**In This Issue**

**Economic Indicators**

Consumer confidence declines in second quarter of 2017

Lebanon ranks 116th globally, 13th in MENA region in country risk in second quarter of 2017

Parliament approves adjustment to salary scale of public sector employees

Lebanon joins Basel Consultative Group, part of Basel Committee

**Capital Markets**

Consumer Price Index up 4.5% in first half of 2017

Goldman Sachs classifies Lebanon's Eurobonds as 'undervalued'

Banque du Liban to issue circular on implementation of exchange of tax information law

Lebanon attracts 37 venture capital investments in 2016, second highest in MENA region

Mobile cellular penetration trails global and Arab rates

Tourist spending in Lebanon up 6% in first half of 2017, number of refund transactions up 5%

Revenues through Port of Beirut down by 3% to $99m in first five months of 2017

**Lebanon in the News**

European Investment Bank’s €100m credit line is credit positive for Byblos Bank

New car sales down 1% in first half of 2017

Top five freight forwarders' import activity up 5% in first 5 months of 2017, export activity up 3%

Fitch affirms AXA's ratings, outlook 'stable'

**Corporate Highlights**

Number of New Greenfield Foreign Direct Investment projects in Arab Countries in 2016

<table>
<thead>
<tr>
<th>Country</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>UAE</td>
<td>130</td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>90</td>
</tr>
<tr>
<td>Egypt</td>
<td>81</td>
</tr>
<tr>
<td>Morocco</td>
<td>79</td>
</tr>
<tr>
<td>Oman</td>
<td>36</td>
</tr>
<tr>
<td>Bahrain</td>
<td>35</td>
</tr>
<tr>
<td>Qatar</td>
<td>33</td>
</tr>
<tr>
<td>Kuwait</td>
<td>31</td>
</tr>
<tr>
<td>Jordan</td>
<td>21</td>
</tr>
<tr>
<td>Tunisia</td>
<td>18</td>
</tr>
<tr>
<td>Algeria</td>
<td>17</td>
</tr>
<tr>
<td>Lebanon</td>
<td>10</td>
</tr>
<tr>
<td>Iraq</td>
<td>8</td>
</tr>
<tr>
<td>Djibouti</td>
<td>4</td>
</tr>
<tr>
<td>Mauritania</td>
<td>2</td>
</tr>
<tr>
<td>Yemen</td>
<td>2</td>
</tr>
<tr>
<td>Sudan</td>
<td>2</td>
</tr>
<tr>
<td>Syria</td>
<td>1</td>
</tr>
</tbody>
</table>

Number of Greenfield Foreign Direct Investment Projects in Lebanon

<table>
<thead>
<tr>
<th>Year</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003</td>
<td>20</td>
</tr>
<tr>
<td>2004</td>
<td>23</td>
</tr>
<tr>
<td>2005</td>
<td>12</td>
</tr>
<tr>
<td>2006</td>
<td>19</td>
</tr>
<tr>
<td>2007</td>
<td>11</td>
</tr>
<tr>
<td>2008</td>
<td>9</td>
</tr>
<tr>
<td>2009</td>
<td>28</td>
</tr>
<tr>
<td>2010</td>
<td>36</td>
</tr>
<tr>
<td>2011</td>
<td>27</td>
</tr>
<tr>
<td>2012</td>
<td>20</td>
</tr>
<tr>
<td>2013</td>
<td>16</td>
</tr>
<tr>
<td>2014</td>
<td>10</td>
</tr>
<tr>
<td>2015</td>
<td>7</td>
</tr>
<tr>
<td>2016</td>
<td>10</td>
</tr>
</tbody>
</table>


**Quote to Note**

“The deep-seated structural issues facing the Lebanese economy, such as large deficits, deteriorating infrastructure and governance, would weigh on the prospects for a quick return to a higher and sustainable growth.”

*The Institute of International Finance, on the urgent need to implement structural reforms in order to improve Lebanon’s growth prospects*

**Number of the Week**

7,300: Number of stories published in 500 issues of Lebanon This Week
**Lebanon in the News**

<table>
<thead>
<tr>
<th>Sm (unless otherwise mentioned)</th>
<th>2015</th>
<th>Dec 2015</th>
<th>Sep 2016</th>
<th>Oct 2016</th>
<th>Nov 2016</th>
<th>Dec 2016</th>
<th>% Change*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exports</td>
<td>2,952</td>
<td>236</td>
<td>254</td>
<td>257</td>
<td>247</td>
<td>244</td>
<td>3.4</td>
</tr>
<tr>
<td>Imports</td>
<td>18,069</td>
<td>1,841</td>
<td>1,448</td>
<td>1,479</td>
<td>1,450</td>
<td>1,536</td>
<td>16.6</td>
</tr>
<tr>
<td>Trade Balance</td>
<td>(15,117)</td>
<td>(1,605)</td>
<td>(1,194)</td>
<td>(1,222)</td>
<td>(1,203)</td>
<td>(1,292)</td>
<td>(19.5)</td>
</tr>
<tr>
<td>Balance of Payments</td>
<td>(3,354)</td>
<td>(372)</td>
<td>189</td>
<td>(680)</td>
<td>453</td>
<td>910</td>
<td>-</td>
</tr>
<tr>
<td>Checks Cleared in LBP</td>
<td>18,714</td>
<td>1,709</td>
<td>1,722</td>
<td>1,780</td>
<td>1,684</td>
<td>1,879</td>
<td>10.0</td>
</tr>
<tr>
<td>Checks Cleared in FC</td>
<td>50,845</td>
<td>4,265</td>
<td>4,054</td>
<td>4,216</td>
<td>3,968</td>
<td>3,880</td>
<td>9.0</td>
</tr>
<tr>
<td>Total Checks Cleared</td>
<td>69,559</td>
<td>5,974</td>
<td>5,776</td>
<td>5,996</td>
<td>5,652</td>
<td>5,759</td>
<td>3.6</td>
</tr>
<tr>
<td>Budget Deficit/Surplus</td>
<td>(3,952)</td>
<td>(711.58)</td>
<td>(548.00)</td>
<td>(163.91)</td>
<td>(706.12)</td>
<td>(513.35)</td>
<td>(27.86)</td>
</tr>
<tr>
<td>Primary Balance</td>
<td>724.40</td>
<td>(338.61)</td>
<td>(29.21)</td>
<td>281.60</td>
<td>(40.58)</td>
<td>(111.56)</td>
<td>(67.05)</td>
</tr>
<tr>
<td>Airport Passengers***</td>
<td>7,240,397</td>
<td>616,258</td>
<td>819,886</td>
<td>554,122</td>
<td>559,931</td>
<td>598,009</td>
<td>(3.0)</td>
</tr>
</tbody>
</table>

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

* 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**

<table>
<thead>
<tr>
<th>Most Traded Stocks on BSE</th>
<th>Last Price ($)</th>
<th>% Change*</th>
<th>Total Volume</th>
<th>Weight in Market Capitalization</th>
</tr>
</thead>
<tbody>
<tr>
<td>Solidere &quot;A&quot;</td>
<td>8.11</td>
<td>3.31</td>
<td>445,782</td>
<td>6.97%</td>
</tr>
<tr>
<td>Byblos Common</td>
<td>1.62</td>
<td>(0.61)</td>
<td>210,301</td>
<td>7.88%</td>
</tr>
<tr>
<td>BLM GDR</td>
<td>12.30</td>
<td>(0.08)</td>
<td>109,474</td>
<td>7.82%</td>
</tr>
<tr>
<td>Solidere &quot;B&quot;</td>
<td>7.93</td>
<td>8.51</td>
<td>55,959</td>
<td>4.43%</td>
</tr>
<tr>
<td>Audi GDR</td>
<td>6.10</td>
<td>0.16</td>
<td>52,057</td>
<td>6.29%</td>
</tr>
<tr>
<td>BLM Listed</td>
<td>11.30</td>
<td>0.36</td>
<td>47,896</td>
<td>20.89%</td>
</tr>
<tr>
<td>HOLCIM</td>
<td>14.01</td>
<td>12.08</td>
<td>4,464</td>
<td>2.35%</td>
</tr>
<tr>
<td>Audi Listed</td>
<td>6.01</td>
<td>(3.06)</td>
<td>1,350</td>
<td>20.66%</td>
</tr>
<tr>
<td>Byblos Pref. 09</td>
<td>101.10</td>
<td>0.00</td>
<td>66</td>
<td>1.74%</td>
</tr>
<tr>
<td>Byblos Pref. 08</td>
<td>101.10</td>
<td>0.00</td>
<td>-</td>
<td>1.74%</td>
</tr>
</tbody>
</table>

Source: Beirut Stock Exchange (BSE); *Week-on-week Source: Byblos Bank Capital Markets

<table>
<thead>
<tr>
<th>Date</th>
<th>Total shares traded</th>
<th>Total value traded</th>
<th>Market capitalization</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jul 17-21</td>
<td>940,803</td>
<td>$7,240,559</td>
<td>$11.63bn</td>
<td>41.9</td>
</tr>
<tr>
<td>Jul 10-14</td>
<td>(32.5)</td>
<td>(46.9)</td>
<td>(0.16)</td>
<td></td>
</tr>
<tr>
<td>June 2017</td>
<td>4,057,384</td>
<td>$45,447,025</td>
<td>$11.57bn</td>
<td>103.2</td>
</tr>
<tr>
<td>June 2016</td>
<td>2,859,053</td>
<td>$22,365,431</td>
<td>$11.03bn</td>
<td>4.8</td>
</tr>
</tbody>
</table>

Source: Beirut Stock Exchange (BSE)
Lebanon in the News

Consumer confidence declines in second quarter of 2017

The results of the Byblos Bank/AUB Consumer Confidence Index in the second quarter of 2017 show that the Index regressed by 8.5% in April from the preceding month, while it increased by 9.5% in May and jumped by 44.3% in June 2017. Also, the Index averaged 54.8 in the second quarter of the year, constituting a decrease of 6.3% from 58.5 in the first quarter of 2017. In addition, the Byblos Bank/AUB Present Situation Index averaged 51.5 in the second quarter of 2017 and decreased by 1.8% from the preceding quarter, while the Byblos Bank/AUB Expectations Index averaged 56.9 and declined by 8.9% from the first quarter of 2017.

The overall decline in the level of household sentiment in the second quarter of 2017 was due to consumers' widespread disappointment about the misplaced priorities of the government. Lebanese households had high expectations that the government will put the priorities and needs of citizens at the top of its agenda. However, the government’s focus since the start of the year on tax increases and on the parliamentary electoral law, at the expense of households’ day-to-day needs, exacerbated consumers’ skepticism. As a result, the Index continued its decline in April 2017 after decelerating in each of the first three months of the year, with the April outcome representing a retreat of 38% from the recent peak reached in December 2016. In parallel, the Index improved in May and especially in June following the renewal of the term of Banque du Liban’s Governor Riad Salameh, as well as the approval of a new parliamentary electoral law.

Further, the average monthly score of the Index in the second quarter of 2017 was 48.3% lower than the quarterly peak score of 105.8 registered in the fourth quarter of 2008, and remained 43.3% below the annual peak score of 96.7 reached in full year 2009. But the second quarter results were 2% higher than the monthly trend average score of 53.7 since the inception of the Index in July 2007.

In addition, the results of the Index’s survey show that 10.3% of the Lebanese polled in the second quarter of 2017 expected their financial condition to improve in the coming six months, while 67.4% of respondents believed that their financial situation will deteriorate and 19.7% forecast their financial condition to remain the same over the same period. Moreover, 10.7% of the Lebanese surveyed in June 2017 expected business conditions in Lebanon to improve in the coming six months, while 62% anticipated them to deteriorate and 23.5% forecast business conditions to remain the same.

The results of the Byblos Bank/AUB Consumer Confidence Index for the second quarter of 2017 show that female consumers had a higher level of confidence than their male counterparts, and consumers in the 21 to 29 year-old bracket posted the highest confidence level relative to citizens in other age brackets during the covered quarter. Households with an income of $2,500 or more per month continued to be more confident than those earning less. Moreover, students were more optimistic than private sector employees, the self-employed, housewives, public sector employees and the unemployed in the second quarter. In addition, consumers in Mount Lebanon posted the highest confidence level across administrative districts, or mohafaza, followed by consumers in the North, Beirut, the South and the Bekaa. Further, Christian consumers had a higher level of confidence than their counterparts among other religious affiliations during the covered quarter, followed by Druze, Sunni and Shiite consumers.

The Byblos Bank/AUB Consumer Confidence Index is a measure of the sentiment and expectations of Lebanese consumers toward the economy and their own financial situation. The index is compiled, implemented and analyzed in line with international best practices and according to criteria from leading consumer confidence indices worldwide. It is composed of two sub-indices, the Byblos Bank/AUB Present Situation Index and the Byblos Bank/AUB Expectations Index. The Byblos Bank Economic Research & Analysis Department has been calculating the index on a monthly basis since July 2007, with January 2009 as its base month. The index is based on a face-to-face monthly survey of a nationally representative sample of 1,200 males and females living throughout Lebanon. The monthly field survey is conducted by Statistics Lebanon Ltd, a market research and opinion-polling firm.

Byblos Bank/AUB Consumer Confidence Index*

*on a monthly basis

Source: Byblos Bank Economic Research & Analysis Department, based on surveys conducted by Statistics Lebanon
Lebanon ranks 116th globally, 13th in MENA region in country risk in second quarter of 2017

In its quarterly survey of the country risk level in 186 countries, the Euromoney Group ranked Lebanon in 115th place worldwide and in 13th place among 22 countries in the Middle East & North Africa (MENA) region in the second quarter of 2017. Also, Lebanon came in 38th place among 53 upper middle-income countries (UMICs) included in the survey. Lebanon's global rank improved by one spot from 116th place in the first quarter of 2017 and by seven spots from 122nd place in the second quarter of 2016. Regionally, Lebanon's rank was unchanged quarter-on-quarter, while it improved by one spot from 14th place in the second quarter of 2016. The survey evaluates individual country risk by assigning a weighting to six categories that cover Political Risks, Economic Performance, Access to Bank Finance & Capital Markets, Debt Indicators, Credit Ratings, and Structural Assessment. A higher score reflects a lower country risk level.

Globally, Lebanon had a lower country risk level than Egypt, Mongolia and Papua New Guinea, and a higher risk level than Jamaica, Uganda and Zambia among economies with a GDP of $10bn or more. It also ranked ahead of Angola and Iran, and came behind Belize and Jamaica among UMICs. Lebanon's global rank improved by one spot quarter-on-quarter on the Economic Performance category. In contrast, its rank regressed by two spots on the Credit Ratings factor, while it was unchanged from the preceding quarter on each of the Political Risks, Structural Assessment, Debt Indicators and Access to Bank Finance & Capital Markets categories.

Lebanon received a score of 33.35 points in the second quarter of 2017, nearly unchanged from 33.27 points in the preceding quarter and up by 2.5% from 32.55 points in the second quarter of 2016. Lebanon's score came below the global average score of 42.5 points, the UMICs' average of 39 points and the MENA average of 39.9 points. Also, its score was lower than the Arab average of 38.3 points and the Gulf Cooperation Council (GCC) countries' average score of 60.1 points, but it was above the average score of non-GCC Arab countries of 28.2 points.

Lebanon's score was nearly unchanged on the Economic Performance category and on the Structural Assessment factor, while it was unchanged on each of the Political Risk, Debt Indicators, Credit Ratings and Access to Bank Finance & Capital Market categories from the first quarter of 2017.

Lebanon ranked ahead of Cameroon and behind Guatemala globally, while it came ahead of Mauritania and behind Algeria in the MENA region on the Political Risks category. Also, it ranked ahead of Nigeria and behind Kenya worldwide, and came ahead of Libya and behind Iraq regionally in terms of Economic Performance. Further, Lebanon came ahead of Indonesia and behind Panama globally, and ranked ahead of Jordan and behind Morocco in the MENA region on the Structural Assessment category. Finally, Lebanon ranked ahead of Panama and behind Somalia globally, and came ahead of Yemen and behind Jordan regionally on the Debt Indicators category.

### Country Risk Indicators for Lebanon - Second Quarter of 2017

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Weighting (%)</th>
<th>Score</th>
<th>MENA Rank</th>
<th>Global Rank</th>
<th>MENA Avge Score</th>
<th>Global Avge Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Political Risk</td>
<td>30</td>
<td>10.22</td>
<td>14</td>
<td>132</td>
<td>12.07</td>
<td>13.73</td>
</tr>
<tr>
<td>Economic Performance</td>
<td>30</td>
<td>12.48</td>
<td>14</td>
<td>113</td>
<td>13.23</td>
<td>13.39</td>
</tr>
<tr>
<td>Structural Assessments</td>
<td>10</td>
<td>4.97</td>
<td>10</td>
<td>68</td>
<td>4.32</td>
<td>4.05</td>
</tr>
<tr>
<td>Debt Indicators</td>
<td>10</td>
<td>2.00</td>
<td>16</td>
<td>163</td>
<td>3.62</td>
<td>4.42</td>
</tr>
<tr>
<td>Credit Rating</td>
<td>10</td>
<td>0.83</td>
<td>12</td>
<td>117</td>
<td>2.78</td>
<td>3.04</td>
</tr>
<tr>
<td>Access to Bank Finance &amp; Capital Market</td>
<td>10</td>
<td>2.87</td>
<td>13</td>
<td>89</td>
<td>3.86</td>
<td>3.82</td>
</tr>
</tbody>
</table>

Source: Euromoney Group, Byblos Research
Parliament approves adjustment to salary scale of public sector employees

The Lebanese Parliament approved an across-the-board adjustment to the salary scale of public sector employees. The cost of the increase was initially estimated at about $800m but it then increased to about $1.2bn as legislators extended the adjustment to pensions for retired civil servants. In addition, the Parliament raised a number of taxes and fees in an effort to offset the total cost of the adjustment. Authorities have been debating the salary scale adjustment since 2012.

The Parliament increased the value-added tax rate from 10% to 11%, raised the income tax on financial institutions from 15% to 17% and increased the tax rate from 5% to 7% on interest revenues generated from deposits and on the banks' 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 from 10% to 20% and introduced a 2% fees on the value of real estate transactions. It also increased the fee on freight entering the ports in the country, and increased the tax on tobacco (LBP250 per pack), imported cigarettes (LBP250 per pack), cigars (LBP500 per box), and on imported alcohol. In addition, it raised by LBP5,000 the tax imposed on non-Lebanese entering the country and increased the tax imposed on business class travelers by LBP110,000, on first class travelers by LBP150,000 and on each passenger on private jets by LBP400,000. It also increased the stamp duty on official paperwork and documents to up to LBP4,000, raised the public notaries’ fees collected on behalf of the Treasury, and introduced the fees on cement production (LBP6,000 per ton), among many other measures.

Lebanon joins Basel Consultative Group, part of Basel Committee

The Basel Committee on Banking Supervision (BCBS) approved Lebanon’s membership in the Basel Consultative Group (BCG), one of five committees that report to the BCBS. Lebanon is represented on the BCG committee by the Lebanese Banking Control Commission. The BCG committee facilitates supervisory dialogue with non-member authorities of the BCBS, such as countries, international institutions and regional banking supervisory groups, about new BCBS initiatives before they are issued.

The BCG committee consists of central banks and supervisory authorities from 28 countries worldwide, as well as supervisory groups such as the Arab Committee of Banking Supervisors, international agencies and other bodies. The Lebanese Banking Control Commission, the Qatar Financial Centre Regulatory Authority, the Dubai Financial Services Authority, the Financial Services Regulatory Authority of the UAE and the Abu Dhabi Global Market are the only Arab members in the BCG committee.

Established in 1974, the BCBS is a committee of banking supervisory authorities that aims to strengthen the regulation, supervision and practices of banks worldwide and enhance their financial stability. It comprises 45 members from 28 jurisdictions, consisting of central banks and authorities with formal responsibility for the supervision of banking business.

Consumer Price Index up 4.5% in first half of 2017

The Central Administration of Statistics’ Consumer Price Index increased by 4.5% year on-year in the first half of 2017 compared to a decline of 2.6% in the same period of 2016. The CPI increased by 3.5% in June 2017 from the same month of 2016. The prices of clothing & footwear grew by 12.3% year-on-year in June 2017, followed by prices of alcoholic beverages & tobacco (+7%), actual rents (+6.6%), the cost of water, electricity, gas & other fuels (+6.1%), the prices of food & non-alcoholic beverages (+5.2%), the cost of furnishings & household equipment (+3.6%), imputed rents (+3.5%), the cost of education (+2.7%), transportation costs (+2.6%), recreation & entertainment costs and prices at restaurants & hotels (+2.4% each), miscellaneous goods & services (+2.3%) and communication costs (+0.5%). The distribution of actual rents shows that old rents grew by 11.7% annually in June 2017, while new rents increased by 3% from the same month of 2016. In contrast, healthcare costs regressed by 1.3% year-on-year in June 2017.

Further, the CPI regressed by 0.1% in June 2017 from the preceding month, similar to the decrease of 0.1% in May 2017. Actual rents grew by 1.3% month-on-month in June 2017, followed by the prices of furnishings & household equipment (+1%), recreation & entertainment costs (+0.7%), imputed rents (+0.4%), prices of food & non-alcoholic beverages and miscellaneous goods & services (+0.2% each), and the prices of alcoholic beverages & tobacco and healthcare costs (+0.1% each). In contrast, the prices of clothing & footwear regressed by 2.6% month-on-month in June 2017, followed by the prices of water, electricity, gas & other fuels (-0.7%) and transportation costs (-0.2%). In parallel, communication costs, the cost of education and prices at restaurants & hotels were unchanged month-on-month in June 2017. The CPI grew by 0.3% month-on-month in the Bekaa, by 0.2% in Beirut and by 0.1% in Mount Lebanon. In contrast, it regressed by 0.7% month-on-month in the North, by 0.5% in the South and by 0.2% in Nabatieh. In parallel, the Fuel Price Index declined by 1.8% in June 2017, while the Education Price Index was nearly unchanged from the preceding month.
Goldman Sachs classifies Lebanon's Eurobonds as 'undervalued'

In its valuation of the sovereign credits of 55 emerging markets, global investment bank Goldman Sachs indicated that Lebanon's Eurobonds that have a maturity of three to seven years are 'undervalued'. The bank used a model that estimates which sovereign bonds are 'undervalued', 'fair' or 'expensive' by comparing the difference between the actual spreads and its model-implied spreads. The difference between the actual spread of 420 basis points (bps) on Lebanon’s Eurobonds and the Goldman Sachs’ model-implied spread of 257 bps shows that the undervaluation is at 163 bps. The model-implied valuation metric is based on the current level of investor risk appetite, as well as on the current and expected future path of macroeconomic fundamentals in emerging markets.

Lebanon's Eurobonds, along with those of Jamaica (186 bps), Kenya (140 bps), Ghana (119 bps) and Argentina (16 bps), are the only 'undervalued' bonds among 18 'B'-rated sovereigns included in Goldman Sachs’ universe. The bank noted that the actual spread on Lebanese Eurobonds is the ninth widest spread across the 18 'B'-rated and the overall 55 emerging markets. In addition, Goldman Sachs considered as ‘undervalued’ the Eurobonds of eight sovereigns in other rating categories. They consist of one 'A'-rated country, two 'BBB'-rated sovereigns and five 'BB'-rated countries.

In addition, Goldman Sachs classified Lebanon's Eurobonds that have a maturity of seven to 12 years as 'undervalued'. The difference between the actual spread of 445 bps on Lebanon’s Eurobonds and the Goldman Sachs’ model-implied spread of 310 bps shows that the undervaluation is at 135 bps. Further, Lebanon’s long-term Eurobonds were the only 'undervalued' bonds among 18 'B'-rated sovereigns for this maturity. The bank indicated that the actual spread on long-term Lebanese Eurobonds constituted the ninth widest spread across the 18 B-rated countries and 51 emerging markets. In comparison, it considered as 'undervalued' the Eurobonds of five sovereigns in other rating categories. They consist of one 'A'-rated country and four 'BB'-rated countries.

Further, Goldman Sachs classified Lebanon's Eurobonds that have a maturity of 12 years or more as 'undervalued'. The difference between the actual spread of 417 bps on Lebanon’s Eurobonds and the Goldman Sachs’ model-implied spread of 333 bps shows that the undervaluation is at 83 bps. Lebanon’s extra long-term Eurobonds, along with those of Egypt (43 bps) and Nigeria (9 bps), were the only 'undervalued' bonds among six 'B'-rated sovereigns. Goldman Sachs indicated that the actual spread on long-term Lebanese Eurobonds constituted the third widest spread across six B-rated countries and the fourth widest among 31 emerging markets. It considered as 'undervalued' the Eurobonds of six sovereigns in other rating categories. They consist of one 'A'-rated country, four 'BBB'-rated sovereigns and one 'BB'-rated countries. Goldman Sachs’ valuations are as of mid-July 2017.

Banque du Liban to issue circular on implementation of exchange of tax information law

In the monthly meeting between Banque du Liban (BdL), the Banking Control Commission of Lebanon (BCC) and the Association of Banks in Lebanon (ABL), Governor Riad Salamé congratulated the ABL’s board members for being elected to a two-year term, and stressed the importance of sustained cooperation with the ABL in order to support the economy and the banking sector. Also, the ABL welcomed Lebanon’s membership in the Basel Consultative Group, one of five committee groups that report to the Basel Committee on Banking Supervision. Also, Governor Salamé pointed out that global interest rates have started to increase, and noted that the BdL has taken pro-active measures to support the inflows of funds.

Further, the ABL submitted to Governor Salamé the input of the ABL’s Governance Committee on a BdL draft circular about the Succession Plan of Board Members at banks in the country. The ABL noted that the draft circular should regulate the succession plan of independent board members, as the BdL and BCC have already issued circulars that regulate the designation and duties of executive board members and representatives of shareholders. Also, Governor Salamé considered that non-executive board members improve governance at banks and that they should attend training courses and workshops to improve their skills in supervising and developing the institutions on whose boards they are.

In parallel, Governor Salamé said that the BdL will issue a circular to banks and financial institutions that will detail the principles and mechanism for the application of the exchange of tax information law. He noted that banks should directly provide the Ministry of Finance with the requested information. He added that the Organization for Economic Co-operation and Development (OECD) does not accept the transfer of information through encrypted messages, and that the protection of the exchanged information is not the responsibility of the BdL. He called on the ABL to follow up with Lebanese authorities on the implementation of the exchange of tax information law. The ABL pointed out that Lebanon is rushing to sign bilateral agreements about the exchange of tax information with about 60 countries, while 29 countries have refused to exchange financial account information with Lebanon, as required under the OECD's Multilateral Competent Authority Agreement for the Common Reporting Standard, in order to protect their interest. In this context, the ABL said that it will follow up with the relevant authorities in Lebanon regarding the law, while banks should continue to internally classify their clients as residents or non-residents before the implementation of the automatic exchange of financial account information in September 2018.
Lebanon in the News

Lebanon attracts 37 venture capital investments in 2016, second highest in MENA region

Figures released by the MENA Private Equity Association show that the value of private equity (PE) deals in Lebanon reached about $57m in 2016 and accounted for 5% of PE investment activity in the Middle East & North Africa (MENA) region. Lebanon attracted the fourth highest value of PE investments among 18 MENA countries, behind the UAE with about $703m, or 62% of the region’s PE investment activity, Saudi Arabia with $102m (9%) and Tunisia $68m (6%). Further, there were 39 PE investments in Lebanon, or 16% of the total number of PE transactions in the MENA region last year. Lebanon had the second highest number of investments among MENA countries, behind only the UAE that had 83 deals or 34% of the total, and relative to Egypt and Saudi Arabia with 22 transactions each (9% each), Morocco with 17 investments (7%), Tunisia 10 deals (4%), Turkey and Jordan seven transactions each (3% each) and Algeria five investments (2%).

In addition, there were 37 venture capital (VC) transactions in Lebanon, or 21% of VC investments in the MENA region, relative to a share of 18% in 2015. The number of VC deals in the country was the second highest in the MENA region, behind the UAE that had 60 deals or 34% of the total, which reflects Lebanon's active venture capital industry. The survey indicated that Lebanon's strong VC activity reflects its entrepreneurial strength that is driven by a strong educational system and a supportive banking system. It noted that Lebanon remains an important VC hub, as the prevalence of small and medium-sized enterprises (SMEs) and the support from Banque Du Liban's Intermediate Circular 331, stimulated VC activity in the country and improved the Lebanese startup environment. It added that Lebanese expatriates, namely investors and entrepreneurs, are increasingly choosing to launch startups and establish VC funds in the country.

Mobile cellular penetration trails global and Arab rates

Figures released by the International Telecommunication Union indicate that Lebanon ranked in 128th place among 201 countries at the end of 2016 in terms of mobile cellular penetration, which is the number of subscriptions to the service per 100 inhabitants. Lebanon also came in 13th place among 20 Arab countries and ranked in 40th place among 53 upper-middle-income countries (UMICs) included in the survey. Based on the same set of countries in 2015 and 2016, Lebanon's global rank rose by five spots in 2016 and its Arab rank improved by one spot. Lebanon had 96.4 mobile subscriptions per 100 inhabitants in 2016, constituting a rise of 4.6% from 92.2 subscriptions per 100 inhabitants in 2015. Lebanon's mobile penetration rate was lower than the global average of 99.7 subscriptions per 100 inhabitants and the Arab average of 110 subscriptions per 100 inhabitants last year, but was higher than the developing economies' average of 94.1 subscriptions per 100 inhabitants. Also, the mobile cellular penetration rate in Lebanon grew by a compound annual growth rate (CAGR) of 6.5% during the 2010-16 period compared to a CAGR of 5.4% for developing economies and of 3.8% for Arab countries. On a global basis, Lebanon had a higher penetration rate than Honduras (91.2), Bolivia (90.7) and Myanmar (89.3), and a lower rate than Senegal (98.7), and China and Turkey (96.9 each) among economies with a GDP of $10bn or more.

In parallel, Lebanon ranked in 65th place among 197 countries in terms of fixed telephone lines penetration last year, which represents the number of subscriptions to fixed telephone lines per 100 inhabitants. Lebanon also came in third place among 20 Arab countries and in 12th position among 53 UMICs in 2016. Based on the same set of countries in 2015 and 2016, Lebanon's rank rose by nine spots in 2016, constituting the seventh highest improvement globally, while its rank was unchanged among Arab countries. Lebanon had 21 fixed telephone lines subscriptions per 100 inhabitants in 2016, up by 5% from 20 subscriptions per 100 inhabitants in 2015. Lebanon's penetration rate was higher than the global average of 13.7 subscriptions per 100 inhabitants, the developing countries' average of 8.8 subscriptions per 100 inhabitants and the Arab average of 7.8 subscriptions per 100 inhabitants. Also, the penetration rate of fixed telephone lines in Lebanon grew by a CAGR of 1.5% during the 2010-16 period compared to a CAGR of -4.9% for developing economies and of -3.7% for Arab countries. On a global basis, Lebanon had a similar penetration rate as Bulgaria, a higher rate than Bahrain (20.8), Brazil (20.4), and Trinidad & Tobago (20.2), and a lower rate than Russia (22.8), Puerto Rico (22.1) and Libya (21.5) among economies with a GDP of $10bn or more.
Tourist spending in Lebanon up 6% in first half of 2017, number of refund transactions up 5%

Figures issued by Global Blue, the VAT refund operator for international shoppers, show that total spending by tourists in Lebanon increased by 4% in the second quarter of 2017 from the same quarter last year. Visitors from Saudi Arabia accounted for 14% of total tourist expenditures in the covered quarter, followed by visitors from the UAE with 11%, Kuwait with 7%, Syria and Jordan with 6% each; Egypt and France with 5% each; the United States with 4%; Qatar, Iraq and Nigeria with 3% each, while visitors from other countries accounted for the remaining 33%. Spending by visitors from Kuwait rose by 48% year-on-year in the second quarter of 2017, followed by those from Syria (+27%), Iraq (+20%), the United States (+11%), Saudi Arabia (+9%) and Qatar (+1%). In contrast, spending by visitors from Egypt decreased by 28% year-on-year in the second quarter of 2017, followed by those from the UAE (-11%), Nigeria (-7%), Jordan (-5%) and France (-1%).

Beirut attracted 81% of total spending in the second quarter of 2017, followed by the Metn area with 13%, the Baabda district with 3% and the Keserwan region with 2%. Fashion & clothing accounted for 71% of total spending in the covered quarter, followed by watches & jewelry with 14%, home & garden products with 4%, department stores with 3%, and souvenirs & gifts and consumer electronics & household appliances with 2% each. In parallel, spending on consumer electronics & household appliances rose by 39% from the second quarter of 2016, followed by that on souvenirs & gifts (+32%), expenditures in department stores (+24%) and spending on fashion & clothing (+4%). However, expenditures on watches & jewelry decreased by 11%, while spending on home and garden products was unchanged year-on-year in the second quarter of 2017.

Also, the total number of refund transactions by visitors increased by 11% in the second quarter of 2017 from the same quarter last year. The number of refund transactions by visitors from Kuwait jumped by 82% year-on-year in the covered quarter, followed by those from Syria (+64%), the United States (+35%), Saudi Arabia (+33%), Qatar (+12%) and the UAE (+1%). In contrast, the number of refund transactions by visitors from each of Egypt and Nigeria decreased by 20% year-on-year in the second quarter of 2017, followed by those from Iraq (-4%) and Jordan (-1%), while the number of refund transactions by visitors from France was unchanged year-on-year.

In parallel, total spending by tourists in Lebanon rose by 6% year-on-year in the first half of 2017. Spending by visitors from Kuwait grew by 47% in the first half of 2017, followed by those from the United States (+30%), Saudi Arabia (+19%), Iraq (+13%), Syria (+11%) and Qatar (+4%), while spending by visitors from Egypt regressed by 29% year-on-year, followed by visitors from Jordan and Nigeria (-12% each) and France and the UAE (-7% each). Spending by visitors from Saudi Arabia accounted for 15% of total tourist expenditures in the first half of 2017, followed by visitors from the UAE with 12%, Kuwait with 7%, Egypt, Syria, Jordan and France with 5% each, the United States with 4% and Qatar, Iraq and Nigeria with 3% each. Also, the total number of refund transactions by visitors increased by 5% year-on-year in the first half of 2017. The number of refund transactions by visitors from Kuwait rose by 58% annually in the covered period, followed by those from Syria (+53%), Saudi Arabia (+22%), the United States (+18%) and Qatar (+5%). In contrast, the number of refund transactions by visitors from Egypt decreased by 29% year-on-year, followed by those from Nigeria (-10%), Jordan (-8%), the UAE (-7%); Iraq (-6%) and France (-3%).

Revenues through Port of Beirut down by 3% to $99m in first five months of 2017

Figures released by the Port of Beirut show that the port’s overall revenues were $98.7m in the first five months of 2017, constituting a decrease of 2.8% from $101.5m in the same period of 2016. The Port of Beirut handled an aggregate freight of 3.6 million tons in the covered period, down by 1.5% from 3.66 million tons in the first five months of 2016. Imported freight amounted to 3.2 million tons in the first five months of 2017 and accounted for 88.75% of the total, while the remaining 405,000 tons, or 11.25%, consisted of export cargo. A total of 784 ships docked at the port in the covered period compared to 885 vessels in the first five months of 2016.

In parallel, revenues generated through the Port of Tripoli reached $7.35m in the first five months of 2017, constituting an increase of 6.5% from $6.9m in the same period of 2016. The Port of Tripoli handled an aggregate of 859,268 tons of freight in the covered period, up by 16.2% from 739,392 tons in the first five months of 2016. Imported freight amounted to 676,157 tons and accounted for 78.7% of the total, while the remaining 183,111 tons, or 21.3%, were export cargo. A total of 352 vessels docked at the port in the first five months of 2017, constituting an increase of 5.7% from 333 ships in the same period of 2016.
Corporate Highlights

**European Investment Bank’s €100m credit line is credit positive for Byblos Bank**

Moody’s Investors Service considered that the European Investment Bank’s (EIB) €100m credit line to Byblos Bank sal is credit positive for Byblos Bank. It said that the 10-year loan agreement, which represents Byblos Bank’s fourth and largest credit line from the EIB, would diversify the Bank’s funding structure, balance sheet and revenue sources, and would extend the duration of its liabilities to better match its assets. It noted that Byblos Bank, as well as its local peers, have maturity mismatches, as the banks’ liabilities, which are short-term in nature, finance long-term assets. Also, the agency considered that borrowing from developmental institutions is a more stable source of funding than from the market as it is less sensitive to shifts in confidence.

Byblos Bank will use the €100m credit line to fund local mid-cap companies and small- and medium-sized enterprises (SMEs) operating in productive sectors, such as industry, tourism, healthcare, energy and telecom, among others. The amount of the loan represents about 40% of total credit lines of €265m that the EIB extended recently to Lebanese banks.

In parallel, Moody’s indicated that lending growth in the Lebanese banking sector was stagnant at less than 1% in the first quarter of 2017, given the lack of political consensus on economic and fiscal reforms, and despite the election of a new President and the formation of a new Cabinet. Byblos Bank’s net loans & advances to customers totaled $5.2bn at the end of March 2017 and accounted for about 10% of total lending to the private sector in Lebanon.

**New car sales down 1% in first half of 2017**

Figures released by the Association of Automobile Importers in Lebanon show that dealers sold 18,198 new passenger cars in the first half of 2017, constituting a decline of 1.3% from 18,444 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, 2,536 cars in April, 3,182 vehicles in May and 4,362 automobiles in June 2017.

Japanese cars accounted for 35.8% of total sales in the first half of 2017, followed by Korean vehicles with a 34.4% share, European automobiles (20.9%), American cars (7.8%) and Chinese vehicles (1%). The sales of new Chinese cars jumped by 51.2%, demand for American vehicles grew by 27.2% and the number of European cars sold increased by 1.1% year-on-year in the first half of 2017; while the number of Japanese automobiles sold dropped by 5% and the sales of Korean vehicles fell by 4.8% year-on-year.

Kia is the leading brand in the Lebanese market with 3,862 vehicles sold in the first half of 2017, followed by Hyundai with 2,370 new cars sold, Toyota (2,206), Nissan (1,696), Renault (911), Chevrolet (850) and Suzuki (826). In parallel, 1,450 new commercial vehicles were sold in the first half of 2017, up by 11.1% from 1,305 commercial vehicles purchased in the same period of 2016. Overall, car dealers sold 19,648 new passenger automobiles and commercial vehicles in the first half of 2017, constituting a marginal decrease of 0.5% from 19,749 cars sold in the same period of 2016.

In parallel, the number of new vehicles sold by Lebanon’s top five distributors reached 13,080 in the first half of 2017 and accounted for 66.6% of new car sales. NATCO sal sold 3,862 vehicles, equivalent to 19.7% of the total, followed by Rasamny Younis Motor Co. sal with 2,658 cars (13.5%), Boustany United Machineries sal with 2,470 automobiles (12.6%), Century Motor Co. sal with 2,432 vehicles (12.4%) and Bassoul Heneine sal with 1,658 cars (8.4%).
Top five freight forwarders' import activity up 5% in first 5 months of 2017, export activity up 3%

Figures released by the Port of Beirut show that overall import shipping operations by the top five freight forwarders through the port reached 152,625 20-foot equivalent units (TEUs) in the first five months of 2017, constituting an increase of 4.7% from 145,763 TEUs in the same period of 2016. The five freight forwarders accounted for 88.8% of imports to the Lebanese market and for 60.8% of the total import freight forwarding market in the covered period. Mediterranean Shipping Company (MSC) handled 44,614 TEUs in imports in the first five months of 2017, equivalent to a 17.8% share of the total freight forwarding import market. Merit Shipping followed with 30,768 TEUs (12.3%), then Sealine Group with 29,877 TEUs (11.9%), Metz Group with 24,658 TEUs (9.8%) and Gezairy Transport with 22,708 TEUs (9%). Further, Gezairy Transport registered a 32.6% year-on-year increase in import shipping, the highest growth rate among the top five freight forwarders, while Metz Group posted a decline of 13.5%, the steepest in the first five months.

In parallel, export shipping operations by the top five freight forwarders through the Port of Beirut reached 34,583 TEUs in the first five months of 2017, constituting an increase of 3.2% from 33,517 TEUs in the same period last year. The five freight forwarders accounted for 89.5% of exported Lebanese cargo and for 14% of the total export freight forwarding market in the covered period. Merit Shipping handled 18,742 TEUs of freight in the first five months of 2017, equivalent to 48.5% of the Lebanese cargo export market. Sealine Group followed with 6,511 TEUs (16.9%), then Metz Group with 5,097 TEUs (13.2%), MSC with 2,321 TEUs (6%) and Gezairy Transport with 1,912 TEUs (5%). Further, Gezairy Transport posted a 23.8% year-on-year increase in export shipping, the highest growth rate among the top five freight forwarders, while Metz Group posted a decline of 25.3%, the steepest in the covered period.

Fitch affirms AXA's ratings, outlook 'stable'

Fitch Ratings affirmed the Insurer Financial Strength (IFS) rating of France-based insurance group AXA at 'AA-' and its long-term Issuer Default Rating (IDR) at 'A', with a 'stable' outlook. It also kept at 'F1' AXA's short-term IDR. AXA Middle East sal, one of Lebanon's top 10 insurance firms, is a subsidiary of the group.

Fitch attributed AXA's ratings to its very strong business profile and consolidated capital position, its solid financial performance, moderate financial leverage and broad diversification by geography and business lines. It did not expect AXA's plan for a partial initial public offering (IPO) of its U.S. operations to have a substantial impact on the group's overall global business profile in the near term. But it said that a more complete exit of the U.S. market would signal a significant change in the groups' global strategy.

Further, the agency said that the AXA Group's operating profitability has improved over the previous years, and that its underlying earnings gradually rose from €4.2bn at end-2012 to €5.7bn at end-2016. It added that the group’s return on equity was stable at 8.4% in 2016, in line with that of 'A'-rated peers. It indicated that the low interest rate environment constitutes a challenge to the improvement of the group's profitability. But it said that AXA continues to take actions to increase tariffs, adjust the group's business and geographical mix, implement cost efficiency measures and exercise strong asset-liability management discipline to support profitability.

However, Fitch indicated that the high level of intangibles on AXA's balance sheet offsets in part its strengths. It noted that AXA had €17bn of goodwill on its consolidated balance sheet at the end of 2016, unchanged from 2015, mostly related to insurance and asset management operations acquired in the United States, Switzerland and Japan. It added that the goodwill was equivalent to 22% of shareholders' equity at the end of 2016, slightly down from 24% a year earlier despite the strong increase in its shareholders' equity last year.

Al-Bayan magazine's annual survey of the insurance sector in Lebanon ranked AXA Middle East in ninth and third place in 2016 in terms of life and non-life premiums, respectively. The firm's life premiums reached $16.1m in 2016, up by 10.5% from 2015; while its non-life premiums amounted to $80.75m last year, down by 1.3% from the previous year. It had a 3.2% share of the life market and a 7.4% share of the local non-life market in 2016.
### Ratio Highlights

<table>
<thead>
<tr>
<th>(in % unless specified)</th>
<th>2014</th>
<th>2015</th>
<th>2016e</th>
<th>Change*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nominal GDP ($bn)</td>
<td>50.0</td>
<td>51.1</td>
<td>52.0</td>
<td></td>
</tr>
<tr>
<td>Public Debt in Foreign Currency / GDP</td>
<td>51.2</td>
<td>53.0</td>
<td>54.2</td>
<td>1.26</td>
</tr>
<tr>
<td>Public Debt in Local Currency / GDP</td>
<td>81.9</td>
<td>84.6</td>
<td>89.6</td>
<td>4.98</td>
</tr>
<tr>
<td>Gross Public Debt / GDP</td>
<td>133.1</td>
<td>137.6</td>
<td>144.0</td>
<td>6.42</td>
</tr>
<tr>
<td>Total Gross External Debt / GDP**</td>
<td>170.0</td>
<td>174.7</td>
<td>176.6</td>
<td>1.90</td>
</tr>
<tr>
<td>Trade Balance / GDP</td>
<td>(34.4)</td>
<td>(29.5)</td>
<td>(30.0)</td>
<td>(0.47)</td>
</tr>
<tr>
<td>Exports / Imports</td>
<td>16.2</td>
<td>16.6</td>
<td>16.1</td>
<td>(0.49)</td>
</tr>
<tr>
<td>Fiscal Revenues / GDP</td>
<td>21.8</td>
<td>18.7</td>
<td>19.1</td>
<td>0.30</td>
</tr>
<tr>
<td>Fiscal Expenditures / GDP</td>
<td>27.9</td>
<td>26.5</td>
<td>28.6</td>
<td>2.1</td>
</tr>
<tr>
<td>Fiscal Balance / GDP</td>
<td>(6.1)</td>
<td>(7.7)</td>
<td>(9.5)</td>
<td>(1.8)</td>
</tr>
<tr>
<td>Primary Balance / GDP</td>
<td>2.6</td>
<td>1.4</td>
<td>0.04</td>
<td>(1.4)</td>
</tr>
<tr>
<td>Gross Foreign Currency Reserves / M2</td>
<td>66.5</td>
<td>58.7</td>
<td>62.7</td>
<td>3.94</td>
</tr>
<tr>
<td>M3 / GDP</td>
<td>235.4</td>
<td>241.9</td>
<td>250.0</td>
<td>8.11</td>
</tr>
<tr>
<td>Commercial Banks Assets / GDP</td>
<td>351.4</td>
<td>364.0</td>
<td>392.9</td>
<td>28.9</td>
</tr>
<tr>
<td>Private Sector Deposits / GDP</td>
<td>288.9</td>
<td>296.6</td>
<td>312.5</td>
<td>15.8</td>
</tr>
<tr>
<td>Private Sector Loans / GDP</td>
<td>101.8</td>
<td>106.1</td>
<td>108.7</td>
<td>3.85</td>
</tr>
<tr>
<td>Private Sector Deposits Dollarization Rate</td>
<td>65.7</td>
<td>64.9</td>
<td>65.0</td>
<td>0.10</td>
</tr>
<tr>
<td>Private Sector Lending Dollarization Rate</td>
<td>75.6</td>
<td>74.8</td>
<td>73.6</td>
<td>(1.23)</td>
</tr>
</tbody>
</table>

*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: The PRS Group, Byblos Research

### Risk Metrics

#### Lebanon

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Political Risk Rating</td>
<td>54.5</td>
<td>55.0</td>
<td>54.5</td>
<td></td>
<td>High</td>
</tr>
<tr>
<td>Financial Risk Rating</td>
<td>39.0</td>
<td>36.5</td>
<td>36.5</td>
<td></td>
<td>Low</td>
</tr>
<tr>
<td>Economic Risk Rating</td>
<td>33.0</td>
<td>30.5</td>
<td>30.5</td>
<td></td>
<td>Moderate</td>
</tr>
<tr>
<td>Composite Risk Rating</td>
<td>63.25</td>
<td>61.0</td>
<td>60.75</td>
<td></td>
<td>Moderate</td>
</tr>
</tbody>
</table>

#### MENA Average*

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Political Risk Rating</td>
<td>57.6</td>
<td>57.5</td>
<td>57.4</td>
<td></td>
<td>High</td>
</tr>
<tr>
<td>Financial Risk Rating</td>
<td>39.4</td>
<td>38.8</td>
<td>38.8</td>
<td></td>
<td>Low</td>
</tr>
<tr>
<td>Economic Risk Rating</td>
<td>32.1</td>
<td>29.7</td>
<td>29.7</td>
<td></td>
<td>High</td>
</tr>
<tr>
<td>Composite Risk Rating</td>
<td>64.5</td>
<td>63.0</td>
<td>62.9</td>
<td></td>
<td>Moderate</td>
</tr>
</tbody>
</table>

*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

<table>
<thead>
<tr>
<th></th>
<th>Foreign Currency</th>
<th>Local Currency</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>LT</td>
<td>ST</td>
</tr>
<tr>
<td>Moody's</td>
<td>B2</td>
<td>NP</td>
</tr>
<tr>
<td>Fitch Ratings</td>
<td>B-</td>
<td>B</td>
</tr>
<tr>
<td>Standard &amp; Poor's</td>
<td>B-</td>
<td>B</td>
</tr>
<tr>
<td>Capital Intelligence</td>
<td>B</td>
<td>B</td>
</tr>
</tbody>
</table>

Source: Rating agencies

#### Banking Ratings

<table>
<thead>
<tr>
<th></th>
<th>Banks' Financial Strength</th>
<th>Banking Sector Risk</th>
<th>Outlook</th>
</tr>
</thead>
<tbody>
<tr>
<td>Moody's</td>
<td>E+</td>
<td></td>
<td>Negative</td>
</tr>
</tbody>
</table>

Source: Rating agencies
Lebanon This Week is a research document that is owned and published by Byblos Bank sal. The contents of this publication, including all intellectual property, trademarks, logos, design and text, are the exclusive property of Byblos Bank sal, and are protected pursuant to copyright and trademark laws. No material from Lebanon This Week may be modified, copied, reproduced, repackaged, republished, circulated, transmitted, redistributed or resold directly or indirectly, in whole or in any part, without the prior written authorization of Byblos Bank sal.

The information and opinions contained in this document have been compiled from or arrived at in good faith from sources deemed reliable. Neither Byblos Bank sal, nor any of its subsidiaries or affiliates or parent company will make any representation or warranty to the accuracy or completeness of the information contained herein.

Neither the information nor any opinion expressed in this publication constitutes an offer or a recommendation to buy or sell any assets or securities, or to provide investment advice. This research report is prepared for general circulation and is circulated for general information only. Byblos Bank sal accepts no liability of any kind for any loss resulting from the use of this publication or any materials contained herein.

The consequences of any action taken on the basis of information contained herein are solely the responsibility of the person or organization that may receive this report. Investors should seek financial advice regarding the appropriateness of investing in any securities or investment strategies that may be discussed in this report and should understand that statements regarding future prospects may not be realized.