

# THE LEBANESE ECONOMY — IN 2016 —



# THE LEBANESE ECONOMY IN 2016

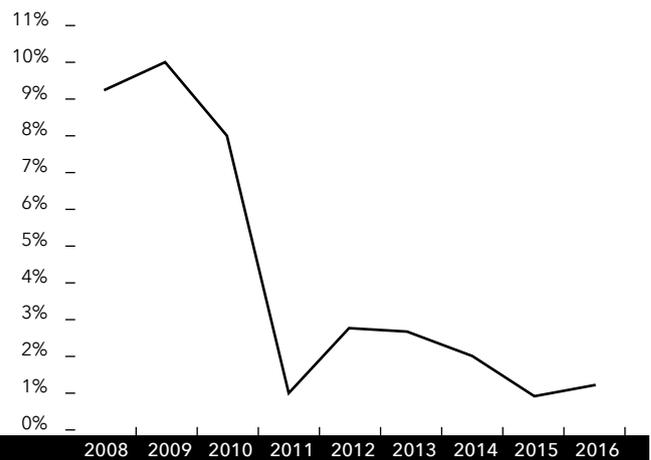
## ECONOMIC ACTIVITY

Economic activity in Lebanon remained below potential in 2016, in line with the previous five years. The domestic political deadlock, the high level of political polarization, the presidential vacuum, paralyzed decision-making within public institutions, and the crisis with Saudi Arabia and other member countries of the Gulf Cooperation Council (GCC) weighed on economic activity and on consumer and investor sentiment throughout most of the year. Also, the lack of any credible attempt at implementing reforms, the weak rule of law, and the continued burden of the public sector on the private sector took their toll on economic activity. Positive political developments in the fourth quarter of 2016 supported consumer confidence during the last three months of the year, but their impact came too late during the year to affect economic growth.

The Lebanese economy benefited from a USD 1 billion stimulus package from the Banque du Liban (BDL) in 2016, which supported activity in several key sectors, especially real estate. This constituted the BDL's fourth consecutive package since 2013. Also, the estimated inflows of USD 7.6 billion in remittances from Lebanese expatriates in 2016, equivalent to 15.3% of GDP, sustained household spending for day-to-day needs. In addition, the pass-through effects of the steep drop in global oil prices and the muted inflationary environment raised the disposable income of households and supported consumption during the year.

Still, the economy performed at a sub-par level in 2016, as private consumption grew by a real rate of 2.9%, public consumption increased by 6%, and gross fixed capital formation expanded by 0.6% during the year. Also, exports of goods and services contracted by 2.3% in real terms, while imports of goods and services grew by 2.6% in 2016. As such, the economy expanded by 1.2% in real terms in 2016 compared to a real GDP growth rate of 0.8% in 2015.

Real GDP Growth in Lebanon (%)



Source: Central Administration for Statistics, Institute of International Finance estimate for 2016



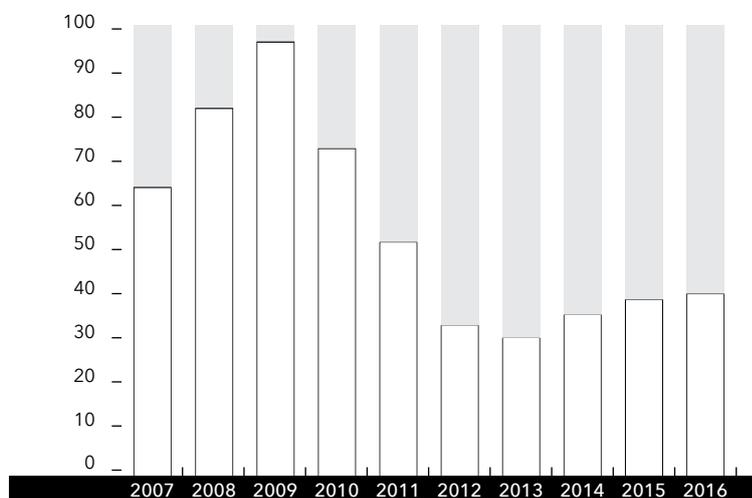
# THE LEBANESE ECONOMY IN 2016

## REAL SECTORS

Household sentiment is a key indicator of the trends in economic activity in Lebanon, given that private expenditures represent about 87% of overall spending in the economy. The Byblos Bank/AUB Consumer Confidence Index averaged 39.7 in 2016, increasing by 3.5% from 2015 and constituting the third annual expansion since 2009. The increase in consumer sentiment in 2016 was due mainly to the positive political developments in the fourth quarter of the year and to low-base effects. The election of General Michel Aoun as President in October, the swift nomination of Mr. Saad Hariri as Prime Minister in November, and the formation of a government of national unity in December ended the 30-month presidential vacuum in the country, restored the proper functioning of the government and Parliament, and supported confidence. In fact, the Index averaged 50.4 in the fourth quarter of 2016 and improved by 39% from 36.4 in the third quarter of the year. The fourth-quarter results were the highest in 21 quarters and the 17th highest since the start of the Index calculation in July 2007, while the quarter-on-quarter growth rate was the highest since the second quarter of 2008. However, the increase in confidence does not necessarily denote a reversal of trends, as the level of consumer sentiment in 2016 remained 59% lower than the Index's peak year of 2009 and 26% below the Index's monthly trend average since July 2007.

The Byblos Bank/AUB Expectations Index posted higher values than the Present Situation Index in eight out of the 12 months of 2016. However, only 8.6% of Lebanese polled in the fourth quarter of 2016 expected their financial conditions to improve in the coming six months, while 67% of them believed that their financial situation would deteriorate. In parallel, the BDL's Coincident Indicator, a proxy for overall economic activity in Lebanon, increased by 3.8% in 2016, which still reflects slow economic activity.

**Byblos Bank/AUB Consumer Confidence Index**



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



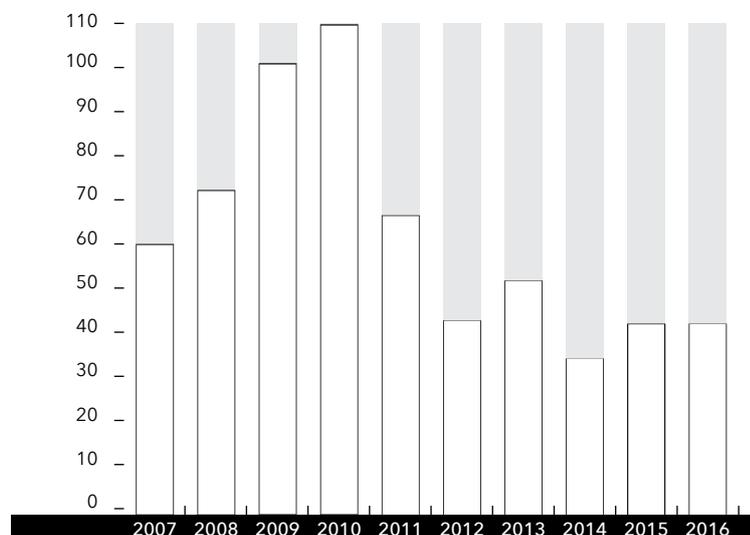
# THE LEBANESE ECONOMY IN 2016

## REAL ESTATE SECTOR

The real estate market, which contributes nearly 14% of economic output in Lebanon, was affected by the economic slowdown in the country in 2016. The surface area of construction permits for new buildings decreased by 11.2% in 2016, with the surface area of construction permits for new residential buildings regressing by 10.8% and the surface areas for new commercial buildings declining by 15% from the previous year. In parallel, the outstanding amount of housing loans reached USD 11.93 billion at the end of 2016 compared to USD 11.92 billion a year earlier, as new housing loans extended during the year continued to be supported by the BDL's stimulus package.

The Byblos Bank Real Estate Demand Index posted an average monthly value of 41.9 points in 2016, nearly unchanged from 41.8 points in 2015. The average monthly score of 2016 constituted a decline of 62% from the peak of 109.8 registered in 2010. It was also 33% lower than the monthly trend average score of 62.4 since the start of the Index calculation in July 2007. But the Index would have posted lower results for the year if it were not for the positive political developments that materialized during the fourth quarter of 2016. As such, the political breakthrough supported household sentiment, which helped the Index improve by 17.5% quarter-on-quarter to 46.5 points in the fourth quarter of 2016. However, the impact of these positive political developments on housing demand will remain limited if they are not accompanied by additional measures to stimulate demand.

**Byblos Bank Real Estate Demand Index**



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



# THE LEBANESE ECONOMY IN 2016

## TOURISM SECTOR

The tourism sector, which used to be a main driver of economic activity in the country, continued to post subdued activity in 2016. The World Travel & Tourism Council estimated that the travel and tourism industry had a direct contribution to economic activity equivalent to 7% of GDP in 2016, down from more than 10% of GDP in 2010, while the industry's direct and indirect impact was equivalent to 19.4% of overall economic activity in Lebanon last year. The sector's overall contribution to GDP increased by 2.7% in real terms in 2016.

The number of incoming visitors to Lebanon totaled 1.69 million in 2016, an increase of 11.2% from about 1.52 million tourists in 2015, but it still constituted a decline of 22% from the peak of 2.17 million visitors in 2010. The change in the composition of visitors to Lebanon affected tourism activity and revenues last year, as the number of European visitors accounted for 33.4% of the total and surpassed the number of Arab tourists (31% of the total), while incoming visitors from the six GCC countries accounted for 5% of Lebanon's total tourist arrivals in 2016, down from 18% in 2010.

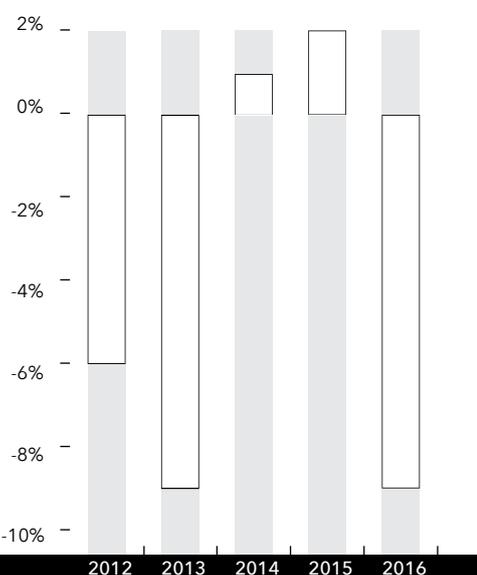
Also, visitors from the Americas accounted for 17.6% of total tourists, followed by visitors from Asia (7.4%), Africa (6.1%), and Oceania (4.4%). On a country basis, visitors from Iraq accounted for 14% of total visitors in 2016, followed by visitors from the United States (9.1%), France (8.6%), Canada (5.9%), Germany (5.2%), Jordan (5.1%), and Egypt (4.9%).

The number of visitors from countries in Oceania increased by 25.6% in 2016, followed by visitors from African countries (+21.1%), the Americas (+12.4%), Europe (+11.7%), the Arab region (+8.8%), and Asia (+2.5%). In parallel, the number of incoming visitors from the GCC region reached 84,400 in 2016, down by 19.3% from 2015 and by 78% from 383,983 GCC tourists in 2010.

In parallel, the value of VAT refunds claimed by visitors in Lebanon decreased by 9% in 2016. Visitors from the UAE accounted for 14% of total tourist expenditures in 2016; followed by visitors from Saudi Arabia with 13%; Kuwait and Egypt with 6% each; Syria, Jordan, and France with 5% each; Qatar and the United States with 4% each; Nigeria with 3%; and Iraq with 2%. Spending by visitors from Iraq dropped by 18% in 2016, followed by expenditures by visitors from Saudi Arabia (-17%), Egypt (-16%), Qatar (-15%), the UAE (-10%), Jordan and Nigeria (-9% each), Kuwait (-8%), France (-7%), and the United States (-2%), while spending by visitors from Syria increased by 2% last year.

As a result, the change in the composition of visitors affected the performance of the hospitality sector, as the increase in the number of visitors did not translate into an improvement in revenues for the sector, given that hotels had to offer heavily discounted packages to non-GCC Arab nationals to entice them to visit Lebanon. The average occupancy rate at hotels in Beirut was 59% in 2016, almost unchanged from 58% in 2015 and compared to an average rate of 60.9% in 14 main Arab markets. The average occupancy rate at Beirut hotels was the sixth lowest in the region in 2016, similar to its rank in 2015. The average rate per room at Beirut hotels was USD 138 in 2016, ranking the capital's hotels as the second least expensive in the region. The average rate per room at Beirut hotels regressed by 15% year-on-year and posted the second steepest drop among all markets in the region. Further, revenues per available room reached USD 82 in Beirut in 2016, decreasing by 13.5% year-on-year, the fifth steepest decline among Arab markets.

**Yearly Change in Tourist Spending\***



\* based on the change in VAT refunds  
Source: Global Blue



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## MONETARY POLICY

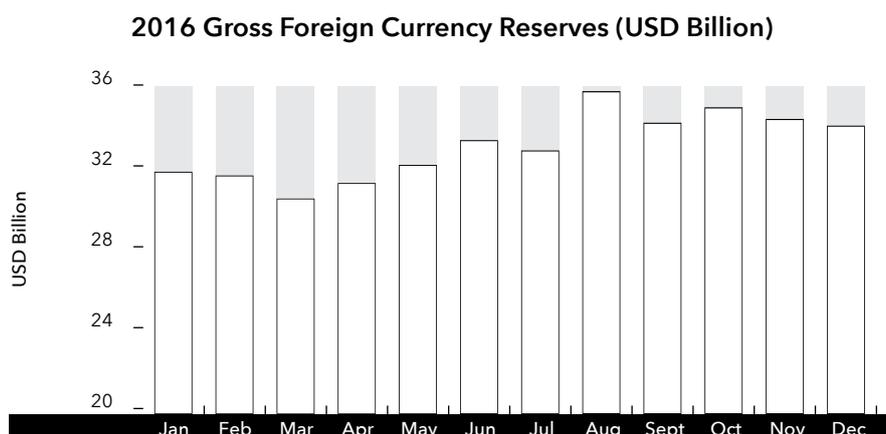
Throughout 2016, the BDL continued its policy of maintaining the stability of the exchange rate, of preserving economic and monetary stability, and of safeguarding the soundness of the banking sector. As such, the BDL deemed it necessary to conduct special financial operations with the Ministry of Finance and commercial banks in the second half of 2016 amid a sustained deficit in the balance of payments, a decrease in foreign currency reserves, and a slowdown in non-resident bank deposit growth at the start of the year.

First, in May 2016, the BDL exchanged LBP 3,000 billion worth of LBP-denominated Treasury bonds from its portfolio with Eurobonds worth USD 2 billion issued by the Ministry of Finance, and then sold the Eurobonds to commercial banks. Second, it started issuing Certificates of Deposit in US Dollars that totaled USD 12.5 billion by the end of the year, and that it sold to banks. Commercial banks financed the purchases by sourcing most of the funds from abroad, which attracted foreign currency deposits, increased the BDL's foreign currency reserves, and reversed the deficit in the balance of payments for the year. Third, the BDL bought back the equivalent of USD 12.5 billion in Lebanese Pound-denominated Treasury bills from the commercial banks' portfolios at a zero discount rate.

Following these swap operations, the BDL's gross foreign currency reserves reached USD 34 billion at the end of 2016, increasing by USD 3.4 billion, or 11.1%, from USD 30.64 billion a year earlier. They were equivalent to 62.2% of money supply (M2) and to about 14 months' worth of next year's imports, well above the four-month reference for emerging markets. In addition, the BDL's overall assets in foreign currency increased by USD 3.6 billion in 2016 to reach USD 40.7 billion at the end of the year.

Further, the value of the BDL's gold reserves reached USD 10.7 billion at the end of 2016, constituting a rise of 8.7% from end-2015, mainly due to a recovery in global gold prices. The BDL's combined assets in gold and foreign currencies were equivalent to about 103% of GDP at the end of 2016.

In parallel, broad money supply (M3) grew by 7.4% in 2016, accelerating from growth rates of 5.1% in 2015, 5.9% in 2014, and 6.9% in 2013, while money supply (M2) increased by 4.8% year-on-year, decelerating from rises of 7.1% in 2015, 6.8% in 2014, and 5.6% in 2013. Also, the interbank rate in Lebanese Pounds was nearly unchanged year-on-year at 3% at the end of 2016, while the repo rate was fixed at 10% throughout the year.



Source: Banque du Liban

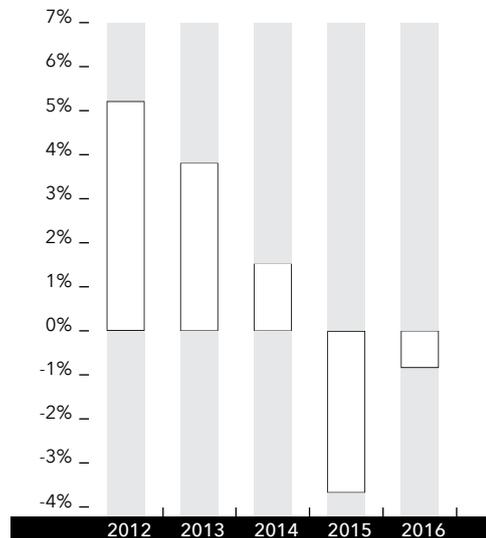


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## INFLATION

The Consumer Price Index contracted by 0.8% in 2016 compared to a decline of 3.7% in 2015, according to the Central Administration of Statistics. The CPI regressed marginally by 0.3% in 2016 when excluding telecommunication and transportation costs. The contraction in the CPI is mainly attributed to the local transmission of the drop in global oil prices, the strengthening of the US Dollar, the decrease in telecom tariffs in September 2016, and a slowdown in local demand for goods and services. Also, the figures denote the waning impact of imported inflation.

Inflation Rate in Lebanon (% Avg.)



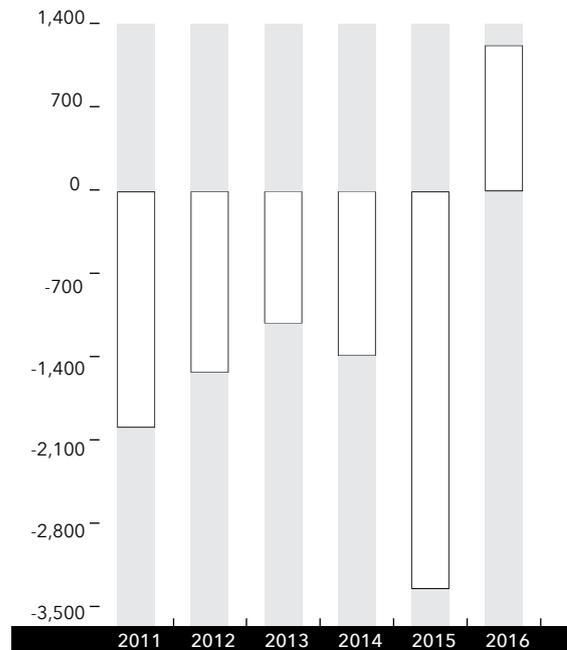
Source: Central Administration of Statistics

## EXTERNAL SECTOR

The balance of payments posted a surplus of USD 1.2 billion in 2016, constituting the first annual surplus since 2010. The 2016 surplus was mainly due to the BDL's financial engineering operations, which attracted capital inflows. The 2016 surplus reflected an increase of USD 3.87 billion in the net foreign assets of the BDL, which was partly offset by a decrease of USD 2.63 billion in those of banks and financial institutions. Also, the current account deficit is estimated to have widened from 16.3% of GDP in 2015 to 19.3% in 2016.

The trade deficit reached USD 15.7 billion in 2016, widening by 4.1% year-on-year, as the value of imported goods increased by 3.5% to USD 18.7 billion and the value of exports expanded by a marginal 0.8% to USD 3 billion. The rise in imports mainly reflects an increase of USD 306 million, or 8.9%, in the value of imported oil and mineral fuels to USD 3.74 billion in 2016. The growth in imported oil and mineral fuels was due to higher fuel imports by Electricité du Liban (EDL) during the year, as non-EDL fuel imports contracted last year. The value of oil and mineral fuels accounted for 20% of total imports in 2016 compared to a share of 19% in 2015. In parallel, the value of non-hydrocarbon imports grew by 2.3% to USD 15 billion.

Balance of Payments (USD Billion)



Source: Banque du Liban



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The value of imported jewelry increased by USD 433.2 million, or 52.7%, to USD 1.3 billion in 2016, and that of chemical products rose by USD 85.6 million, or 4.4%, to USD 2 billion, while the value of machinery and mechanical appliances contracted by USD 113.8 million, or 5.7%, to USD 1.9 billion in 2016.

Further, the marginal increase in exports in 2016 was driven mainly by a rise of USD 394.3 million, or 91%, in jewelry exports, which offset the decline of other main export products. In fact, exports of chemical products decreased by USD 106.4 million to USD 411 million, exports of machinery and mechanical appliances regressed by USD 80.2 million to USD 413.8 million, those of base metals contracted by USD 60.5 million to USD 313.7 million, and exports of prepared foodstuffs decreased by USD 37.2 million to USD 482.7 million in 2016.

## PUBLIC FINANCES

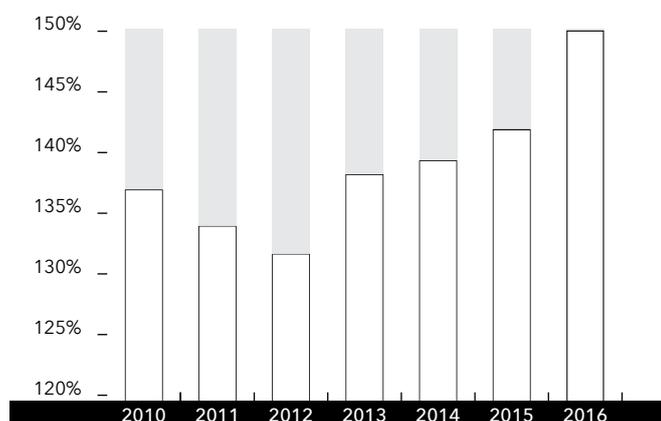
Lebanon's public finance imbalances persisted in 2016, with the fiscal deficit widening to 9.9% of GDP from 8% of GDP in 2015. The public sector continued to expand, with public expenditures increasing from 27.3% of GDP in 2015 to 29.8% of GDP in 2016. Public personnel cost, which includes salaries, wages, transfers to public institutions to cover salaries, end-of-service indemnities, and retirement benefits, reached the equivalent of 9.8% of GDP in 2016, up from 9.5% of GDP in 2015. Also, debt servicing represented 10% of GDP relative to 9.4% of GDP in the previous year, and transfers to the state-owned and money-losing EDL reached 1.9% of GDP, down from 2.3% of GDP in 2015.

In addition, Treasury transfers to municipalities increased from 1.3% of GDP in 2015 to 2.1% of GDP in 2016, in order to finance the municipal and mayoral elections that took place in May 2016. Public personnel cost was the fastest-growing component of budgetary spending over the past six years, as it expanded by a CAGR of 6.5% during the 2010-2016 period compared to growth of 3% for debt servicing, and a CAGR of -4% for Treasury transfers to EDL.

In parallel, public revenues increased from 19.3% of GDP in 2015 to 20% of GDP in 2016. Tax revenues were equivalent to about 14.1% of GDP last year, slightly up from 13.8% of GDP in 2015; non-tax receipts represented 4.5% of GDP in 2016, nearly unchanged from the preceding year; and Treasury revenues were equivalent to 1.3% of GDP last year relative to 1.1% of GDP in 2015.

The widening fiscal deficit led Lebanon's public debt level to grow from 142.2% of GDP in 2015 to 150.8% in 2016, constituting the ratio's fourth consecutive annual increase. The gross public debt reached USD 74.9 billion at the end of 2016, constituting an increase of 6.5% from end-2015 and compared to increases of 5.6% in 2015 and 4.9% in 2014. The gross public debt grew by USD 4.56 billion in 2016 relative to increases of USD 3.75 billion in 2015 and USD 3.1 billion in 2014. Debt denominated in local currency increased by 8.2% to the equivalent of USD 46.8 billion, while debt in foreign currency grew by 3.8% to USD 28.1 billion at the end of 2016. Foreign currency-denominated debt represented 37.5% of gross public debt at the end of 2016 relative to 38.5% a year earlier.

**Gross Public Debt (% of GDP)**



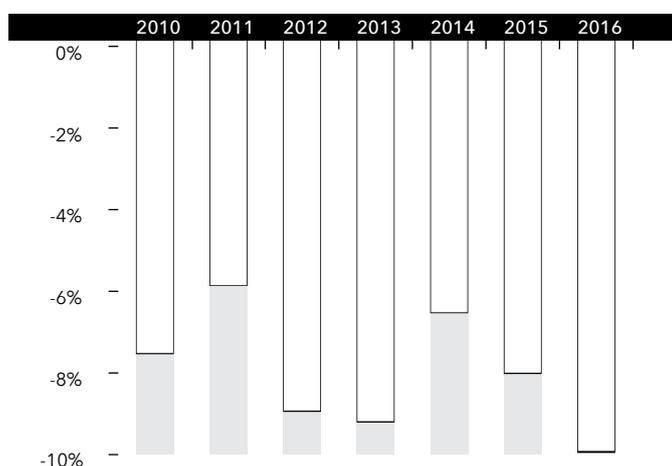
Source: Association of Banks in Lebanon, Central Administration of Statistics, The Institute of International Finance



# THE LEBANESE ECONOMY IN 2016

Commercial banks held about 47% of the total public debt at the end of 2016, down from 53% at end-2015, followed by the BDL with nearly 34% relative to about 26.5% a year earlier; the general public, resident public, and non-bank financial institutions with 11%, bilateral and multilateral loans with 3%; and others with 5% of the total. The BDL accounted for 42.7% of the Lebanese Pound-denominated public debt at the end of 2016 compared to 37.3% a year earlier. Commercial banks followed with 41.9%, down from 45.8% at end-2015, while public agencies, financial institutions, and the public held the remaining 15.3%. Also, Eurobond holders and special Treasury bills in foreign currencies accounted for 92.9% of the foreign-currency denominated debt, followed by multilateral institutions with 3.7%, foreign governments with 3.2%, and Paris II loans with 0.2%. In parallel, the gross market debt accounted for about 61% of total public debt. Gross market debt is the total public debt less the portfolios of the BDL, the National Social Security Fund, bilateral and multilateral loans, and Paris II- as well as Paris III-related debt.

## Fiscal Deficit (% of GDP)



Source: Ministry of Finance, Central Administration of Statistics, The Institute of International Finance

## CAPITAL MARKETS

### EQUITIES

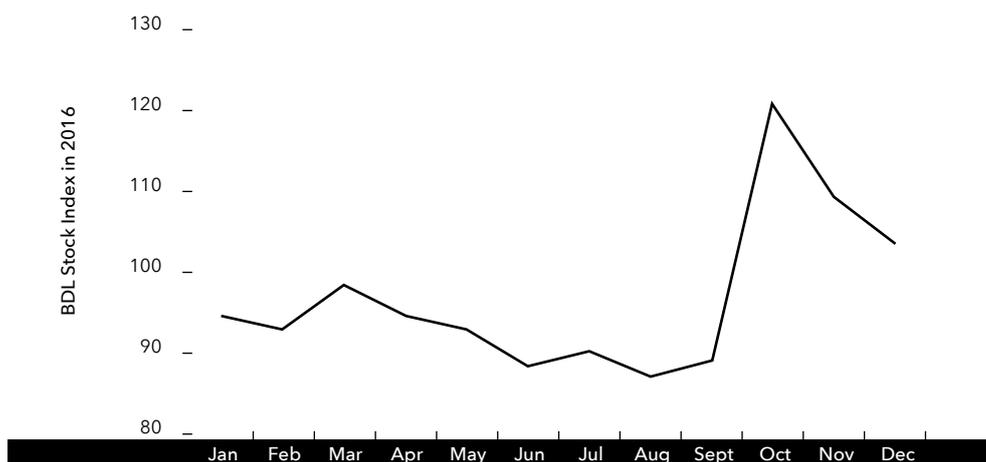
The Beirut stock market continued to suffer from low liquidity and a lack of interest from privately held firms in listing their shares. Total trading volume on the Beirut Stock Exchange reached 120.5 million shares in 2016, constituting an increase of 61.4% from 74.6 million shares in 2015, while aggregate turnover amounted to USD 971.6 million, up by 54.5% from a turnover of USD 629 million in 2015. The increase in trading activity was boosted by several block trades during the year. However, the Capital Markets Authority Market Value-Weighted Index improved by just 0.5% in 2016. Market capitalization grew by 6.1% from the end of 2015 to USD 11.9 billion, with banking stocks accounting for 83.1% of the total, followed by real estate shares (14.5%), industrial firms (2.1%), and trading stocks (0.3%). The market liquidity ratio was 8.2% compared to 5.6% in 2015. Further, market capitalization was equivalent to 24% of GDP in 2016, the fifth lowest level among 14 Arab markets, and accounted for about 1% of the aggregate market capitalization of Arab equity markets at end-2016.

Bank stocks accounted for 92.2% of the aggregate trading volume in 2016, followed by real estate equities with 7.6% and industrial shares with 0.2%. Also, banking stocks accounted for 89.6% of the aggregate value of shares traded, followed by real estate stocks with 10.1% and industrial stocks with 0.3%. The average daily traded volume for 2016 was 493,739 shares for an average daily value of USD 4 million. The figures reflect increases of 59.4% in volume and 52.6% in value year-on-year. In parallel, the Capital Markets Authority Banks Market Value-Weighted Index rose by 13.6% last year.



# THE LEBANESE ECONOMY IN 2016

**Market Value-Weighted Stock Index**



Source: Capital Markets Authority

## FIXED INCOME

Lebanon's external debt posted a return of 4.93% in 2016, constituting the 13th lowest return among 43 markets in the Central and Eastern Europe, Middle East and Africa (CEEMEA) region, as well as the 24th lowest return among 75 emerging markets, according to the Merrill Lynch External Debt EM Sovereign Bond Index. Lebanon underperformed the overall emerging markets' return of 8.19% during 2016 and posted the eighth lowest return among 26 countries in the Middle East and Africa region.

The Ministry of Finance issued a total of USD 3.4 billion in Eurobonds in 2016.

In January 2016, the Ministry of Finance issued USD 431.7 million in Eurobonds in the context of a Purchase Agreement with the BDL.

In April 2016, the Lebanese Republic issued a USD 1 billion dual-tranche Eurobond under the Republic of Lebanon's Global Medium Term Note Program to cover part of the government's debt service payments for the year. The first series consisted of an eight-year, USD 700 million Eurobond that matures on 22 April 2024 and carries an annual coupon rate of 6.65%, while the second series consisted of a 15-year USD 300 million Eurobond that is due on 22 April 2031 and carries an annual coupon rate of 7%. Local investors, including commercial banks, investment banks, and insurance companies, subscribed to 91% of the issuance, while foreign investors, including European funds, subscribed to the balance of 9%.

In May 2016, the BDL exchanged Lebanese Pound-denominated Treasury bonds from its portfolio with USD 2 billion worth of Eurobonds issued by the Ministry of Finance. The first series of the newly issued bonds consisted of a six-year USD 500 million Eurobond that matures in 2022 and carries an annual coupon rate of 6.25%, the second series consisted of a seven-year USD 500 million Eurobond that is due in 2023 and carries an annual coupon rate of 6.4%, and the third series consisted of a 13-year USD 1 billion Eurobond that matures in 2029 and carries an annual coupon rate of 6.85%. The May 2016 swap helped reduce the average interest rate from 7.53% on the local-currency bonds to 6.59% on the newly issued bonds. It also lengthened the average debt maturity from 7.92 years for local-currency bonds to 9.89 years for the Eurobonds, without increasing the value of the public debt stock or the BDL's share of the public debt. In addition, the swap provided additional monetary tools to the BDL in order to manage liquidity in the market.



# THE LEBANESE ECONOMY IN 2016

## RISK METRICS

Spreads on five-year credit default swaps (CDSs) for Lebanon ended 2016 at 491.9 basis points (bps), up from 411 bps at the end of 2015. The spreads were stable during the first nine months of 2016, as they averaged 448.6 bps in the first quarter, 456.4 bps in the second quarter, and 459.6 bps in the third quarter of the year. However, Lebanon's CDS spreads widened to an average of 485.1 bps during the fourth quarter of 2016.

Rating agencies expressed concern during the year about persisting political risks and fiscal imbalances, but they remained confident in the strength and stability of the banking sector. In July 2016, Fitch Ratings downgraded Lebanon's long-term foreign and local currency Issuer Default Ratings (IDRs) from 'B' to 'B-' and revised the outlook from 'negative' to 'stable'. It also lowered the Country Ceiling and the ratings on Lebanon's senior unsecured foreign and local currency bonds from 'B' to 'B-', while affirming the short-term foreign and local currency IDRs at 'B'. The agency attributed the downgrades to the increase in political risks from the ongoing conflict in Syria, as well as to the country's weak public finances and low economic performance. It pointed out that the ratings are supported by Lebanon's strong external liquidity and resilient banking sector, the government's perfect track record of public debt repayment, and other structural

strengths, such as the high income levels and human development indicators.

In September 2016, S&P Global Ratings affirmed Lebanon's long- and short-term foreign and local currency sovereign credit ratings at 'B-/B', and revised the outlook on the long-term ratings from 'negative' to 'stable'. It attributed the outlook revision to its expectations that deposit inflows to the Lebanese banking sector would remain resilient, which would support the government's borrowing requirements and the country's external financing needs. It reiterated that the government's dependence on domestic banks and on the BDL to finance its needs is a structural weakness, but it considered this dependence to be a crucial support for the ratings.

In October 2016, Capital Intelligence affirmed Lebanon's long- and short-term foreign and local currency sovereign ratings at 'B', and kept the 'negative' outlook on the long-term ratings. It said that Lebanon's ratings and 'negative' outlook reflect the prevailing high level of geopolitical risks, which are weighing on economic activity and are increasing the country's vulnerabilities. It indicated that the ratings are supported by the country's adequate international liquidity, especially its foreign currency reserves, which constitute a buffer against external economic shocks.

## BANKING SECTOR

The banking sector continued to face a challenging operating environment in 2016 due to several converging factors that include slow economic activity in Lebanon, domestic and regional political uncertainties, the Syrian conflict and its spillovers onto Lebanon, tighter margins, fewer lending opportunities domestically and in their main foreign markets, low global interest rates, and the elevated borrowing needs of the Lebanese government. Still, the sector remained solid, profitable, highly liquid, and able to meet the financing needs of the private and public sectors.

The aggregate assets of commercial banks reached USD 204.3 billion at the end of 2016, constituting an increase of 10% from end-2015 and relative to increases of 6% in 2015 and 6.6% in 2014. The sector's assets were equivalent to 409% of GDP, one of the highest such ratios in the world, which reflects the continuing ability of the banking sector to meet the borrowing needs of both the private and public sectors, as well as to maintain high levels of liquidity and capitalization.

Loans to the private sector totaled USD 57.2 billion at the end of 2016 and increased by USD 3 billion, or 5.5%, from end-2015 relative to a rise of USD 3.3 billion, or 6.5%, in 2015. Lending to the resident private sector grew by USD 3 billion in 2016 relative to a rise of USD 2.7 billion in 2015, while credit to the non-resident private sector regressed by USD 39.8 million last year compared to an increase of USD 648.1 million in 2015. As such, credit to the resident private sector was equivalent to 102% of GDP in 2016. The dollarization rate in private sector lending reached 72.6% at end-2016, down from 74.8% a year earlier. The average lending rate in Lebanese Pounds was 8.23% at end-2016, while the same rate in US Dollars was 7.35%. Further, claims on the public sector stood at USD 34.7 billion, down by 8.1% year-on-year, and accounted for about 17% of the banking sector's total assets. However, commercial banks' deposits at the BDL totaled USD 89.3 billion at end-2016, reflecting an increase of 26.6% from a year earlier, and accounted for about 43.7% of the sector's aggregate assets. Rating agencies continued to restrain the banks' ratings to the sovereign ceiling, citing the banks' elevated exposure to the sovereign as their most important risk factor.



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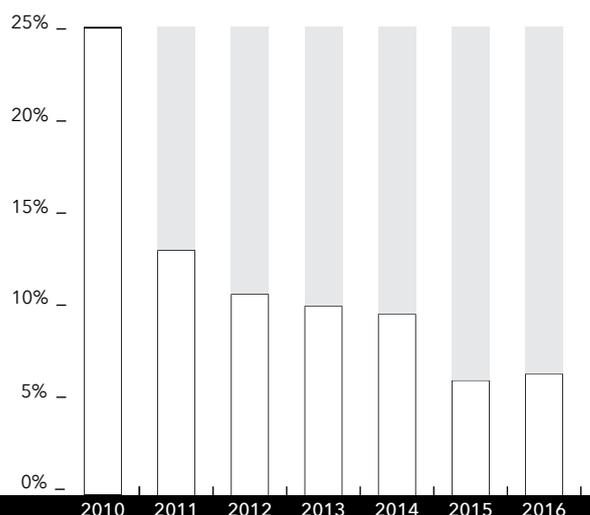
Deposits of the private non-financial sector totaled USD 162.5 billion at the end of 2016, rising by USD 10.9 billion, or 7.2%, from end-2015, relative to an increase of USD 7.2 billion, or 5%, in 2015. Private sector deposits increased by USD 7.9 billion in the second half of 2016, equivalent to 72% of the total rise in deposits last year, due in large part to the BDL swap operations. Private sector deposits were equivalent to 326% of GDP, one of the highest such ratios in the world. Deposits in Lebanese Pounds reached USD 55.5 billion, up 4.3% from end-2015 and compared to an increase of 7.5% in 2015, while deposits in foreign currencies totaled USD 107 billion, a rise of 8.8% from end-2015 and relative to an increase of 3.6% in 2015.

Non-resident foreign currency deposits totaled USD 29.4 billion at end-2016, increasing by 7.3% from end-2015 relative to a rise of 3.7% in 2015. The dollarization rate of deposits reached 65.8% at end-2016, up from 64.9% a year earlier. The average deposit rate in Lebanese Pounds was 5.56% at end-2016, unchanged from end-2015. The same rate in US Dollars was 3.52% at end-2016 compared to 3.17% a year earlier. In parallel, deposits of non-resident banks reached USD 9.5 billion, and rose 44.7% from end-2015.

The ratio of private sector loans to deposits in foreign currencies stood at 38.8% at end-2016, well below the BDL's limit of 70%, and compared to 41.3% a year earlier. In parallel, the same ratio in Lebanese Pounds was 28.2% at the end of 2016, up from 25.6% at end-2015. The ratio of total private sector loans to deposits was 35.2% at the end of 2016, compared to 35.8% a year earlier. The banks' capital base stood at USD 18.2 billion at the end of 2016, up by 9.4% from a year earlier, with core capital growing by 10.1% to USD 17 billion.

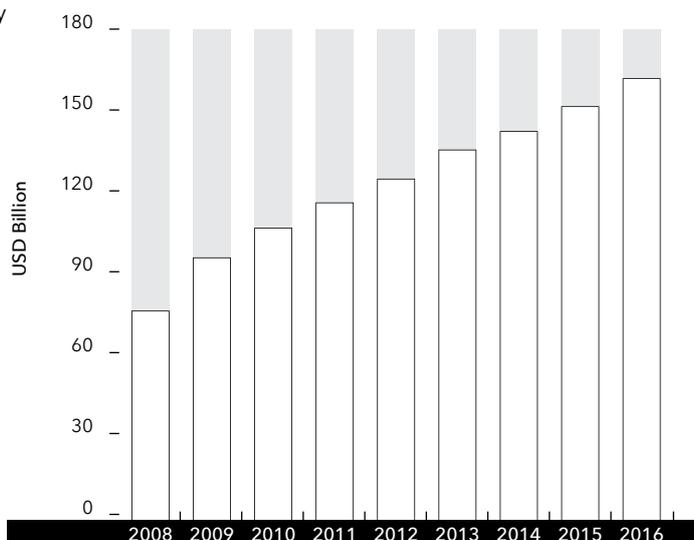
In parallel, the unaudited consolidated net profits of the top 14 banks by deposits reached USD 2.3 billion in 2016, constituting an increase of 11.9% from net earnings of USD 2 billion in 2015. Net operating income increased by 29.2% year-on-year to USD 6.7 billion, with aggregate net interest income rising by 8% to USD 3.8 billion and net fees and commissions expanding by 75.5% to USD 1.5 billion. In addition, net gains on financial assets at fair value grew by 59% to USD 1.06 billion in 2016. Non-interest income accounted for 44.3% of total income in 2016, up from 33.2% in the preceding year, with net fees and commissions representing 47.7% of non-interest income compared to 46.7% in 2015. Also, the cost-to-income ratio was 47.7% in 2016, down from 48.7% in 2015. Further, the banks' return on average assets was 1.08% in 2016, slightly up from 1.02% in the preceding year, while their return on average equity was 11.8% in 2016 compared to 11.5% in 2015.

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



Source: Association of Banks in Lebanon, Byblos Research

## Private Sector Deposits (USD Billion)



Source: Association of Banks in Lebanon, Byblos Research

