005-14 period, equivalent to an average of \$3.1bn to \$3.6bn per year. It noted that Lebanon's IFFs were equivalent to between 15.6% and 18.2% of the country's total trade during the 2005-14 period. It estimated total illicit inflows to Lebanon at between \$12.6bn and \$16.4bn, and aggregate illicit outflows from Lebanon at between \$18.1bn and \$19.5bn during the 10-year period.

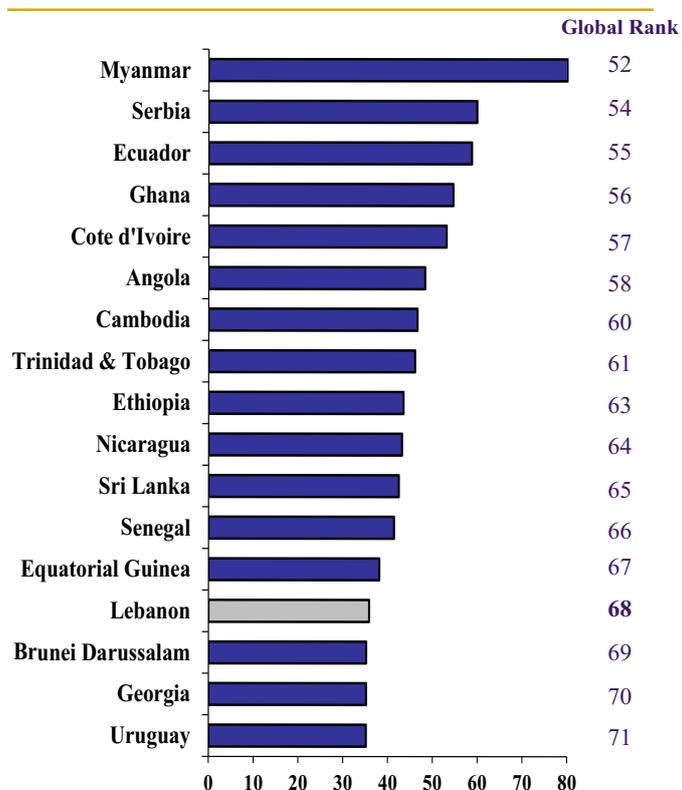
The survey defines IFFs as illegal movements of money or capital from one country to another, or funds that are illegally earned, transferred or utilized. It calculates the IFFs of each country by adding two components, which are total illicit inflows and total illicit outflows. Each of the two components is the sum of deliberate mis-invoicing in merchandise trade, as well as the leakages in the balance of payments, known as hot money flows (HMN). The survey provides high and low ranges for the estimates of IFFs and mis-invoicing in merchandise trade.

Based on the high estimates for Lebanon's cumulative IFFs of \$35.9bn during the 2005-14 period, Lebanon's IFFs were the 68th highest among 147 countries globally with available data, while they were the 22nd lowest among 51 upper middle-income countries (UMICs) and the fifth lowest among 19 Arab countries. Lebanon's cumulative IFFs were higher than those of only Djibouti (\$24bn), Yemen (\$21.7bn), Tunisia (\$18.3bn) and Mauritania (\$1.1bn) among Arab countries. Further, Lebanon's IFFs accounted for 1.1% of the Arab countries' total IFFs, for 0.2% of UMICs' aggregate IFFs and for 0.1% of global cumulative IFFs during the 10-year period. China's cumulative IFFs reached \$6,875bn between 2005 and 2014, and were the highest worldwide.

In parallel, the survey estimated Lebanon's cumulative illicit flows from trade mis-invoicing, or those transferred through the deliberate mis-invoicing of external trade, at between \$4.4bn and \$9.6bn during the 2005-14 period. Based on the high estimate of \$9.6bn, Lebanon's trade mis-invoicing flows were the 37th lowest among 137 countries worldwide, the 11th lowest among 49 UMICs and the lowest among 18 Arab countries with available figures. Globally, Lebanon's trade mis-invoicing flows were higher than those of Nepal (\$9.2bn), Mozambique (\$8.9bn) and Macedonia (\$8.3bn), but lower than those of Namibia (\$11bn), Burkina Faso (\$10.8bn) and Haiti (\$10.2bn). Further, Lebanon's trade mis-invoicing flows accounted for 0.3% of Arab countries' trade mis-invoicing flows, for 0.1% of such flows in UMICs and for 0.04% of global trade mis-invoicing flows during the 2005-14 period.

Further, the report indicated that Lebanon's aggregate illicit flows on HMN basis, or those that were channeled through balance-of-payments leakages, totaled \$26.3bn between 2005 and 2014. It noted that Lebanon's cumulative IFFs from balance-of-payments leakages were the 16th highest among 135 countries worldwide, the 10th highest among 47 UMICs and the third highest among 15 Arab countries with available data. Globally, Lebanon's cumulative HMN flows were higher than those of Venezuela (\$25.6bn), the Philippines (\$24.9bn) and Bangladesh (\$21.9bn), and lower than those of Kazakhstan (\$31.4bn), South Africa (\$30.4bn) and Thailand (\$29.3bn). Lebanon accounted for 12.6% of total HMN flows in Arab countries, for 2.3% of such flows in UMICs and for 1.4% of global HMN flows during the covered period.

Global Illicit Financial Flows\*  
in 2005-14 period (US\$bn)



\*among select countries with a GDP of \$10bn or more  
Source: Global Financial Integrity, Byblos Research

## Corporate Highlights

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

In its semi-annual risk assessment of 114 banking systems in advanced and emerging economies, Fitch Ratings placed Lebanon's banking sector among 89 banking systems with a "low level of potential vulnerability", the highest category on Fitch's Macro-Prudential Indicator (MPI). The MPI identifies the build-up of potential stress in banking systems due to a specific set of circumstances. It aims to highlight potential systemic stress that could materialize up to three years after an early warning is first detected. As such, it identifies instances of rapid real credit growth over successive two-year periods, along with growth in real property prices, an appreciation in the real exchange rate or a rise in real equity prices. Its assessment is based on three years of annual data, with a trigger in any of the three years determining a country's MPI score. It said that an MPI score of '1' denotes low potential vulnerability, while a score of '2' reflects moderate vulnerability and a score of '3' denotes a high level of vulnerability to potential systemic stress.

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

In parallel, the agency indicated that Lebanon's banking sector was among 13 banking systems that have a Banking System Indicator (BSI) of 'b'. The BSI is a measure of intrinsic banking system quality or strength, derived from Fitch's Viability Ratings for banks. It deliberately excludes potential support from shareholders or governments since the objective is to highlight systemic weaknesses that might trigger the need for such support. The BSI is an asset-weighted average of bank Viability Ratings for at least two-thirds of banks in any banking system, including systemically important unrated banks.

Lebanon came in the 'b' category, along with Egypt and Nigeria in the Middle East & Africa region, as well as with Armenia, Ecuador, the Dominican Republic, Sri Lanka and Vietnam among others, worldwide. Fitch said that 60% of banking systems in developed countries have BSIs of 'a' or higher. It added that only four banking sectors in developed economies have a BSI of 'aa' and only one sector has a BSI of 'ccc' or lower. Also, it indicated that the typical level of banking strength in emerging markets is weaker and is distributed evenly across the 'bbb', 'bb' and 'b' categories, with only two banking sectors in the 'a' category and three sectors in the 'ccc' category. Lebanon, Argentina, Armenia, Belarus, Cyprus, the Dominican Republic, Ecuador, Egypt, El Salvador, Kazakhstan and Nigeria are the only countries with an MPI score of '1' and a BSI Strength of 'b'.

### New car sales down 4% in first four months of 2017

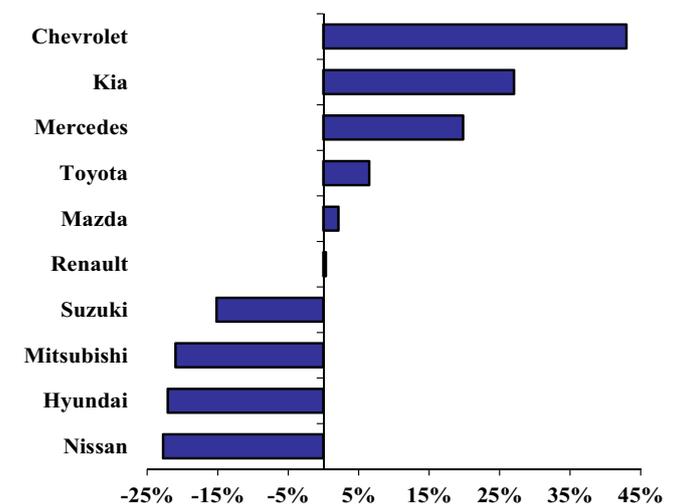
Figures released by the Association of Automobile Importers in Lebanon show that dealers sold 10,654 new passenger cars in the first four months of 2017, constituting a decline of 4% from 11,099 cars sold in the same period of 2016. Consumers purchased 2,420 new cars in January, 2,562 vehicles in February, 3,136 automobiles in March and 2,536 cars in April 2017.

Japanese cars accounted for 34.8% of total sales in the first four months of 2017, followed by Korean vehicles with a 34% share, European automobiles (22%), American cars (8.2%) and Chinese vehicles (1%). The sales of new Chinese cars grew by 2.8 times and demand for American vehicles jumped by 36% year-on-year in the first four months of 2017; while the number of Japanese automobiles sold dropped by 10.4%, the sales of Korean vehicles fell by 5.9% and the number of European cars sold decreased by 3.7% year-on-year.

Kia is the leading brand in the Lebanese market with 2,375 vehicles sold in the first four months of 2017, followed by Hyundai with 1,237 new cars sold, Toyota (1,231), Nissan (857), Renault (570), Suzuki (564) and Chevrolet (490). In parallel, 927 new commercial vehicles were sold in the first four months of 2017, up by 14.4% from 810 commercial vehicles purchased in the same period of 2016. Overall, car dealers sold 11,581 new passenger automobiles and commercial vehicles in the first four months of 2017, constituting a drop of 2.8% from 11,909 cars sold in the same period of 2016.

In parallel, the number of new vehicles sold by Lebanon's top five distributors reached 7,521 in the first four months of 2017 and accounted for 64.9% of new car sales. NATCO sal sold 2,375 vehicles, equivalent to 20.5% of the total, followed by Boustany United Machineries sal with 1,416 cars (12.2%), Rasamny Younis Motor Co. sal with 1,404 automobiles (12.1%), Century Motor Co. sal with 1,278 vehicles (11%) and Bassoul Heneiné sal with 1,048 cars (9%).

### Sales of Top 10 Car Brands in First Four Months of 2017 (% change\*)



\* year-on-year

Source: AIA, Byblos Research

### **Kafalat loan guarantees down 29% to \$23.6m in first four months of 2017**

Figures released by the Kafalat Corporation show that loans extended to small- and medium-sized enterprises (SMEs) under the guarantee of Kafalat reached \$23.6m in the first four months of 2017, constituting a decrease of 28.5% from \$33m in the same period of 2016. Kafalat provided 193 loan guarantees in the covered period, down by 18.6% from 237 guarantees in the first four months of 2016. The average loan size reached \$122,396 in the first four months of 2017 compared to \$139,348 in the same period of 2016. Mount Lebanon accounted for 42% of the total number of guarantees, followed by the Bekaa with 22.8%, the South with 12.4%, the North with 8.8%, Nabatieh with 8.3% and Beirut with 5.7%. Also, the agricultural sector accounted for 39.4% of the total number of guarantees in the first four months of 2017, followed by the industrial sector with 33.7%, tourism with 20.2%, handicraft with 4.2% and specialized technologies with 2.6%. Kafalat is a state-sponsored organization that provides financial guarantees for loans of up to \$430,000 earmarked for the setup and expansion of SMEs in productive sectors. It guarantees up to 75% of the loan amount and a similar percentage of the interest that accrues during the grace period. It also guarantees up to 90% of the loan amount for innovative start-ups and a similar percentage of the interest that accrues during the grace period.

### **Balance sheet of financial institutions up 7% in first quarter of 2017**

Figures released by Banque du Liban show that the consolidated balance sheet of financial institutions in Lebanon reached LBP2,277bn, or \$1.51bn at the end of March 2017, constituting an increase of 7.1% from LBP2,125bn at end-2016 but a decrease of 4.4% from end-March 2016. On the assets side, financial institutions' cash and bank deposits totaled \$544.2m at the end of March 2017, constituting a decline of 5.1% from the end of 2016 and of 9.9% from a year earlier. Claims on the private sector reached \$690.2m at end-March 2017, reflecting a decrease of 5% from end-2016 and a decline of 17.3% from end-March 2016. Also, claims on the public sector totaled \$136.1m at the end of March 2017, constituting a marginal decrease of 0.4% from end-2016 and a drop of 8.4% from a year earlier.

In parallel, liabilities to the private sector totaled \$164.1m at the end of March 2017, constituting declines of 25.4% from end-2016 and of 49.1% from a year earlier; while liabilities to the financial sector reached \$732.4m at end-March 2017, representing a rise of 27.1% from end-2016 and an increase of 9.4% from end-March 2016. Further, the aggregate capital accounts of financial institutions amounted to \$494.4m at the end of March 2017, constituting an increase of 5.5% from end-2016 and a rise of 6.4% from a year earlier. There were 51 financial institutions with a total of 72 branches operating in Lebanon as at the end of June 2016.

### **Arope's net income up 6% in 2016**

Arope Insurance sal announced audited net profits of \$18.1m in 2016, constituting an increase of 6.3% from \$17.1m in 2015. The company's audited balance sheet shows total assets of \$382.5m at the end of 2016, up by 6.3% from \$359.9m at end-2015. On the assets side, general company investments totaled \$267.6m at the end of 2016, up by 7.7% from \$248.5m a year earlier. They included \$58.1m in cash & cash equivalents, \$24.2m investments in subsidiaries and associates, \$10.3m in fixed income investments and \$4.9m in investment funds. They also included \$167.7m in blocked bank deposits and deposits with maturity of more than three months, of which \$0.4m, or 0.3%, were blocked in favor of the Ministry of Economy & Trade as guarantees. Further, the reinsurance share in technical reserves for the life category regressed by 3.7% to \$17.8m in 2016; while those for the non-life category grew by 70.3% to \$16.7m last year.

On the liabilities side, technical reserves for the life segment rose by 12% to \$92.8m in 2016, while technical reserves for the non-life category reached \$89.9m at end-2016 and increased by 6.4% from the preceding year. Non-life technical reserves included unearned premium reserves of \$65.1m that declined by 2.7% and outstanding claims reserves of \$21.2m that grew by 42.3%. Provisions for risks and charges reached \$5.3m and decreased by 52.6% from a year earlier. Also, the firm's shareholders' equity totaled \$131.9m at the end of 2016, up by 7.8% from a year earlier.

*Al-Bayan* magazine's annual survey of the insurance sector in Lebanon ranked Arope Insurance in sixth and eighth place in 2016 in terms of life and non-life premiums, respectively. The firm's life premiums amounted to \$38.7m in 2016, constituting a rise of 1.3% from a year earlier; while its non-life premiums increased by 5.7% year-on-year to \$60.2m. It had a 7.7% share of the life market and a 5.5% share of the local non-life market. Arope Insurance had a 6.2% share of the overall insurance market and ranked in sixth place in total premiums in 2016.

### **Bank of Beirut's dividend payout ratio at 38% for 2016**

Bank of Beirut sal announced that its Ordinary General Assembly held on May 5, 2017 approved the distribution of dividends for 2016. The bank allocated a gross dividend payment of LBP114.4bn, or \$75.9m, to the holders of ordinary common, priority common and preferred shares, equivalent to a 38% payout ratio. The bank distributed a gross dividend of \$2.3625 per share to the holders of Series "G" Preferred Shares, \$1.75 per share to the holders of Series "H" Preferred Shares, \$1.6875 per share to the holders of Series "I" Preferred Shares, \$1.625 per share to the holders of Series "J" Preferred Shares, and \$0.5683 per share to the holders of Series "K" Preferred Shares for the period that covers their issuance date of May 25 until December 31, 2016. The holders of common shares, including the holders of priority shares Series 2014, received a total gross dividend payout of LBP57.9bn, or \$38.4m, equivalent to LBP1,000 or \$0.66 per share. In addition, the bank paid \$0.84 per share to the holders of priority shares Series 2014. The dividends were paid starting on May 11, 2017 net of a 5% withholding tax for publicly-listed shares and net of a 10% tax for shares that are not publicly listed.

## 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	19.1	0.30
Fiscal Expenditures / GDP	27.9	26.5	28.6	2.1
Fiscal Balance / GDP	(6.1)	(7.7)	(9.5)	(1.8)
Primary Balance / GDP	2.6	1.4	0.04	(1.4)
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	May 2015	Apr 2016	May 2016	Change**	Risk Level
Political Risk Rating	55.0	55.5	55.5	▼	High
Financial Risk Rating	39.0	36.5	36.5	▲	Low
Economic Risk Rating	33.0	30.5	30.5	▲	Moderate
Composite Risk Rating	63.5	61.25	61.25	▲	Moderate

MENA Average*	May 2015	Apr 2016	May 2016	Change**	Risk Level
Political Risk Rating	57.3	57.7	57.6	▼	High
Financial Risk Rating	39.6	39.7	39.4	▲	Low
Economic Risk Rating	33.1	31.1	30.5	▲	Moderate
Composite Risk Rating	65.0	64.3	63.7	▲	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	Stable	B	B	Stable

Source: Rating agencies

Banking Ratings	Banks' Financial Strength	Banking Sector Risk	Outlook
Moody's	E+		Negative



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