SGBL EcoNews

LEBANESE, GLOBAL ECONOMIES TO PICK UP MOMENTUM IN 2018

- **Lebanon seeking $20bn in soft loans for infrastructure projects**
- **Consumers upbeat over personal income, economy in 2018**
- **Tourism sector makes gains as visitor arrivals reach seven-year high**

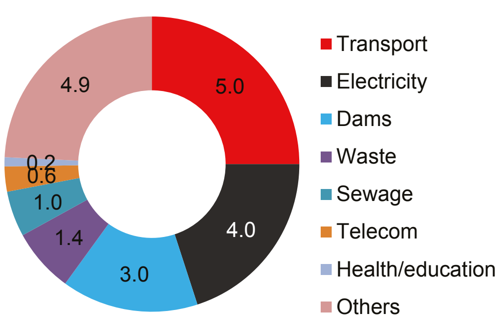
Lebanon's economy kicks off 2018 with significant promise for an economic revival, while regional and domestic challenges, especially parliamentary elections scheduled for May, will continue to present challenges to a full recovery. Blocked land trade routes with Syria and Iraq are expected to be re-opened by mid-2018 following the defeat of ISIS, which could drive some recovery in exports, predicted the Institute of International Finance (IIF). Growth in exports and a pickup in investment are likely to help lift real GDP growth to 3.1% in 2018, its fastest pace in eight years, according to the IIF.

The Lebanese government has also announced plans to organize an international aid conference by April with the aim of raising close to $20bn in funds to revamp the country's infrastructure over the next decade. The government's capital investment program would allocate an estimated $5bn for the transportation sector, $4bn for electricity projects, and $3bn for dams.

The program aims to raise nearly half the funds from the European Union and the World Bank and another 25% from Arab and international donor funds in the form of 30-year concessional loans at 1.5%. The remaining 25% would be financed by the local banking sector through Public-Private Partnerships. In the meantime, the fiscal deficit is expected to widen from an estimated $4.1bn in 2017 to $5bn in 2018, but the country will likely still enjoy a primary surplus, which excludes debt service, of $538m, according to the IIF.

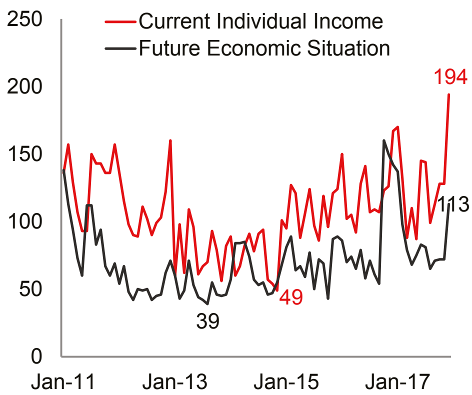
Furthermore, Lebanon is entering 2018 against the backdrop of more favorable global economic trends. The world economy appears to have entered a new phase of moderately stronger growth, as global GDP growth is likely to have accelerated to 3.1% in 2017, and is projected to quicken further to 3.4% in 2018, some nine years after the global economic expansion began, stated Citi, a US-based investment bank.

Lebanon's planned capital investments ($bn)



Source: Government, media, Economena, SGBL Research

Consumer confidence (index points)



Source: ARA, Economena, SGBL Research

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However, in Gulf Cooperation Council economies, growth is expected to remain relatively weak, albeit stronger than in 2017, due to restrictions on oil output under the latest OPEC agreement. GDP growth in the GCC is forecast to reach 2.8% in 2018, a considerable improvement from just 0.3% in 2017, but slower than the Middle East's forecast of 3.2%, according to Oxford Economics.

CONSUMERS UPBEAT OVER PERSONAL INCOME, ECONOMY

Private consumption will likely be the leading driving force behind economic growth in 2018. Higher public sector salaries will pump an additional $910m into the economy during the year, in addition to salaries of an expected minimum of 2,000 more hires at the country's security agencies.

Consumer confidence in current individual income surged to 194 index points in December 2017, its highest level in the post-Syrian conflict period, survey data by ARA Research & Consultancy showed. Confidence in the economic situation within six months also picked up to 113 points in December after PM Hariri rescinded his resignation and the Cabinet awarded two off-shore oil exploration licenses for blocks 4 and 9 to a Total-led consortium of international oil companies.

The number of new registered passenger cars increased by 8.1% yoy to 2,672 vehicles in November 2017.

Improving confidence helped lift new car sales in recent months. The number of new registered passenger cars increased by 8.1% yoy to 2,672 vehicles in November 2017, and by a cumulative 1.1% yoy to 33,996 vehicles in the first 11 months.

Private consumption by foreigners has also increased during the period, driven by a rise in visitor arrivals to the country for the fourth year in a row. Arrivals grew by 10.9% yoy to 1.7 million in the first eleven months of 2017, their second highest number on record, raising occupancy rates at Beirut's 4- and 5-star hotels to 65.8% through October, compared with 58.5% in the same period in 2016.

FINANCIAL MARKETS STABLE, RATES RISING

The Central Bank appears to have successfully weathered the spillovers from the political crisis in November. Banque du Liban's foreign assets grew by 0.22% in December 2017 to finish the year at $42bn, $1.3bn more than in December 2016. The late-year comeback marks the first increase in the Central Bank's foreign currency holdings in the aftermath of the PM Hariri crisis in November, and signals decreasing pressure on the local currency.

Sovereign risk also decreased in December and into January following a regional and domestic political breakthrough brokered by the French president Emmanuel Macron. Five-year Credit Default Swap spreads fell back to 455 basis points at the start of 2018 from over 600 basis points during the month in November.

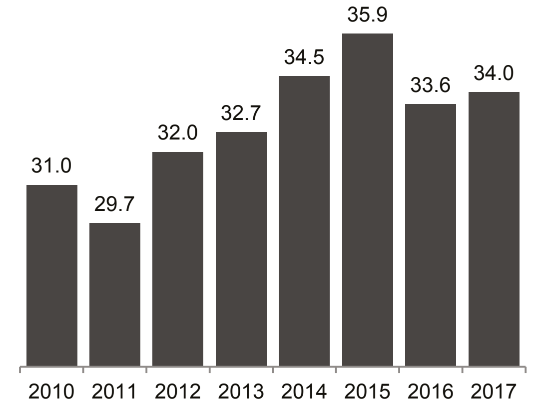
Credit activity, however, will likely continue to be impacted for a few months as investors and lenders both approach the new year with caution. Banks had posted strong results in the first nine months of 2017; utilized credit in the financial sector grew by $2.7bn to $66.9bn through September 2017, driven by a pickup in housing and personal loans, data by the Central Bank showed.

Housing loan growth was especially buoyed by demand from public sector security personnel.

Housing loan production staged a major comeback, rising by 15.8% yoy to $942.5m in the first nine months, as economic conditions improved and softer pricing likely attracted more buyers. Housing loan growth was especially buoyed by demand from public sector security personnel who benefit from several special protocols with the banking sector.

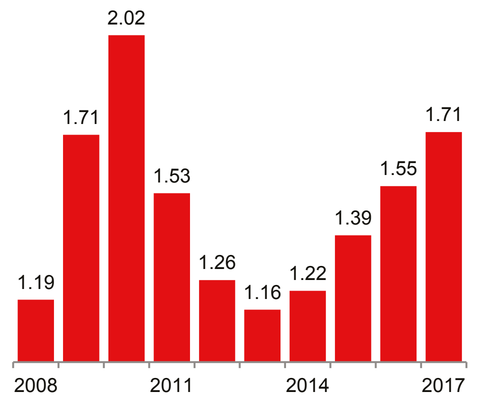
Meanwhile, the weighted average US dollar lending rate rose to a nine-year high of 7.4% by October 2017, reflecting increases in the policy rate in the United States and in the London Interbank Offered Rate. Borrowing rates in Lebanon are projected to rise even further in 2018, but Central Bank initiatives, including interest subsidies and reserve requirements incentives, may help maintain the affordability of housing loans and credit to productive sectors, particularly industry.

New passenger car registrations ('000, Jan-Nov)



Source: AIA, Economena, SGBL Research

Visitor arrivals (millions, Jan-Nov)



Source: MoT, CAS, Economena, SGBL Research

OUTLOOK BULLISH FOR THE WORLD ECONOMY, EQUITIES IN 2018

- **Global economic growth to accelerate to 3.4% in 2018**
- **Citi bullish on emerging market equities and fixed income in 2018**
- **Public finances in the GCC are looking better**

The world economy appears to have entered a new phase of moderately stronger growth, as global GDP is likely to have increased by 3.1% in 2017, up from 2.5% in 2016, stated Citi, a US-based investment bank, in its outlook 2018 report.

Citi expects economic growth to quicken further to 3.4% in 2018, some nine years after the global economic expansion began, and advised investors to take this potential opportunity to build fully global allocations.

The investment bank sounded a bullish tone on non-US equities where it said that equity valuations are significantly lower and corporate earnings could again record double-digit gains in the next twelve months. At the same time, emerging market fixed income offers a higher yield than developed market fixed income, according to Citi, noting that this divergence in valuations creates potential opportunities for 2018 and beyond.

Equity valuations are significantly lower outisde the US and corporate earnings could again record double-digit gains in 2018.

Global equities are projected by Citi to return 8% in 2018, compared with a forecast of 6% return on the United States' S&P 500. Meanwhile, emerging markets equities are expected to pull ahead with 12% return in 2018, similar to return forecasts for the Euro Stoxx 600 index. Emerging market currency-hedged sovereign fixed income returns may reach 5% in 2018, well ahead of returns in the US and Euro areas.

PUBLIC FINANCES IN THE GCC ARE LOOKING BETTER

In the Middle East, growth in Gulf Cooperation Council economies will lag behind the rest of the region due to restrictions on oil output under the latest OPEC agreement. GDP growth is forecast to reach 2.8% in 2018, a considerable improvement from just 0.3% in 2017, but slower than the wider Middle East's forecast of 3.2%, according to Oxford Economics.

On the bright side, public finances in the GCC now look to be on a more sustainable path in most economies, allowing spending to start gradually recovering, stated ICAEW, a London-based institute. Cuts in public spending in the region had reached almost 20% in the 2015-2017 period as part of emergency austerity measures in response to the oil price slump.

In Lebanon, ICAEW is optimistic of a solid pickup in economic growth, from an average of just 1.7% per year between 2011 and 2017 to 3% in 2018, and on to 4% by 2020 as some of the pressures from the Syrian conflict are already starting to ease. Recovery in tourism is boosting activity in the sector, as well as confidence among firms more broadly, and lower oil prices are also helping, stated ICAEW.

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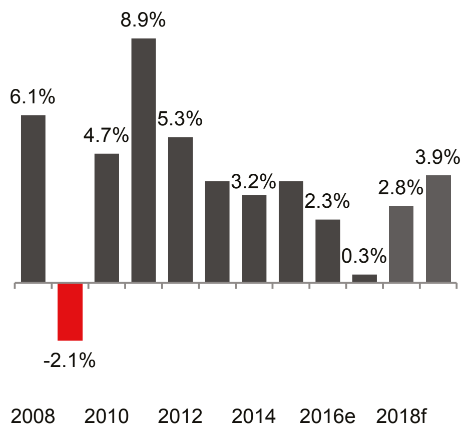
Return estimates in 2018

Equities	
MSCI Global	8%
S&P 500	6%
MSCI Emerging Markets	12%
Euro Stoxx 600	12%
Currency-hedged fixed income	
Global Aggregate	3%
US Aggregate	2%
Euro Area Aggregate	-1%
Emerging Market Sovereign	5%

Source: Citi, Economena, SGBL Research

GCC real GDP growth (%)



Source: Oxford Economics, Economena, SGBL Research

HOUSING AND PERSONAL LOANS DOMINATE CREDIT ACTIVITY

- **Housing loans grew by $942.5m in the first nine months of 2017**
- **Banks reduce exposure to construction, lending to industry accelerates**
- **Commercial banks reduced their holdings of Eurobonds in October 2017**

Utilized credit in the financial sector grew by $2.7bn to $66.9bn through September 2017, driven by a pickup in housing and personal loans, data by the Central Bank showed. Housing loan production staged a major comeback, rising by 15.8% yoy to $942.5m in the first nine months, as economic conditions improved and softer pricing likely attracted more buyers.

Housing loan growth is buoyed by demand from public sector employees, especially security personnel. Loans under the protocol between banks and the Directorate General of the Internal Security Forces grew by 44.3% yoy to $241.3m by September, and those extended under the protocol with General Security surged by 53.1% yoy to $102.5m. Similar protocol-based housing loans to military volunteers also posted healthy growth of 16.5% yoy to cross $1bn by the end of September.

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Non-housing loans to individuals grew by $631.1m in the first nine months to $8.4bn, representing, together with housing loans, 57.8% of net credit production during the period. Credit extended to the industrial sector and to education services organizations was also buoyant, supported by Central Bank incentives and the stimulus package for productive sectors. By contrast, banks reduced their exposure to construction and to real estate services, with utilized credit declining by $136.1m and $179m respectively through September.

Interest rates on local currency loans had been falling prior to the political crisis in November, but US dollar rates were already creeping up. The weighted average LBP lending rate fell to an 18-month low of 8.22% by October 2017, while US dollar rates rose to a nine-year high of 7.4%, reflecting increases in the policy rate in the US and in the London Interbank Offered Rate.

Borrowing rates in Lebanon are projected to rise even further in 2018, but Central Bank initiatives, including interest subsidies and reserve requirements incentives, may help maintain the affordability of housing loans and credit to productive sectors, particularly industry. Utilized credits benefiting from deductions in reserve requirements grew by $423.6m in the first nine months of 2017 to $7.2bn, two times more than over the same period in 2016.

Meanwhile, banks are shying away from Lebanese sovereign debt, with their claims on the government falling to their lowest level in four years. Commercial banks' claims on the public sector fell by 4% yoy to $33.4bn by October 2017, a decrease of $1.4bn in the first 10 months of the year. The drop resulted from the reduction of an estimated $2bn in Eurobonds held by commercial banks in the 12 months through October 2017.

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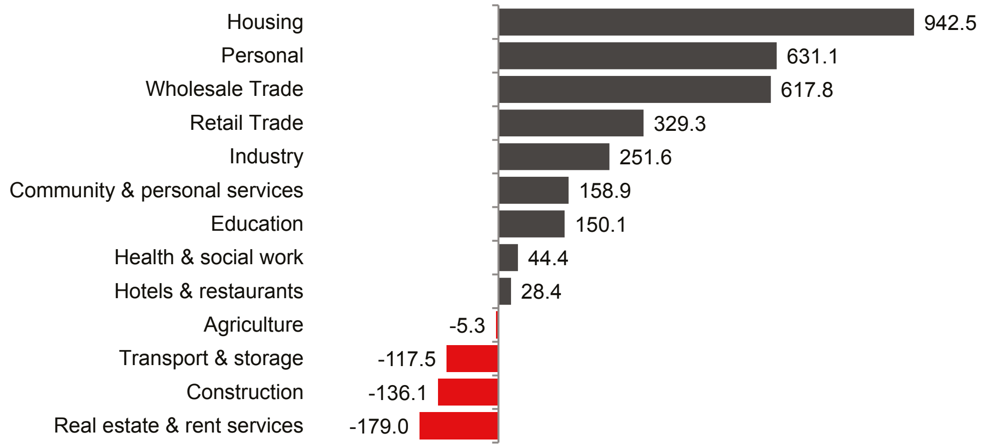
Change in utilized credit (Jan-Sep 2017, $m)



Source: BdL, Economena, SGBL Research

LEBANON'S FISCAL DEFICIT TO WIDEN TO $5BN IN 2018

- **Fiscal deficit shrank to $1.4bn through August 2017**
- **Public revenues jumped by 14.3% yoy in the first eight months**
- **Debt-to-GDP to remain high at 146% in 2018**

Lebanon's fiscal deficit is expected to widen from an estimated $4.1bn in 2017 to $5bn in 2018, but the country will likely still enjoy a primary surplus, which excludes debt service, of $538m, according to the Institute of International Finance.

The fiscal deficit contracted by $1bn to $1.4bn in the first eight months of 2017, its best performance in six years, data by the Ministry of Finance showed. Cash revenues surged by 14.3% yoy to a record $7.9bn during the period driven by extraordinary gains in income taxes resulting from the Central Bank's financial engineering operations in 2016. Spending, on the other hand, decreased by 1.7% yoy to $9.3bn through August, even as transfers to the electricity company and debt service payments grew by $320.3m and $195.5m respectively over the same period.

Spending decreased by 1.7% yoy to $9.3bn through August, even as transfers to the electricity company and debt service payments grew.

The projected increase of 16% in the wage bill along with higher other expenditures resulting parliamentary elections slated for May, will more than offset additional revenue that could be raised from the tax measures which became effective in October, stated the IIF. The government introduced a series of new tax measures in late 2017 aimed at generating sufficient revenues to cover an estimated $910m in additional payroll spending due to new public sector salary scale.

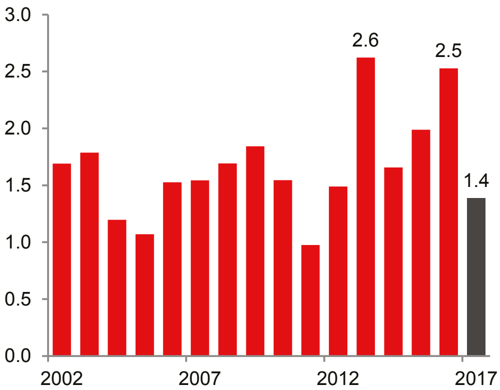
As a result, the debt-to-GDP ratio would remain high at 146% at the end of the year with new debt likely to be predominantly financed by local banks. Lebanon's gross public debt increased by 5.3% yoy to $78.5bn at the end of October 2017, the latest month for which data are available, but likely accelerated in the last two months of the year in line with the higher wage bill. In December, the Ministry of Finance sold the Central Bank $2bn in two-year and three-year Treasury bills carrying a yield of 1%.

In December, the Ministry of Finance sold the Central Bank $2bn in 2-year and 3-year T-bills carrying a yield of 1%.

Strong fiscal effort and structural reforms are required to reduce the deficit significantly on a sustainable basis and to exit from the debt overhang, stated the IIF. The institute recommended increasing tax compliance, raising fuel taxation, reforming the electricity sector to reduce transfers to EdL, selling non-performing state assets, and reforming the public pension system to correct looming imbalances in the system.

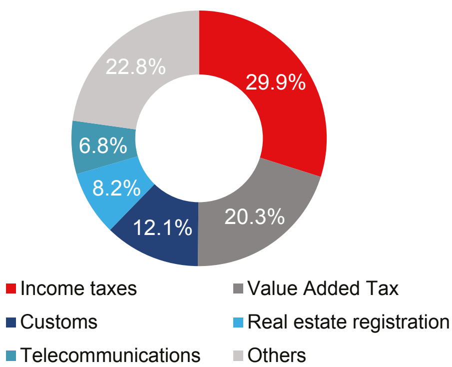
Lebanon's infrastructure gap remains very wide compared with its peers in the region, particularly in electricity and transport, and upgrading the country's infrastructure could raise the potential growth of the economy, according to the IIF. The private sector could play a greater role in infrastructure investments and in the provision of public services through various arrangements and in partnership with the public sector.

Fiscal deficit (Jan-Aug, $bn)



Source: MoF, Economena, SGBL Research

Fiscal revenues (Jan-Aug 2017)



Source: MoF, Economena, SGBL Research

POLITICAL RESOLUTION A RAY OF HOPE FOR LEBANON - IIF

- **Real GDP growth to pick up to 3.1% in 2018 on greater investment, exports**
- **Confidence in the Lebanese pound remains strong**
- **Loan growth projected to accelerate to 5.7% in 2018**

The withdrawal of PM Hariri's resignation in December and the Cabinet's commitment to a policy of disassociation from regional conflicts will ease the political and economic crisis and help ensure monetary stability, stated the Institute of International Finance. Blocked trade routes with Syria and Iraq are expected to be re-opened by mid-2018 following the defeat of ISIS, which could drive some recovery in exports, according to the IIF.

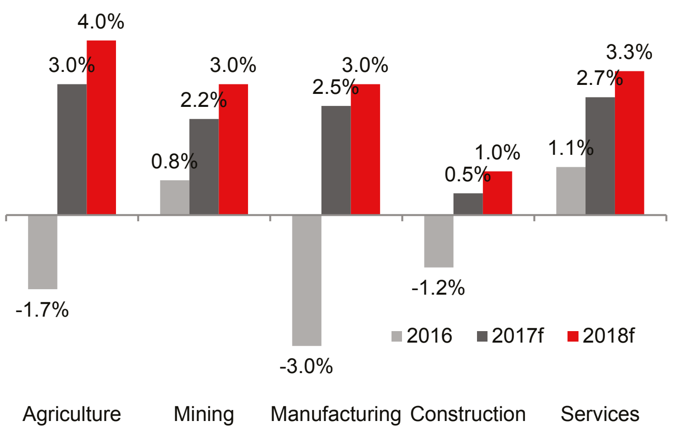
Growth in exports and a pickup in investment are likely to help lift real GDP growth to 3.1% in 2018, its fastest pace in eight years. GDP per capita is also set to increase by 4.5% to reach $10,992 in 2018, stated the IIF. Virtually all main sectors are projected to witness accelerating growth in activity during the year, led by agriculture and service sectors where output is seen increasing by 4% and 3.3% respectively.

Over the medium term, a stable political environment and structural reforms could raise potential growth to 5% by 2020 from 3.5% in recent years, stated the IIF. It would also help bring government debt down to more sustainable levels through stronger investor confidence and a boost from public investment to address infrastructural bottlenecks.

The institute noted increased inflationary pressures as a result of rising global commodity prices and appreciation in the Euro, in addition to the increase in public sector wages.

The Consumer Price Index rose by 4.8% yoy through November 2017, driven largely by acceleration in the prices of fuels as well as clothing and footwear, data by the Central Administration of Statistics showed. The latter category, which represents 5.2% of an average household's budget, surged by 16.7% yoy through November, partly reflecting an increase in import prices from the Euro area.

Output by sector (% change)



Source: IIF, Economena, SGBL Research

CONFIDENCE IN THE LEBANESE POUND REMAINS STRONG

Confidence in the Lebanese pound will remain strong and the peg to the dollar will be maintained, stated the IIF, supported by ample international reserves of $42bn in addition to $12bn worth of gold. Maintenance of the peg is essential given the country's debt service obligations in foreign currency, and the substantial currency mismatches of corporations and households, owing to widespread dollarization.

Lebanese Eurobonds have recouped much of their losses since Hariri rescinded his resignation on December 5. Ten-year bond yields returned to their October levels and five-year Credit Default Swap spreads, the cost to insure against a possible sovereign default, fell back to 522 basis points (bps) by the end of year after reaching more than 640 bps in November.

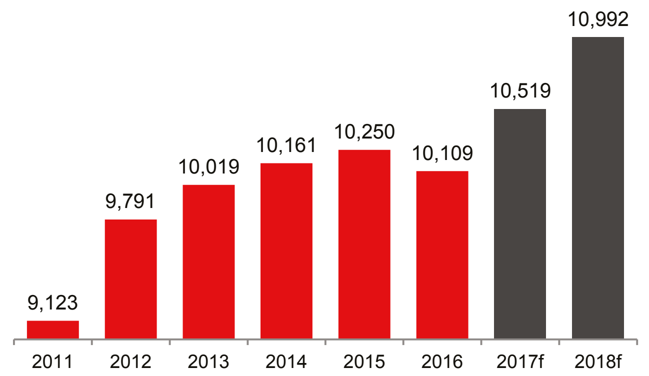
DOLLARIZATION RATE TO REVERSE IN 2018

The dollarization rate of the resident private sector deposits rose to 63.3% by November 23 from 59.7% a year earlier, as a result of conversions to US dollar after Hariri's resignation announcement. However, the upward trend in deposit dollarization rates is expected to reverse in 2018, according to the IIF.

The IIF called on monetary authorities to maintain a tight policy in order to reduce inflationary pressures, support the peg to the US dollar, and help attract adequate nonresident deposits. Banks are raising interest rates on local currency deposits in a bid to reduce demand for the greenback, and to attract more deposits from abroad. Average deposit rates are projected to increase to a decade high of 6.8% in 2018 compared with 6.3% in 2017, according to the IIF.

Lending rates are likely to follow suit, rising by another 40 bps to an average of 9.1% in 2018, stated the IIF, in line with expectations of a 50 bps hike in the Fed's policy rate in 2018. Nonetheless, claims on the private sector may still grow by 5.7%, up from an estimated growth of 4.8% in 2017.

Lebanon GDP per capita ($)



Source: IIF, Economena, SGBL Research

LATEST DATA

Key indicators	Unit	2016	Sep-17	Oct-17	Nov-17	%Y/Y	YTD	PYTD
Cleared cheques	$bn	68.14	4.49	6.14	n.a.	2.35	56.43	56.71
Real estate transactions	$bn	8.48	0.54	1.13	0.86	13.00	9.02	7.49
Construction permits	Sqm, m	12.23	0.71	1.02	n.a.	-4.81	10.37	10.14
Cement deliveries	Tons, m	5.27	0.43	0.49	n.a.	-11.11	4.28	4.44
Tourist arrivals	m	1.69	0.16	0.14	0.12	0.65	1.71	1.55
Airport traffic	m	7.61	0.86	0.62	n.a.	11.30	7.02	6.46
Balance of payments	$bn	1.24	0.46	-0.89	n.a.	30.52	-1.08	-0.13
Money supply: M3	$bn	132.80	138.87	138.68	n.a.	7.72	5.88	5.12
BSE volumes	m	120.47	7.53	8.92	3.45	-45.89	71.93	102.66
Passenger car sales		36,326	2,571	3,390	2,672	8.09	33,996	33,613
Hotel occupancy (average)	%	58.98	74	68	n.a.	14.30	64.44	57.87

Indices	Unit	2016	Sep-17	Oct-17	Nov-17	%Y/Y	%YTD
Consumer Confidence Index - ARA		113.83	114.00	117.00	n.a.	-25.00	-28.66
Consumer Price Index		96.24	101.08	102.46	103.03	4.79	4.14
Purchasing Managers' Index		45.68	46.00	45.80	46.20	-1.49	-1.70
BdL Coincident Indicator		289.54	291.20	306.00	n.a.	6.43	4.72

Trade	Unit	2016	Aug-17	Sep-17	Oct-17	%Y/Y	YTD	PYTD
Imports	$bn	18.71	1.59	1.30	1.69	14.27	15.58	15.72
Exports	$bn	2.98	0.25	0.21	0.25	-1.97	2.37	2.49
Trade balance	$bn	-15.73	-1.34	-1.09	-1.44	17.69	-13.21	-13.23
Port of Beirut volumes	TEUs, m	1.15	0.11	0.11	0.12	28.62	1.07	0.95

Financial and monetary	Unit	2016	Aug-17	Sep-17	Oct-17	%Y/Y	YTD	%YTD
Commercial bank assets	$bn	204.31	209.39	213.42	215.79	8.07	11.48	5.62
Claims on the resident private sector	$bn	51.04	52.87	53.05	53.21	5.46	2.17	4.25
Claims on the non-resident private sector	$bn	6.14	5.79	5.88	5.92	-5.02	-0.22	-3.60
Claims on the public sector	$bn	34.72	33.51	33.12	33.35	-3.97	-1.37	-3.94
Resident private sector deposits	$bn	128.53	134.16	134.19	133.90	7.33	5.37	4.18
Dollarization rate (average)	%	59.36	61.57	61.53	61.77	2.20	61.13	1.04
Non-resident private sector deposits	$bn	33.96	35.00	34.91	35.50	7.91	1.54	4.53
Dollarization rate (average)	%	86.12	87.45	87.54	88.01	1.93	87.23	1.01
Private sector deposits with commercial banks	$bn	162.49	169.15	169.09	169.40	7.45	6.91	4.25
Private loans / deposits	%	40.23	39.41	39.53	39.74	-0.71	39.50	0.98
Public sector deposits	$bn	9.46	10.12	10.16	10.35	2.29	0.88	9.32
BdL foreign assets	$bn	44.73	46.08	46.93	48.51	4.38	3.78	8.45
BSE market capitalization	$bn	11.90	11.47	11.36	11.27	-4.99	-0.63	-5.29
Gross public debt	$bn	74.89	77.29	78.16	78.47	5.30	3.59	4.79

Public finance	Unit	2016	Jun-17	Jul-17	Aug-17	%Y/Y	YTD	PYTD
Revenues	$bn	9.92	0.55	1.09	0.71	21.55	7.86	6.88
Value Added Tax	$bn	2.15	0.12	0.33	0.13	8.19	1.59	1.48
Telecommunications	$bn	1.27	0.00	0.10	0.00	-100.00	0.53	0.80
Income taxes	$bn	2.00	0.11	0.21	0.09	227.83	2.35	1.58
Customs taxes	$bn	1.40	0.11	0.14	0.13	-3.82	0.95	0.92
Expenditures	$bn	14.87	1.18	1.04	1.24	9.61	9.25	9.40
Transfers to EdL	$bn	0.93	0.10	0.07	0.21	156.25	0.84	0.52
Debt service	$bn	4.77	0.41	0.25	0.31	14.89	3.00	2.81
Primary balance	$bn	0.02	-0.21	0.31	-0.20	-22.48	1.74	0.41
Fiscal balance	$bn	-4.94	-0.64	0.04	-0.52	-3.33	-1.39	-2.53

YTD: year-to-date, PYTD: previous year-to-date. Source: MoF, BdL, BSE, ARA, Customs, Markit, EY, RHIA, CAS, Economena, SGBL Research

Beirut Stock Exchange listed shares (Year-end 2017)

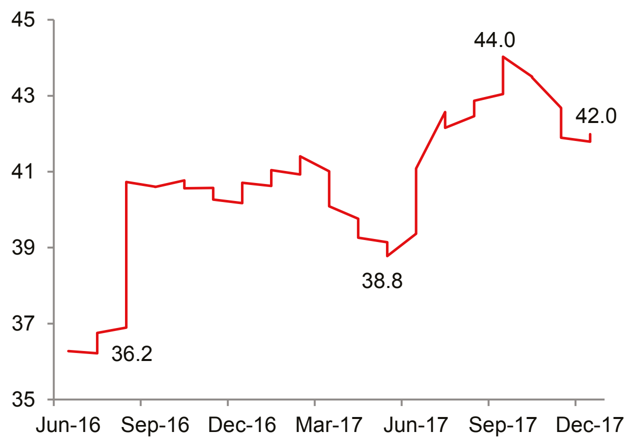
BSE stocks rose by 5.4% in the last 40 days of 2017, reflecting improving investor sentiment following the end of the political crisis. Stocks still closed the year down 5.3% as Solidere, the only listed property developer, lost nearly a quarter of its value.

	Close ($)	% change
Ciments Blancs Nominal	2.25	43.3%
HOLCIM Liban	14.46	23.1%
BLOM GDR	12.70	15.5%
BLOM listed shares	11.64	9.8%
Bank of Beirut listed shares	18.80	0.0%
RYMCO	3.25	0.0%
Byblos Bank GDR	77.70	-2.9%
Byblos Bank	1.60	-5.9%
BLC Bank listed shares	0.93	-6.1%
Bank Audi GDR	5.84	-10.2%
Bank Audi	5.75	-15.4%
Solidere A	8.01	-22.8%
Banque BEMO listed shares	1.30	-23.5%
Solidere B	7.98	-24.0%
BSE index	**1,148.57**	**-5.3%**

Source: BSE, Economena, SGBL Research

BdL foreign assets ($bn)

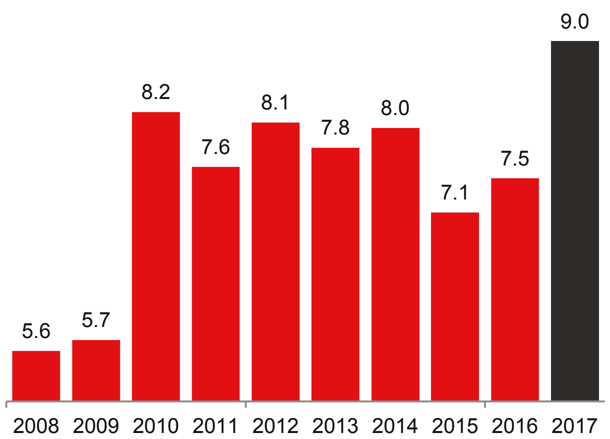
Banque du Liban's foreign assets grew by 0.22% in December 2017 to finish the year at $42bn. The late-year comeback marks the first increase in the Central Bank's foreign currency holdings in the aftermath of the PM Hariri crisis in November, and signals decreasing pressure on the local currency.



Source: BdL, Economena, SGBL Research

Registered real estate sales transactions (Jan-Nov, $bn)

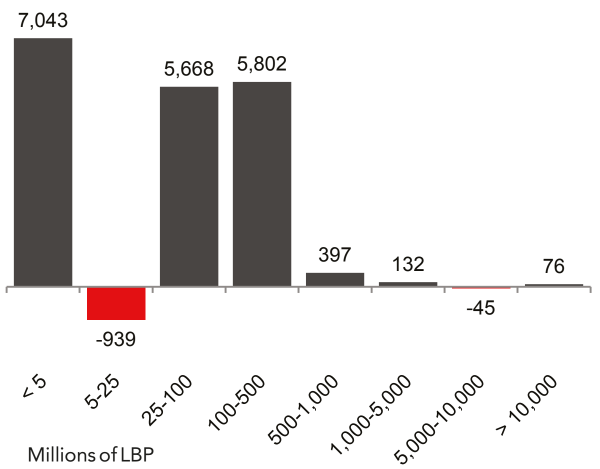
Real estate sales transactions surged by 20.4% yoy to $9bn in the first 11 months of 2017, a record high for the period, data by the Real Estate Registry showed. The number of transactions also rose but at a slower pace of 15% yoy to 66,458 , pointing to a growing number of larger-ticket sales.



Source: GDLRC, Economena, SGBL Research

Beneficiares by credit amount (Year-to-Sep 2017)

The number of credit beneficiaries increased the most for credit amounts of under LBP500 million in the first nine months of 2017, reflecting fast growth in housing and personal loans. By contrast, banks issued fewer larger-ticket loans, which are typically used to finance construction projects.



Source: BdL, Economena, SGBL Research