

LEBANON THIS WEEK

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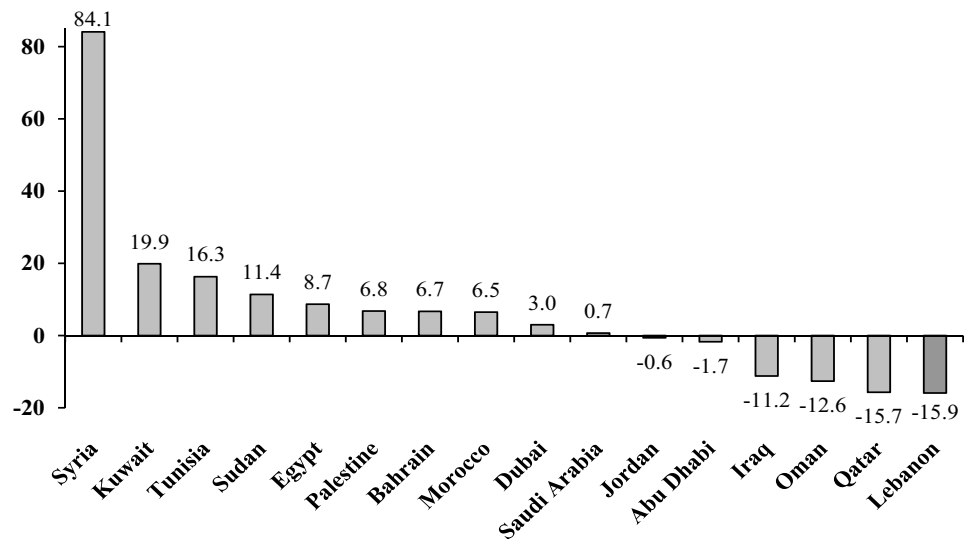
Moody's downgrades ratings on three Lebanese banks following similar action on the sovereign

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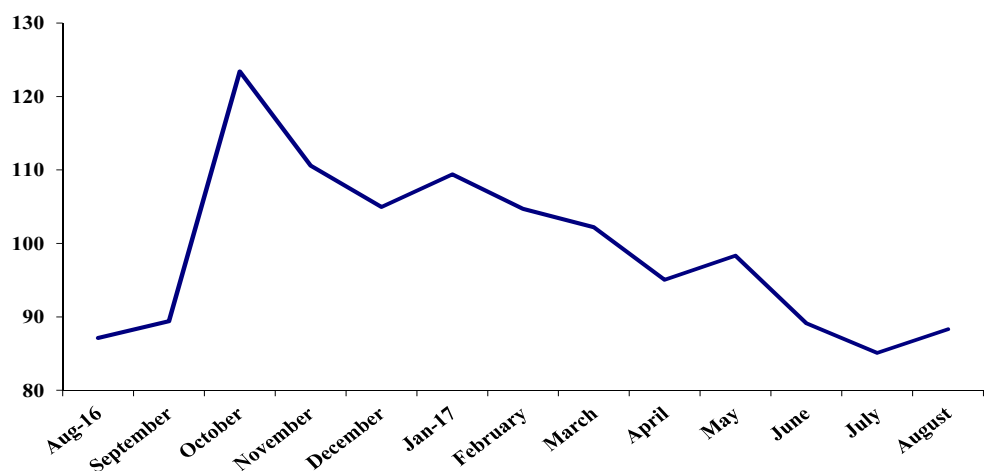
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Charts of the Week

Performance of Arab Stock Markets in First Eight Months of 2017 (% change)



Performance of the Beirut Stock Exchange*



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

Quote to Note

“The absence of an approved budget continues to impede the formulation and implementation of debt-stabilizing reforms.”

Moody's Investors Service, on the urgent need for the Lebanese Parliament to ratify a growth-oriented budget

Number of the Week

54%: Percentage of expatriates who cite the weak investment climate as the main constraint to invest in their country of origin, according to the World Bank

Lebanon in the News

\$m (unless otherwise mentioned)	2016	Feb 2016	Nov 2016	Dec 2016	Jan 2017	Feb 2017	% Change*
Exports	2,977	228	247	244	229	226	(0.88)
Imports	18,705	1,377	1,450	1,536	1,604	1,648	19.68
Trade Balance	(15,728)	(1,149)	(1,203)	(1,292)	(1,375)	(1,422)	23.76
Balance of Payments	1,238	363	453	910	167	342	(5.74)
Checks Cleared in LBP	19,892	1,538	1,684	1,879	1,733	1,676	8.97
Checks Cleared in FC	48,160	3,988	3,968	3,880	3,973	3,547	(11.06)
Total Checks Cleared	68,052	5,526	5,652	5,759	5,706	5,223	(5.48)
Budget Deficit/Surplus	(3,667.15)	(260.49)	(706.12)	(513.35)	330.43	(453.93)	74.26
Primary Balance	1,297.65	(23.60)	(40.58)	(111.56)	558.07	(189.09)	701.1
Airport Passengers***	7,610,231	442,212	555,931	598,009	539,089	462,605	4.61

\$bn (unless otherwise mentioned)	2016	Feb 2016	Nov 2016	Dec 2016	Jan 2017	Feb 2017	% Change*
BdL Gross FX Reserves	34.03	31.42	34.38	34.03	35.02	35.44	12.77
<i>In months of Imports</i>	21.83	22.82	23.71	22.15	21.83	21.50	(5.77)
Public Debt	74.89	71.22	74.55	74.89	76.17	76.13	6.89
Bank Assets	204.3	186.59	200.95	204.3	204.38	204.93	9.83
Bank Deposits (Private Sector)	162.5	151.42	159.19	162.5	162.73	163.86	8.22
Bank Loans to Private Sector	57.18	54.56	56.49	57.18	56.95	57.01	4.49
Money Supply M2	54.68	52.29	54.12	54.68	54.50	54.96	5.11
Money Supply M3	132.8	123.49	130.04	132.8	132.88	133.83	8.37
LBP Lending Rate (%)****	8.23	8.18	8.26	8.23	8.47	8.37	-
LBP Deposit Rate (%)	5.56	5.57	5.54	5.56	5.55	5.56	(1bps)
USD Lending Rate (%)	7.35	7.31	7.16	7.35	7.26	7.14	(17bps)
USD Deposit Rate (%)	3.52	3.22	3.48	3.52	3.52	3.57	35bps
Consumer Price Index**	(0.80)	(2.94)	1.78	3.14	4.68	4.93	-

* 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
BLOM Listed	11.50	0.00	174,000	21.63%
BLOM GDR	12.65	0.08	22,225	8.18%
HOLCIM	12.51	(7.33)	20,000	2.14%
Solidere "B"	8.20	3.14	15,514	4.66%
Solidere "A"	8.18	(1.56)	15,505	7.16%
Audi Listed	5.95	(0.50)	6,700	20.81%
Byblos Common	1.60	(0.62)	6,000	7.91%
Audi GDR	6.00	(0.66)	2,000	6.29%
Byblos Pref. 09	102.00	0.59	2,000	1.78%
Byblos Pref. 08	101.00	(0.49)	1,000	1.77%

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

Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
Dec 2017	4.00	99.77	4.74
Nov 2018	5.15	100.63	4.59
May 2019	6.00	101.50	5.06
Mar 2020	6.38	102.13	5.45
Oct 2022	6.10	99.25	6.27
Jun 2025	6.25	98.00	6.58
Nov 2026	6.60	99.50	6.67
Feb 2030	6.65	97.38	6.97
Apr 2031	7.00	99.25	7.09
Nov 2035	7.05	97.75	7.27

Source: Byblos Bank Capital Markets

	Sept 5-7	Aug 28-31	% Change	August 2017	August 2016	% Change
Total shares traded	264,944	1,188,375	(77.7)	8,062,990	8,672,726	(7.03)
Total value traded	\$3,149,936	\$11,045,575	(71.5)	\$68,311,180	\$86,998,154	(21.5)
Market capitalization	\$11.43bn	\$11.47bn	(0.33)	\$11.47bn	\$10.98bn	4.4

Source: Beirut Stock Exchange (BSE)



Fitch Ratings affirms Lebanon's sovereign ratings at 'B-', outlook 'stable'

Fitch Ratings affirmed at 'B-' Lebanon's long-term foreign and local currency Issuer Default Ratings (IDR) and maintained the 'stable' outlook on the ratings. It also affirmed at 'B-' the ratings on Lebanon's senior unsecured foreign currency bonds and Country Ceiling, while it kept at 'B' the short-term foreign and local currency IDRs.

The agency indicated that the ratings are supported by Lebanon's strong external liquidity and resilient banking sector, as well as by other structural strengths, such as the country's GDP per capita and broader human development indicators that are well above similarly-rated peers and that are more in line with the median of 'BBB'-rated sovereigns. In contrast, it said that the ratings are constrained by elevated political and security risks, weak public finances, and a slow economic performance. It considered that the domestic political environment and policy-making have improved in relative terms since the presidential election in October 2016 and the formation of a new government in December.

Fitch pointed out that Lebanon's growth prospects continue to be modest in the absence of a credible reform program or an improvement in the external environment. It estimated the fiscal deficit to have widened to 9.8% of GDP in 2016 and projected it at 9.5% of GDP in 2017. It noted that the outlook for fiscal consolidation remains unclear despite the recently-agreed fiscal measures that aim to cover the cost of the adjustment to the salary scale of public sector employees. It added that details and forecasts about the amount of the tax receipts that are supposed to be generated from the recent fiscal measures are not yet available. It also estimated the public debt level at 148.2% of GDP in 2016, the third highest level among Fitch-rated sovereigns, and expected it to reach about 155% of GDP in 2019. It indicated that the banking system is still attracting enough deposits to simultaneously meet the government's financing needs and extend loans to the private sector. It added that the government continues to meet its high financing needs, which are around 30% of GDP in 2017, at broadly stable funding costs. In addition, it said that the government has a perfect track record of public debt repayments.

Further, the agency pointed out that Lebanon has strong external liquidity buffers despite the wide current account deficit that it estimated at 19.4% of GDP in 2016. It noted that Banque du Liban's (BdL) gross foreign currency reserves reached \$33.9bn at the end of June 2017, which, along with \$11.5bn in gold reserves, support confidence in the currency peg to the US dollar. However, it considered that the BdL has been incurring annual losses on its operations in foreign currency and that its capital position has been deteriorating, as it receives low returns on its foreign currency reserves and pays higher rates to attract deposits in US dollars.

Energy Ministry extends deadline for oil and gas exploration bids

The Ministry of Energy & Water extended from September 15, 2017 until October 12, 2017 the deadline for 53 pre-qualified oil & gas companies to submit their bids for Lebanon's first licensing round for offshore oil and gas exploration and production. It indicated that it extended the deadline based on the Lebanese Petroleum Administration's (LPA) recommendation without providing additional details.

The 53 companies had until September 15, 2017 to submit their bids on five blocks that are open for bidding, which consist three blocks in the South of Lebanon, one in the North of Beirut and another in the North of the country. The LPA was supposed to publish the list of applicants for each block on September 22, 2017 and it had until October 16, 2017 to evaluate the companies' filings and submit a report to the Minister of Energy & Water who, in turn, would refer it to the Council of Ministers for discussion. The Council of Ministers would then select the winning firms and will mandate the Minister of Energy & Water to sign the exploration and production agreements (EPA) with the selected companies starting on November 15, 2017. The EPA is an agreement between the government and pre-qualified oil companies that provides the petroleum right holders the exclusive rights to explore, develop and produce oil and gas in Lebanon's offshore Exclusive Economic Zone. The ministry anticipated the exploration process to take between 18 months and up to five years from the contracts' signing date.

Value of cleared checks up 2%, returned checks down 3% in first seven months of 2017

The value of cleared checks reached \$39.8bn in the first seven months of 2017, constituting an increase of 2% from \$39bn in the same period of 2016. In comparison, the value of cleared checks regressed by 2.9% in the first seven months of 2016 and by 7.1% in the same period of 2015. The value of cleared checks in Lebanese pounds grew by 9.9% year-on-year to the equivalent of \$12.3bn in the first seven months of 2017, while the value of cleared checks in US dollars declined by 1.2% to \$27.5bn in the covered period. The dollarization rate of cleared checks regressed from 71.3% in the first seven months of 2016 to 69.1%. Further, there were 7.15 million cleared checks in the first seven months of 2017, up by 0.6% from 7.1 million in the same period last year.

In parallel, the value of returned checks in domestic and foreign currency was \$831m in the first seven months of 2017 compared to \$854m in the same period of 2016 and \$919m in the first seven months of 2015. This constituted a decrease of 2.7% year-on-year in the first seven months of 2017 relative to a drop of 7.1% in the same period of 2016 and a rise of 8.4% in the first seven months of 2015. Also, there were 133,312 returned checks in the covered period, nearly unchanged from 133,000 returned checks in the first seven months of 2016.

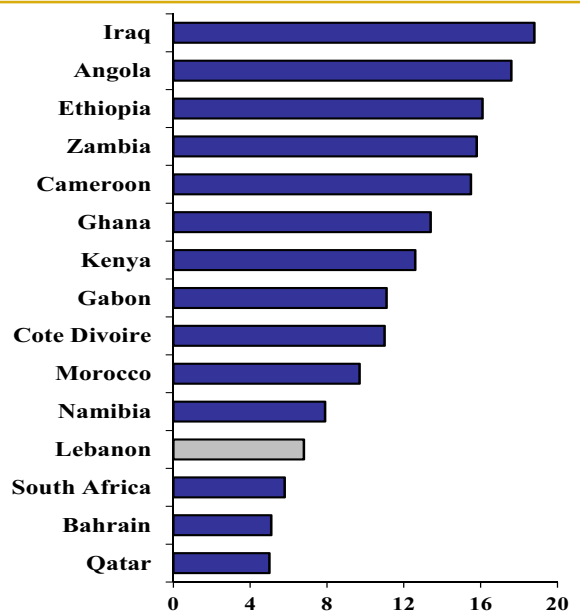
Sovereign bonds post 11th lowest return in emerging markets year-to-August 2017

Figures issued by Citi Research indicate that Lebanon's sovereign debt posted a return of 6.8% in the first eight months of 2017, constituting the 11th lowest return among 44 emerging markets included in the Citi EM Sovereign Bond Index. Lebanon's sovereign debt performed better than Georgia and Serbia (+6.7% each), Philippines (+6.3%), South Africa (+5.8%), Poland (+5.6%), Bahrain (+5.1%), Qatar (+5%), Russia (+4.8%), Bolivia (+0.6%) and Venezuela (-12.2%).

Lebanon underperformed the overall emerging markets' return of 8.8% and the 'B'-rated sovereigns' return of 10.6% during the covered period. Further, Lebanon's sovereign debt posted the fourth lowest return among 15 countries in the Middle East & Africa region in the first eight months of 2017, ahead of South Africa, Bahrain and Qatar.

Further, Lebanon's sovereign debt posted a return of 0.1% in August 2017, constituting, along with Bahrain and Guatemala, the third lowest return in emerging markets during the covered month, ahead of only Namibia (0%) and Venezuela (-1.8%). Lebanon underperformed the emerging markets' return of 1.5% in August 2017 and the 'B'-rated sovereigns' return of 2.5%. It also posted, along with Bahrain, the second lowest return in the Middle East & Africa region in August 2017, ahead of only Namibia.

Sovereign Debt Performance in the Middle East & Africa in First Eight Months of 2017 (%)



Source: Citi Research, Byblos Research

Constitutional Council suspends new tax increases

The Ministry of Finance issued a circular on September 5, 2017, that suspended the implementation of the tax measures that authorities approved to finance the cost of the increase in the salary of public-sector employees, and that went into effect on August 21, 2017. The circular follows the Constitutional Council's decision to suspend the tax measures until further notice in order to assess if the ratification process of these measures is compliant with Lebanese laws and regulations. The ministry's decision does not affect the increase in the salary of public-sector employees that was approved under a separate law and that came into effect at the start of September.

Under the law, the Parliament increased the value-added tax rate, the corporate income tax and the tax rate on income from movable capital, which consists of interest revenues generated from deposits and on financial institutions' revenues generated from their fixed income portfolio. Further, it imposed a one-time fine on illegally-built seaside properties, increased the tax rate on lottery prizes, and imposed a new fee on the value of real estate transactions and a tax on capital gains from the disposal of fixed assets. It also introduced a new fee on freight entering the ports in the country and increased the tax on imported tobacco and alcohol products. In addition, it imposed a fee on non-Lebanese entering the country by land and increased the tax on air passengers leaving the country. It also increased the fixed stamp duty on official paperwork and documents, raised the public notaries' fees collected on behalf of the Treasury, and imposed a fee on cement production, among many other measures.

Following the Constitutional Council's decision, the Institute of International Finance developed two scenarios about the trajectory of public finances. The first scenario assumes that the tax increases will be permanently rescinded and that authorities will make some progress in fighting tax evasion. Under this scenario, the IIF projected public revenues to improve from 20.1% of GDP in 2017 to 20.3% of GDP in 2018 and 20.5% of GDP in 2019, with tax receipts increasing from 14.2% of GDP in 2017 to 14.4% of GP in 2018 and 14.6% of GDP in 2019. As such, it forecast the fiscal deficit at 8.9% of GDP in 2017 and 9.1% of GDP in 2018, before narrowing to 8.4% of GDP in 2019; while it projected the public debt level to increase from 150% of GDP in 2017 to 151.2% of GDP in 2018 and 152.4% of GDP in 2019.

The second scenario assumes that all taxes will be implemented and does not incorporate efforts to fight tax evasion. Under this scenario, the IIF projected public revenues to improve from 20.5% of GDP in 2017 to 21.7% of GDP in 2018 and 22.3% of GDP in 2019, with tax receipts increasing from 14.5% of GDP in 2017 to 15.6% of GDP in 2018 and 16.1% of GDP in 2019. As such, it forecast the fiscal deficit to narrow from 8.5% of GDP in 2017 to 7.7% of GDP in 2018 and 6.6% of GDP in 2019; while it projected the public debt level to regress from 147.9% of GDP in 2017 to 143.2% of GDP in 2018 and 139.5% of GDP in 2019. It also projected expenditures to average 29.1% of GDP during the 2017-19 period under both scenarios, driven by a 16% rise in the public sector wage bill. The IIF admitted that the second scenario will hurt growth prospects and contribute to inflationary pressure, with inflation averaging close to 4% in the 2017-19 period relative to 2.9% annually under the first scenario.

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

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

The agency pointed out that the government's debt-servicing capacity depends on the financial sector's willingness and ability to continue to subscribe to government securities. In turn, this relies mainly on non-resident deposit inflows and on financing from Banque du Liban (BdL). It considered that the government's reliance on the banking sector's willingness and ability to finance its needs, as well as the divisive domestic political environment and regional tensions, constitute structural weaknesses that have constrained the ratings. It added that Lebanon's political, security and economic paths will remain linked to regional developments.

In parallel, S&P considered that the ratings are supported by Lebanon's external profile, as the country's liquid external assets, which consist of foreign currency reserves and the assets of the financial sector held abroad, exceed its external debt. However, it anticipated a gradual worsening of the country's external profile, as non-resident deposit inflows continue to finance the country's wide fiscal and current account deficits.

The agency projected the current account deficit to remain wide and to average 19% of GDP during the 2017-2020 period. It expected the end of the domestic political paralysis and higher global oil prices to support remittance inflows and tourism, especially from Lebanese expatriates in Gulf Cooperation Council countries. However, it anticipated that a higher import bill from a rebound in oil prices and improving domestic demand would prevent a narrowing of the deficit. It forecast the country's overall external financing requirements at 122.8% and 128.2% of current account receipts and usable reserves in 2017 and 2018, respectively.

Further, S&P forecast the fiscal deficit to stabilize at around 8.5% of GDP through 2020. It noted that its fiscal outlook for Lebanon takes into account the recently approved tax measures to finance the public-sector salary scale. It anticipated public finances and fiscal flexibility to remain constrained by structural expenditures, which include a high public sector wage bill, transfers to the state-owned Electricité du Liban and debt servicing. It added that only about 40% of the debt stock is denominated in foreign currency, and that the pegged exchange rate mitigates foreign exchange risk related to the public debt. It expected the net public debt level to stabilize at around 131% of GDP starting in 2018.

Airport passengers up 7.3% in first seven months of 2017

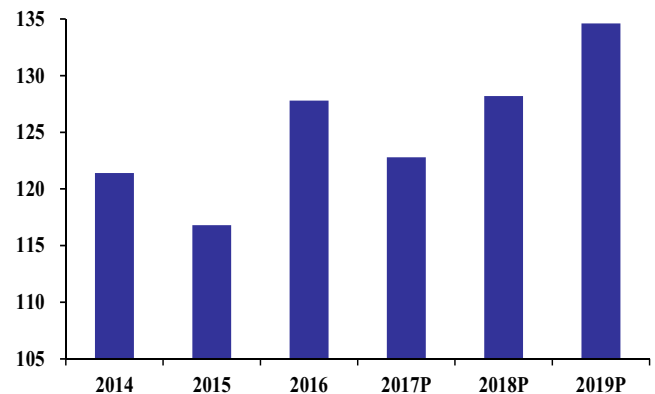
Figures released by the Beirut-Rafic Hariri International Airport show that 4,470,078 passengers utilized the airport (arrivals, departures and transit) in the first seven months of 2017, constituting an increase of 7.3% from 4,164,997 passengers in the same period of 2016. The number of arriving passengers grew by 7.3% year-on-year to 2,313,693 in the first seven months of 2017, compared to an increase of 7.9% in the same period of last year and to a rise of 9.7% in the first seven months of 2015. Also, the number of departing passengers grew by 7.6% year-on-year to 2,153,815 in the first seven months of 2017, relative to an increase of 5.7% in the same period of last year and to a rise of 9.3% in the first seven months of 2015.

In parallel, the airport's aircraft activity regressed by 0.9% year-on-year to 39,737 take-offs and landings in the first seven months of 2017, compared to a growth of 6.2% in the same period of 2016 and to an increase of 5.3% in the first seven months of 2015. In addition, the HIA processed 53,374 metric tons of freight in the first seven months of 2017 that consisted of 31,549 tons of import freight and 21,824 tons of export freight. Middle East Airlines had 14,195 flights in the first seven months of 2017 and accounted for 35.7% of HIA's total aircraft activity.

Coincident Indicator up 5% year-on-year in first half of 2017

Banque du Liban's Coincident Indicator, an index of economic activity in Lebanon, reached 290.1 points in June 2017 compared to 308.6 in May 2017 and 273.8 in June 2016. The Coincident Indicator, an average of 8 weighted economic indicators, decreased by 6% month-on-month but increased by 6% year-on-year in June 2017. The indicator averaged 304.2 in the first half of 2017, up by 4.8% from 290.2 in the same period of 2016. Also, the indicator averaged 296.5 in the 12 months ending June 2017, compared to 295.2 in the 12-month period ending May 2017 and 285.1 in the 12 months ending June 2016. As a result, the 12-month average coincident indicator grew by 0.5% month-on-month and by 4% year-on-year. In parallel, the indicator improved 12 times and regressed 13 times on a monthly basis in the month of June since 1993. It averaged 249.5 points in 2010, 255.7 points in 2011, 256.6 points in 2012, 264.7 points in 2013, 273.2 points in 2014, 278.6 points in 2015 and 289.5 points in 2016.

Lebanon's Gross External Financing Needs/Current Account Receipts plus Usable Reserves (%)



Source: S&P Global Ratings

Occupancy rate at Beirut hotels at 64%, room yields up 21% in first seven months of 2017

EY's benchmark survey of the hotel sector in the Middle East indicated that the average occupancy rate at hotels in Beirut was 63.8% in the first seven months of 2017, up from 56.5% in the same period of 2016 and compared to an average rate of 61.2% in 14 Arab markets included in the survey. The occupancy rate at Beirut hotels was the seventh highest in the region in the first seven months of 2017, while it was the fifth lowest in the same period of 2016. Also, the occupancy rate at hotels in Beirut rose by 7.3 percentage points year-on-year, constituting the largest increase among the 14 Arab markets. In comparison, the average occupancy rate in Arab markets increased was unchanged in the covered period. Occupancy rates at Beirut hotels were 56.7% in January, 66.7% in February, 62% in March, 68.8% in April, 70% in May, 45.3% in June and 74.9% in July 2017 compared to 55.7% in January, 57% in February, 51.1% in March, 55.6% in April, 66.8% in May, 44.1% in June and 65.3% in July 2016.

The average rate per room at Beirut hotels was \$152 in the first seven months of 2017, ranking the capital's hotels as the fourth least expensive in the region relative to Cairo (\$86), Abu Dhabi (\$117) and Amman (\$147). The average rate per room at Beirut hotels increased by 7.5% year-on-year in the covered period. Beirut, along with Cairo and Makkah, were the only markets to post an increase in their average rate per room in the first seven months of the year. The average rate per room in Beirut came below the regional average of \$188.9 that regressed by 2.5% from the same period of 2016.

Further, revenues per available room (RevPAR) were \$97 in Beirut in the first seven months of 2017, up from \$80 in the same period of 2016. They were the fifth lowest in the region relative to Cairo (\$55), Amman (\$70), Abu Dhabi (\$87) and Riyadh (\$94). However, Beirut's RevPAR grew by 21.4% year-on-year and posted the second highest increase among Arab markets behind Cairo (+97%). Beirut posted RevPARs of \$82 in January, \$91 in February, \$86 in March, \$102 in April, \$101 in May, \$73 in June and \$127 in July 2017, compared to \$79 in each of January and February, \$68 in March, \$72 in April, \$95 in May, \$55 in June and \$97 in July 2016. Makkah posted the highest average rate per room in the region at \$324, while Dubai posted the highest RevPAR at \$193 and the highest occupancy rate at 77% in the first seven months of 2017.

Number of new construction permits up 1%, surface area up 4% in first seven months of 2017

The Orders of Engineers & Architects of Beirut and of Tripoli issued 9,892 new construction permits in the first seven months of 2017, constituting an increase of 0.8% from 9,816 permits in the same period of 2016, relative to a rise of 13.3% in first seven months of 2016. Mount Lebanon accounted for 35.6% of newly-issued construction permits in the first seven months of 2017, followed by the North with 17.8%, the South with 17.4%, Nabatieh with 12.6%, the Bekaa with 8.8% and Beirut with 4.6%. The remaining 3.8% were permits issued by the Order of Engineers & Architects of Tripoli for regions located outside northern Lebanon.

Further, the surface area of granted construction permits reached 7,380,482 square meters (sqm) in the first seven months of 2017, representing a rise of 3.9% from 7,103,135 sqm in the same period of 2016. In comparison, the surface area of granted construction permits increased by 2.6% year-on-year in the first seven months of 2016. Mount Lebanon accounted for 2,980,933 sqm, or 40.4% of the total, in the covered period. The North followed with 1,359,965 sqm (18.4%), then the South with 949,809 sqm (12.9%), the Bekaa with 682,510 sqm (9.2%), Nabatieh with 577,043 sqm (7.8%) and Beirut with 466,594 sqm (6.3%). The remaining 363,628 sqm, or 4.9% of the total, represent the surface area of permits that were issued by the Order of Engineers & Architects of Tripoli for regions located outside northern Lebanon.

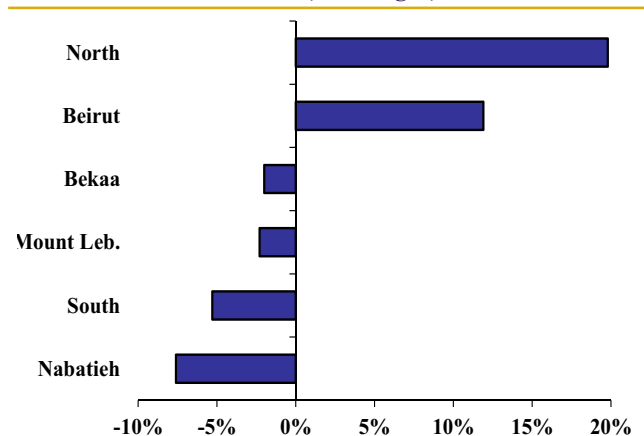
Also, the surface area of construction permits issued for Beirut grew by 1.8 times year-on-year in the first seven months of 2017, while that for the North increased by 42.8%. In contrast, the surface area of construction permits issued for Nabatieh decreased by 19.8%, followed by the South (-9.3%), Mount Lebanon (-4.2%) and the Bekaa (-3.5%). Also, the surface area of granted construction permits for regions located outside northern Lebanon increased by 21.8% year-on-year in the first seven months of 2017. In parallel, cement deliveries totaled 2.4 million tons in the first half of 2017, constituting a decrease of 3.7% from 2.5 million tons in the same period of 2016, and relative to a rise of 9.2% in the first half of 2016.

Hotel Sector Performance in First Seven Months of 2017

	Occupancy Rate (%)	RevPAR (US\$)	RevPAR % change
Dubai	77.0	193	(3.1)
Jeddah	65.5	176	18.2
Madina	47.7	154	9.9
Riyadh	61.0	121	(13.4)
Kuwait	49.3	113	7.2
Ras Al Khaimah	72.4	112	(0.2)
Doha	62.0	112	(8.8)
Manama	49.6	110	(8.1)
Muscat	66.7	107	(10.6)
Beirut	63.8	97	21.4
Makkah	55.2	94	(19.2)
Abu Dhabi	74.3	87	(7.2)
Amman	47.8	70	(8.8)
Cairo City	64.1	55	97.0

Source: EY, Byblos Research

Number of Construction Permits in First Seven Months of 2017 (% change*)



* from the same period of 2016

Source: Orders of Engineers & Architects of Beirut and Tripoli

Trade deficit widens by 1.5% to \$9bn in first seven months of 2017

The total value of imports reached \$11bn in the first seven months of 2017, constituting an increase of 1.4% from the same period of 2016; while the aggregate value of exports grew by 1.1% to reach \$1.65bn in the covered period. As such, the trade deficit widened by 1.5% to \$9.3bn in the first seven months of 2017 due to a growth of \$157m in imports, which was partly offset by an \$18.5m increase in exports. The growth in imports mainly reflects an increase of \$85.8m, or 8.6%, in the value of imported vehicles and a rise of \$72m, or 14%, in the import of vegetable products. The value of imported oil & mineral fuels decreased by \$150.7m, or 6.5%, to \$2.2bn in the first seven months of 2017 and accounted for 19.6% of total imports in the covered period, compared to a share of 21.3% in the first seven months of 2016. In volume terms, imports of oil & mineral fuels increased by 3.3% year-on-year to 5.3 million tons, while non-hydrocarbon imports regressed by 0.8% annually to 5 million tons.

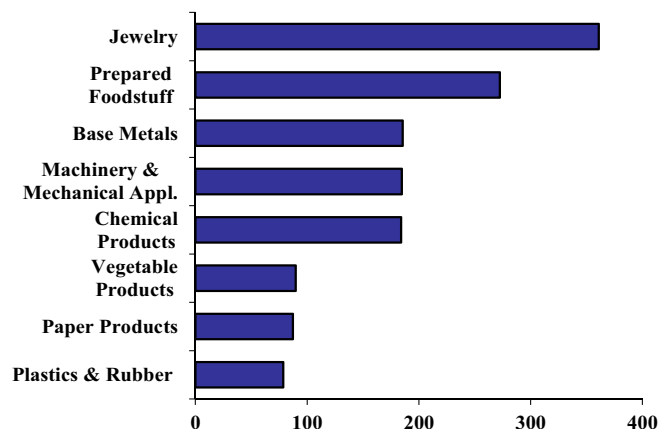
In addition, the growth in exports mainly reflects an expansion of \$43.9m, or 31%, in the value of base metals exports in the first seven months of the year; an increase of \$25.3m, or 3.2 times, in exported mineral products; and a rise of \$15.8m, or 22.1%, in exported wood, paper & paperboard. It was partly offset by a decrease of \$47.9m, or 11.7%, in the value of exported jewelry; a drop of \$13.6m, or 6.8%, in exported machinery & mechanical appliances; a decline of \$10m, or 17.6%, in exported miscellaneous manufactured articles; and a decrease of \$7m, or 14.5%, in textile exports.

In parallel, exports to Switzerland jumped by 2.2 times in the first seven months of 2017, those to Turkey expanded by 91%, exports to Syria grew by 52.2%, exports to Iraq increased by 13.6% and those to the UAE rose by 1%, while exports to South Africa decreased by 34.8% and those to Saudi Arabia regressed by 14.2%. Re-exports totaled \$444.7m in the first seven months of 2017 compared to \$271.2m in the same period of 2016. Also, the Port of Beirut was the exit point for 49.7% of Lebanon's total exports in the first seven months of 2017, followed by the Hariri International Airport (32.1%), the Port of Tripoli (8.1%), the Masnaa crossing point (4.2%), the Arida crossing point (4.1%), the Port of Saida (1%) and the Abboudieh crossing point (0.8%).

Lebanon's main non-hydrocarbon imports were chemical products that reached \$1.2bn in the first seven months of 2017 and accounted for 11.1% of the total. They were followed by machinery & mechanical appliances at \$1.13bn (10.3%), vehicles, aircraft & vessels at \$1.09bn (9.9%), prepared foodstuff at \$819m (7.4%), base metals at \$741.4m (6.7%), jewelry at \$606.3m (5.5%) and vegetable products at \$587.1m (5.3%). In parallel, the Port of Beirut was the entry point for 71.6% of Lebanon's merchandise imports in the first seven months of 2017, followed by the Hariri International Airport (18.8%), the Port of Tripoli (6.7%), the Port of Saida (2%), the Arida and the Masnaa crossing points (0.4% each) and the Abboudieh and Tyre crossing points (0.1% each).

China was the main source of imports with \$1.1bn, or 10% of the total, in the first seven months of 2017, followed by Italy with \$933.3m (8.5%), Greece with \$821.8m (7.5%), Germany with \$706.1m (6.4%), the United States with \$670.5m (6.1%) and Russia with \$487.6m (4.4%). Imports from Greece grew by 1.5 times year-on-year in the first seven months of 2017, those from Russia improved by 20%, imported goods from Italy rose by 12.6% and those from Germany increased by 7.5%, while imported goods from China decreased by 10.7% and those from the United States regressed by 10.4% year-on-year.

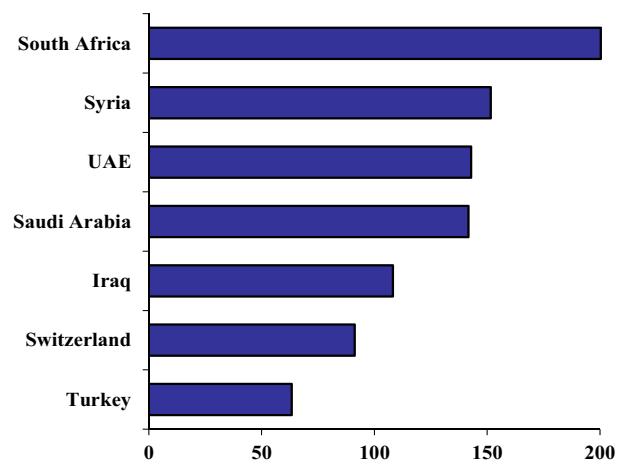
Main Lebanese Exports* (\$m)



*in the first seven months of 2017

Source: Lebanese Customs Administration, Byblos Research

Main Destinations of Lebanese Exports* (\$m)



*in the first seven months of 2017

Source: Lebanese Customs Administration, Byblos Research

Commercial banks' assets reach \$209bn at the end of July 2017

The consolidated balance sheet of commercial banks operating in Lebanon shows that total assets reached \$208.5bn at the end of July 2017, constituting an increase of 2% from the end of 2016 and a growth of 9.2% from end-July 2016. Loans extended to the private sector reached \$58.6bn at the end of July 2017, up by 2.5% from end-2016 and by 4.5% from a year earlier. Loans to the resident private sector reached \$52.9bn, constituting an increase of 3.6% from end-2016 and a rise of 6.7% year-on-year; while credit to the non-resident private sector totaled \$5.7bn at end-July 2017 and regressed by 6.9% from end-2016 and by 12% from a year earlier. In nominal terms, credit to the private sector grew by \$1.4bn in the first seven months of 2017 relative to an increase of \$1.8bn in the same period of 2016. Lending to the resident private sector increased by \$1.86bn in the first seven months of 2017, relative to a growth of \$1.5bn in the same period of 2016, while credit to the non-resident private sector decreased by \$423.2m in the first seven months of the year compared to an increase of \$317.1m in the same period of 2016. The dollarization rate in private sector lending regressed to 70.8% at end-July 2017 from 74.2% a year earlier.

In addition, claims on non-resident banks reached \$10.6bn at the end of July 2017 and decreased by 5.7% from \$11.24bn at the end of 2016, while claims on the public sector stood at \$34.6bn at end-July 2017, down by 0.5% from end-2016. The average lending rate in Lebanese pounds was 8.33% in July 2017, while the same rate in US dollars stood at 7.25%. Further, the deposits of commercial banks at Banque du Liban totaled \$92.7bn at end-July 2017, constituting an increase of 3.8% from end-2016 and a growth of 21% from a year earlier.

In parallel, private sector deposits of the non-financial sector totaled \$168.4bn at the end of July 2017, increasing by 3.6% from the end of 2016 and by 8.6% from a year earlier. Deposits in Lebanese pounds reached \$55.8bn at end-July 2017, up by a marginal 0.4% from end-2016 and by 2.4% year-on-year; while deposits in foreign currencies totaled \$112.6bn and grew by 5.3% from end-2016 and by 12% from end-July 2016. Aggregate non-resident deposits reached \$34.8bn at the end of July 2017, up by 2.3% from end-2016 and by 7.5% from a year earlier. In nominal terms, private sector deposits grew by \$239.5m in January, by \$1.12bn in February, by \$492.9m in March, by \$1.13bn in April, by \$655.4m in May, by \$1.6bn in June and by \$656.1m in July 2017. As such, total private sector deposits rose by \$5.9bn in the first seven months of 2017 compared to an increase of \$3.5bn in the same period of 2016. Resident private sector deposits grew by \$5.1bn in the first seven months of 2017 relative to a growth of \$3bn in the same period of 2016, while non-resident deposits rose by \$794m in the first seven months of the year compared to an increase of \$467m in the same period of 2016. Further, foreign-currency deposits grew by \$5.7bn in the first seven months of 2017 relative to an increase of \$2.3bn in the same period of 2016.

In parallel, deposits of non-resident banks reached \$6.7bn at the end of July 2017 and increased by 6.3% from end-2016 and by 9.3% from a year earlier. The dollarization rate of deposits was 66.9% at the end of July 2017 relative to 66.7% at end-June 2017 and compared to 64.9% a year earlier. Further, the average deposit rate in Lebanese pounds was 5.56% in July 2017 compared to 5.57% a year earlier, while the same rate in US dollars was 3.64% relative to 3.3% in July 2016.

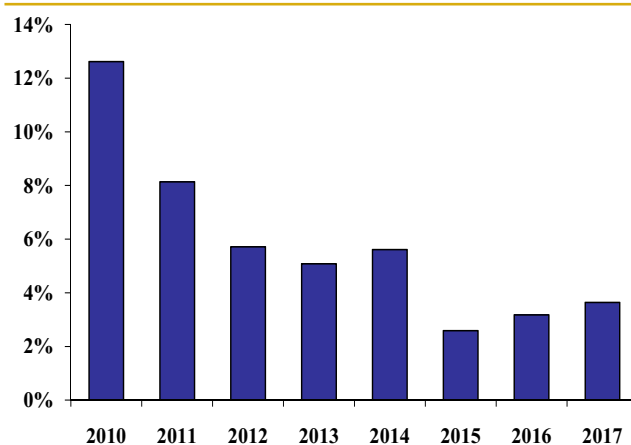
The ratio of private sector loans-to-deposits in foreign currency stood at 36.9%, well below Banque du Liban's limit of 70% and compared to 41.4% a year earlier. The same ratio in Lebanese pounds was 30.6% at end-July 2017 relative to 26.6% at the end of July 2016. As such, the ratio of total private sector loans-to-deposits reached 34.8%, down from 36.2% at end-July 2016. The banks' aggregate capital base stood at \$18.8bn at end-July 2017, up by 2.9% from \$18.2bn at the end of 2016.

Holcim's net profits down by 13% to \$19m in first half of 2017

Cement producer Holcim (Liban) sal posted unaudited net profits of \$19m in the first half of 2017, constituting a decrease of 12.7% from net earnings of \$21.8m in the same period of 2016. The decrease in profits is mainly due to lower net sales. The firm's sales totaled \$74.9m in the first half of the year, down by 4.8% from \$78.6m in the same period of 2016; and its gross profit margin reached 47.9% in the first half of 2017 relative to 49.2% in the same period of 2016. Holcim's assets reached \$253.1m at the end of June 2017, constituting an increase of 1.1% from \$250.3m at end-2016. The firm's current ratio, which is a measure of the company's ability to meet its short-term obligations, was 2.54x at the end of June 2017, up from 1.54x at end-2016 but down 3.47x a year earlier.

In parallel, Holcim's shareholders' equity was \$201.2m at end-June 2017, up by 10.4% from \$182.2m at the end of 2016. The company's debt-to-equity ratio was 25.8% at end-June 2017 relative to 37.4% at the end of 2016 and 21.8% at end-June 2016. The firm produces and sells cement and other related products. Holcim's share price closed at \$12.51 on September 7, 2017, up by 6.5% from \$11.75 at end-2016.

Resident Private Sector Lending Growth* (% Change)



* in the first seven months of each year

Source: Association of Banks in Lebanon, Byblos Research

Stock market activity down 16% in first eight months of 2017

Figures released by the Beirut Stock Exchange (BSE) indicate that trading volume reached 55,166,673 shares in the first eight months of 2017, constituting a decrease of 1.2% from 55,819,431 shares traded in the same period of 2016; while aggregate turnover amounted to \$473.8m, down by 5% from a turnover of \$498.9m in the first eight months of 2016. Market capitalization grew by 4.4% from the end of August 2016 to \$10.5bn, with banking stocks accounting for 85.4% of the total, followed by real estate shares (11.8%), industrial firms (2.5%) and trading stocks (0.3%). The market liquidity ratio was 4.1% in the covered period, compared to 4.5% in the first eight months of 2016.

Banking stocks accounted for 64.9% of the aggregate trading volume in the first eight months of the year, followed by real estate equities with 28.7%, the stock of trading firms with 5.7% and industrial shares with 0.7%. Also, banking stocks represented 69.2% of the aggregate value of shares traded, followed by real estate equities with 28.3%, the share of trading firms with 2% and industrial stocks with 0.5%. The average daily traded volume for the period was 338,446 shares for an average daily value of \$2.9m. The figures reflect year-on-year decreases of 1.8% and 5.6% in volume and in value, respectively. In parallel, the Capital Markets Authority's Market Value-Weighted Index for stocks traded on the BSE regressed by 15.9% in the first eight months of 2017, while the CMA's Banks Market Value-Weighted Index improved by 2% in the covered period.

Moody's downgrades ratings on three Lebanese banks following similar action on the sovereign

Moody's Investors Service downgraded the long-term deposit ratings of BLOM Bank, Bank Audi and Byblos Bank from 'B2' to 'B3', reduced their baseline credit assessments (BCA) from 'b2' to 'b3', and lowered their long-term Counterparty Risk Assessments from 'B1(cr)' to 'B2(cr)'. Also, it downgraded the national scale ratings of Bank Audi and BLOM Bank from 'Aa3.lb/LB-1' to 'A3.lb/LB-2', and those of Byblos Bank from 'A1.lb/LB-1' to 'A3.lb/LB-2'. It changed the outlook on the banks' long-term deposit and national scale ratings from 'negative' to 'stable'.

Moody's attributed the changes on the banks' ratings to its earlier downgrade of Lebanon's sovereign ratings. It said that the government's weakening creditworthiness is weighing on the banks' standalone credit profile, given the high credit linkages between their balance sheets and the sovereign credit risk. It noted that the banks' high direct exposure to the government, along with the concentration of their operations in the Lebanese market, make them vulnerable to sovereign risk and constrain their BCAs at the sovereign level. It indicated that Banque Audi's exposure stood at 4.8 times its Tier One capital at end-2016, Blom Bank's sovereign exposure reached 5.2 times its Tier One capital and Byblos Bank's exposure was equivalent to 6.5 times its Tier One capital at the end of 2016. It pointed out that the banks' geographic diversification is insufficient to offset the risks associated from their exposure to the Lebanese sovereign.

Further, the agency indicated that the operating environment in the country would remain challenging for banks, but it anticipated domestic conditions to stabilize due to renewed political stability and a slight pickup in economic activity. Also, it expected lending conditions to remain challenging in the absence of tangible reforms that would lead to a stronger recovery in economic activity and in investor confidence.

Banque BEMO to issue \$35m in subordinated debt

The Ordinary General Assembly of Banque BEMO, held on September 5, 2017, approved the issuance of \$35m in subordinated debt through the issuance of 3,500 subordinated notes worth \$10,000 each. The subordinated notes are non-convertible, non-callable and cumulative, and mature in January 2024. The bonds carry a coupon rate of between 6.5% and 7.25% paid annually, with the interest payments subject to the withholding tax. Bank Bemo issued \$25m in subordinated debt in 2014, equivalent to 2,500 subordinated notes worth \$10,000 each. Following the new issuance, the bank's subordinated debt would total \$60m.

Banque BEMO posted audited net profits of \$7.9m in the first half of 2017, constituting an increase of 8.2% from \$7.3m in the same period of 2016. Its assets reached \$1.71bn at end-June 2017, and declined by 2.6% from end-2016; while loans & advances to customers, excluding loans & advances to related parties, totaled \$752.3m at end-June 2017 and increased by 9.3% from end-2016. Also, customer deposits, excluding those from related parties, reached \$1.33bn at the end of June 2017, down by 3.3% from end-2016.

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	Sep 2015	Aug 2016	Sep 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*	Sep 2015	Aug 2016	Sep 2016	Change**	Risk Level
Political Risk Rating	57.6	57.4	57.6	➤	High
Financial Risk Rating	39.2	38.8	38.9	▲	Low
Economic Risk Rating	31.3	29.7	29.7	▲	High
Composite Risk Rating	64.0	62.9	63.1	▲	Moderate

*excluding Lebanon

**year-on-year change in risk

Source: The PRS Group, Byblos Research

Note: Political & Composite Risk Ratings range from 0 to 100 (where 100 indicates the lowest risk)

Financial & Economic Risk ratings range from 0 to 50 (where 50 indicates the lowest risk)

Ratings & Outlook

Sovereign Ratings	Foreign Currency			Local Currency		
	LT	ST	Outlook	LT	ST	Outlook
Moody's	B3	NP	Negative	B3		Stable
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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