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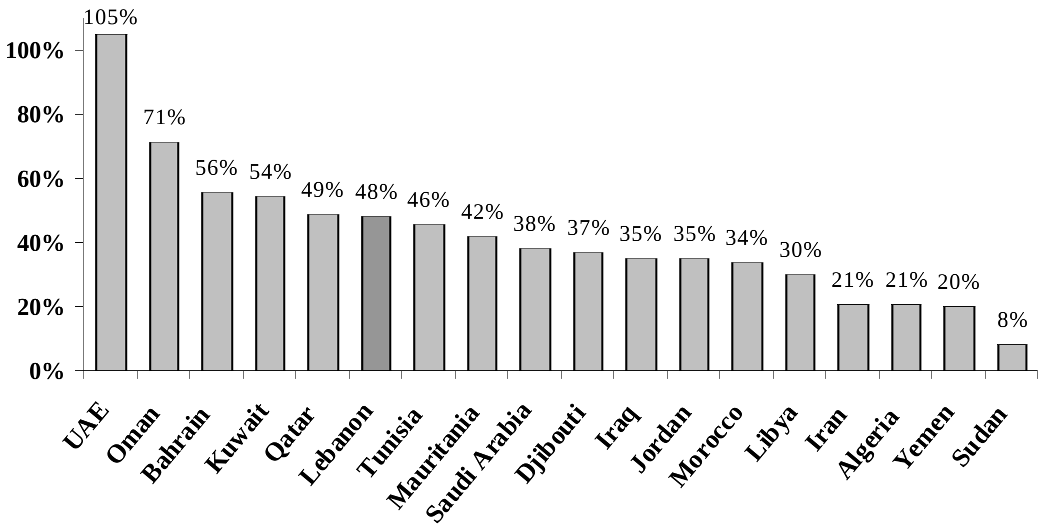
BYBLOS BANK SAL
Economic Research & Analysis Department

LEBANON THIS WEEK

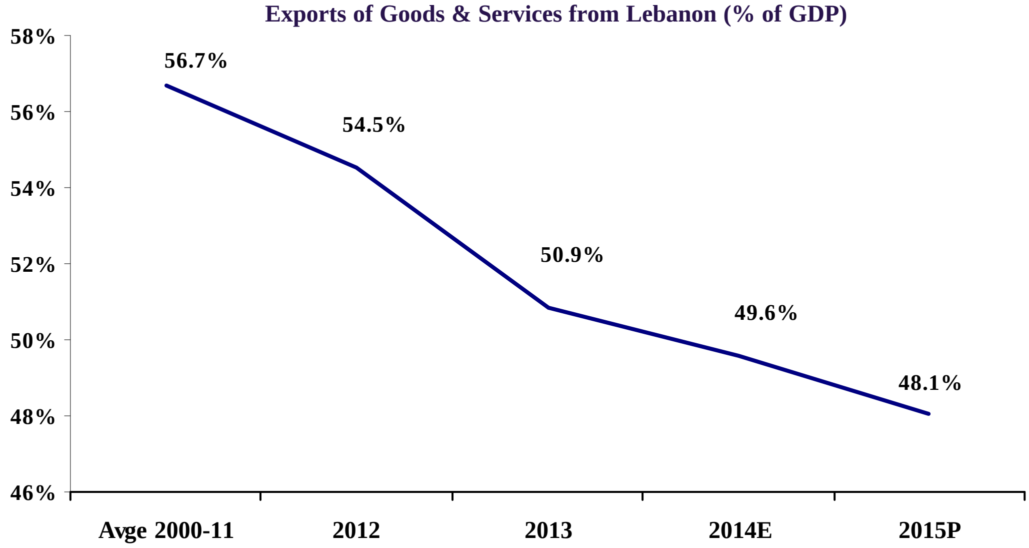
In This Issue

Charts of the Week

Projected Exports of Goods & Services from MENA countries in 2015 (% of GDP)



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



Source: International Monetary Fund, Byblos Bank

Quote to Note

"The estimates should be considered as impressionistic rather than of an accuracy normally expected in accounts."

The Central Administration of Statistics, on the reliability of the National Accounts that it published recently for 2011, 2012 and 2013

Number of the Week

0.85%: The spread between the cost of funds and the weighted return on the uses of funds in US dollars at commercial banks in Lebanon as at November 2014, according to the Association of Banks in Lebanon

Economic Indicators

$m (unless otherwise mentioned)	2013	Sep 13	June 14	July 14	Aug 14	Sep 14	% Change*
Exports	3,936	288	278	276	285	282	(2.08)
Imports	21,228	1,565	1,567	1,657	2,120	1,671	6.77
Trade Balance	(17,292)	(1,277)	(1,289)	(1,381)	(1,835)	(1,389)	8.77
Balance of Payments	(1,128)	504	(561)	(85)	(564)	131	(74.01)
Checks Cleared in LBP	17,047	1,473	1,518	1,454	1,558	1,553	5.41
Checks Cleared in FC	55,321	4,513	4,807	4,694	4,973	4,852	7.51
Total Checks Cleared	72,368	5,986	6,325	6,148	6,531	6,405	6.99
Budget Deficit/Surplus	(4,220)	(668.16)	(187.36)	238.07	(318.75)	(564.21)	(15.56)
Primary Balance	(239.68)	(262.33)	133.93	513.55	(141.93)	(84.64)	(67.74)
Airport Passengers	6,265,470	539,297	610,170	641,830	814,800	640,546	18.77

$bn (unless otherwise mentioned)	2013	Sep 13	June 14	July 14	Aug 14	Sep 14	% Change*
BdL FX Reserves	31.71	32.03	33.85	35.14	33.09	32.34	0.96
In months of Imports	*17.65*	*20.47*	*21.60*	*21.21*	*15.61*	*19.35*	*(5.45)*
Public Debt	63.46	62.39	65.71	65.62	65.86	65.97	5.74
Net Public Debt	53.18	52.15	55.17	55.17	55.59	55.89	7.17
Bank Assets	164.82	159.26	169.57	169.74	170.33	171.34	7.59
Bank Deposits (Private Sector)	136.21	131.36	140.35	141.32	141.52	142.02	8.12
Bank Loans to Private Sector	47.38	45.88	49.18	49.38	49.74	49.95	8.86
Money Supply M2	45.60	44.49	46.89	47.28	47.48	47.90	7.66
Money Supply M3	111.16	108.49	114.97	115.58	115.62	116.07	6.99
LBP Lending Rate (%)	7.29	7.36	7.45	7.36	7.21	7.08	(28bps)
LBP Deposit Rate (%)	5.44	5.37	5.49	5.54	5.51	5.51	14bps
USD Lending Rate (%)	6.88	6.95	6.97	6.96	6.96	6.94	(1bps)
USD Deposit Rate (%)	2.95	2.91	2.98	3.02	3.13	3.04	13bps
%* Change in CPI**	3.89	4.81	1.19	1.54	0.81	1.24	(357bps)

** Year-on-Year; ** Consumer Price Index*
Note: b.p. i.e. basis point
Sources: ABL, BdL

Capital Markets

Most Traded Stocks on BSE	Last Price ($)	% Change*	Total Volume	Weight in Market Capitalization
Solidere "A"	10.95	(2.67)	63,795	9.75%
Solidere "B"	10.91	(1.80)	31,060	6.32%
Byblos Common	1.62	0.00	379,000	5.19%
Byblos Pref. 08	102.10	0.10	350	1.82%
Byblos Pref. 09	101.20	0.00	0	1.80%
BLOM GDR	9.97	(0.10)	22,459	6.56%
BLOM Listed	8.90	1.02	166,097	17.04%
Audi GDR	6.50	0.00	5,615	6.69%
Audi Listed	6.10	0.99	100	21.72%
HOLCIM	15.00	0.00	0	2.61%

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

Sovereign Eurobonds	Coupon %	Mid Price $	Mid Yield %
Apr 2015	10.000	101.94	2.07
Jan 2016	8.500	104.80	3.46
Mar 2017	9.000	109.75	4.21
Nov 2018	5.150	101.13	4.82
May 2019	6.000	103.25	5.15
Mar 2020	6.375	102.13	5.33
Apr 2021	8.250	113.75	5.60
Oct 2022	6.100	102.38	5.71
Jun 2025	6.250	100.75	6.15
Nov 2026	6.600	103.50	6.18

Source: Byblos Bank Capital Markets

	Jan 19-23	Jan 11-16	% Change	Dec 2014	Dec 2013	% Change
Total Shares Traded	674,493	755,118	(10.68)	10,832,896	3,186,671	239.94
Total Value Traded	$3,909,773	$5,632,536	(30.59)	$69,469,519	$30,056,050	131.13
Market Capitalization	$11.23bn	$11.23bn	0.02	$11.22bn	$10.55bn	6.42

Source: Beirut Stock Exchange (BSE)

Lebanon ranks 57th globally, sixth in North Africa and West Asia in terms of talent competitiveness

INSEAD's Global Talent Competitiveness Index (GTCI) for 2014 ranked Lebanon in 57th place among 93 countries around the world and in sixth place among 13 countries in North Africa and West Asia (NAWA). Lebanon also came in 13th place among 28 upper-middle income countries (UMICs) included in the survey.

The GTCI measures a country's ability to develop, attract and retain talent. It assesses the steps and decisions that countries take to develop and acquire talented individuals, as well as a country's ability to provide the set of skills required to have a productive, innovative and competitive economy. The GTCI is a composite of six pillars grouped in two sub-indices that are the Talent Competitiveness Input Sub-Index and the Talent Competitiveness Output Sub-Index. A country's score is the simple average of its scores on the six pillars, with a higher score reflecting a better performance in terms of talent competitiveness. The countries included in the GTCI represent 83.8% of the world's population and 96.2% of global GDP.

Globally, Lebanon's talent competitiveness was higher than that of Azerbaijan, Turkey and Mexico, and lower than the talent competitiveness of the Philippines, Russia and Argentina. Lebanon ranked ahead of Azerbaijan, Turkey and Mexico, and came behind South Africa, Colombia and Argentina among UMICs, while it came behind Israel, the UAE, Qatar, Saudi Arabia and Armenia in the NAWA region. Lebanon received a score of 41.13 points, lower than the global average score of 46.27 points and the NAWA region's average score of 41.64 points, but higher than the UMIC's average score of 40.84 points.

Global Talent Competitiveness Index 2014

	Score	NAWA Rank	Global Rank
Israel	58.00	1	21
UAE	56.70	2	22
Qatar	55.80	3	25
Saudi Arabia	50.69	4	32
Armenia	43.48	5	48
Lebanon	**41.13**	**6**	**57**
Azerbaijan	41.02	7	58
Turkey	40.63	8	59
Tunisia	39.11	9	65
Egypt	32.93	10	80
Morocco	31.60	11	85
Algeria	26.28	12	91
Yemen	24.03	13	93

Source: INSEAD, Byblos Research

Lebanon ranked ahead of Croatia, Ecuador and Peru, and came behind Thailand, Greece and South Africa on the Talent Competitiveness Input Sub-Index. This category covers the policies, resources and efforts that a country can use to promote its talent competitiveness. It includes four pillars that reflect the extent that the political and economic environment creates a favorable climate for talent to develop and thrive. It also focuses on what countries are doing to attract, grow and retain talented individuals. Lebanon ranked ahead of Ecuador, Peru and Albania, and came behind Azerbaijan, Thailand and South Africa among UMICs. Regionally, it ranked ahead of Turkey, Tunisia, Morocco, Egypt, Algeria and Yemen.

Also, Lebanon ranked ahead of Ukraine, Kazakhstan and Trinidad & Tobago, and came behind Tunisia, Turkey and Mexico on the Talent Competitiveness Output Sub-Index. This category measures the quality of talent in a country that results from domestic policies, resources and efforts. It is composed of two pillars that assess the current situation of a particular country in terms of labor and vocational skills, as well as in terms of global knowledge skills. Lebanon ranked ahead of Kazakhstan, Colombia, Azerbaijan, and came behind Tunisia, Turkey and Mexico among UMICs; while it came ahead of Azerbaijan, Egypt, Yemen, Morocco and Algeria in the NAWA region.

Components of the 2014 Talent Competitiveness Index for Lebanon

	Global Rank	NAWA Rank	UMIC Rank	Lebanon Score	NAWA Avge Score	UMICs Avge Score
Talent Competitiveness Input	**56**	**7**	**15**	**44.47**	**45.22**	**44.75**
Enablers	72	8	22	46.49	45.63	50.53
Attract	74	8	22	40.55	37.78	44.84
Grow	40	4	8	45.50	56.93	40.38
Retain	56	9	13	45.33	40.53	43.25
Talent Competitiveness Output	**54**	**8**	**13**	**34.45**	**34.45**	**33.02**
Labor & vocational skills	61	9	17	38.16	38.86	39.01
Global knowledge skills	47	4	9	30.73	30.04	27.02

Source: INSEAD, Byblos Research

Lebanon ranks 42nd in emerging markets, last in Arab world on logistics index

Transport International, an analysis and research firm for the logistics industry, ranked Lebanon in 42nd place among 45 emerging markets on its 2015 Agility Emerging Markets Logistics Index. It also ranked Lebanon in last place among 13 Arab countries and among 18 upper middle-income countries (UMICs) included in the survey. Lebanon's global rank regressed by two spots from the 2014 survey and posted the seventh steepest decline globally.

The Index ranks emerging markets based on the size of their economy, business conditions, infrastructure and other factors that make them attractive for logistics companies, air cargo carriers, shipping lines, freight forwarders and distribution companies. The index is a weighted average of three sub-indices that are Market Size & Growth Attractiveness with a weight of 50%, Market Compatibility with a weight of 25% and Market Connectedness with a 25% weight. A higher score reflects a better performance on the index.

Globally, Lebanon ranked ahead of only Kenya, Cambodia and Uganda. It received a score of 3.56 points, down 3.8% from a score of 3.7 points in the 2014 survey. Lebanon's score was lower than the global average score of 5 points, the Arab average of 4.91 points, and the UMIC's average score of 5.09 points. It was also lower than the Gulf Cooperation Council (GCC) countries' average score of 5.78 points and that of non-GCC Arab countries of 4.16 points.

Arab Countries Rankings & Scores

	Score	Arab Rank	Global Rank
Saudi Arabia	6.76	1	2
UAE	6.63	2	6
Qatar	5.87	3	12
Oman	5.70	4	13
Morocco	5.11	5	17
Kuwait	4.91	6	21
Bahrain	4.78	7	24
Jordan	4.54	8	29
Egypt	4.38	9	32
Algeria	4.10	10	34
Tunisia	3.87	11	35
Libya	3.58	12	40
Lebanon	**3.56**	**13**	**42**

Source: Transport International, Byblos Research

Lebanon ranked ahead of only Cambodia on the Market size & Growth Attractiveness Sub-Index, which reflects a country's economic output, projected real GDP growth rate, financial stability and population size.

Further, Lebanon ranked ahead of Venezuela, Peru and Algeria, and came behind Tanzania, Cambodia and Ecuador on the Market Compatibility Sub-Index. This category assesses markets based on their accessibility, business regulation, foreign direct investment, market risks, security threats, and the level of potential demand for logistics services. Lebanon ranked ahead of only Algeria, Tunisia, Egypt and Libya among Arab countries, while it came ahead of Venezuela, Peru, Algeria, Tunisia, Colombia and Libya among UMICs.

Finally, Lebanon ranked ahead of Paraguay, Bolivia and the Philippines, and came behind Vietnam, Tunisia and Argentina on the Market Connectedness Sub-Index, which assesses a country's domestic and international transport infrastructure and how well they are connected. Lebanon ranked ahead of only Algeria among Arab countries, while it ranked better than only Venezuela and Algeria among UMICs.

In parallel, a survey of 1,000 professionals in the logistics industry shows that respondents considered that Lebanon has the 14th lowest potential to become a logistics hub among emerging economies. Respondents ranked Ethiopia as the market with the least potential. The survey was conducted between August and October 2014.

Components of the 2015 Agility Emerging Markets Logistics Index

	Global Rank	Arab Rank	UMICs Rank	Lebanon	Global Average	Arab Average	UMICs Average
Market Size & Growth Attractiveness	44	13	18	2.75	5.00	4.21	5.24
Market Compatibility	33	9	12	4.11	5.02	5.53	4.73
Market Connectedness	32	12	16	4.24	4.95	5.42	5.10

Source: Transport International , Byblos Research

Lebanon borrows $5.2m loan to strengthen public financial management

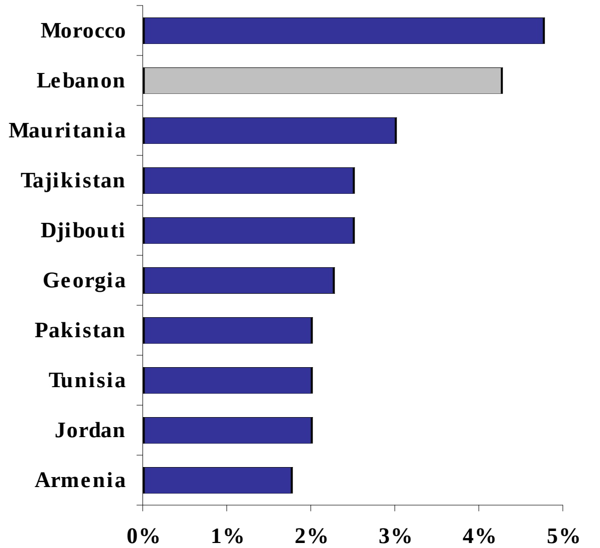
Lebanon signed a $5.2m soft loan with the World Bank to finance the Second Fiscal Management Reform Project (FMR2). The FMR2 aims to strengthen the Ministry of Finance's capacity in fiscal policy analysis and debt management. Also, it intends to enhance the efficiency of the government's financial management systems and to promote the effective use and budgetary allocation of public revenues. In addition, the FMR2 would improve public spending management by developing expenditure programming and budget preparation; budget execution; public procurement reforms; and internal control and internal audit. The loan is for 19 years and has a five-year grace period. The project will be implemented by the Finance Ministry and is expected to be completed by the end of March 2017. The World Bank initially approved the loan on April 14, 2014 and the Cabinet ratified it on October 16, 2014. The loan still needs Parliament's ratification. FMR2 is part of the World Bank's Lebanon Country Partnership Strategy for fiscal years 2011-2014.

IMF projects real GDP growth in Lebanon at 2.5% in 2015, net external gains from lower oil prices at 4.3% of GDP

The International Monetary Fund maintained its projection for real GDP growth in Lebanon at 2.5% in 2015, compared to growth rates of 3.8% for the oil-importing economies in the Middle East & North Africa region, 3.7% for Arab economies and 3.2% for the MENA region. In comparison, it forecast growth at 4.3% in emerging & developing economies and at 3.5% for the global economy in 2015. Lebanon's projected growth rate in 2015 would make it the third slowest-growing economy among 19 countries in the MENA region, better than only Kuwait (1.7%) and Iran (0.6%). It said that Lebanon continues to be negatively affected by substantial economic, political and security spillovers from regional conflicts.

The Fund projected the country's nominal GDP at $51.4bn in 2015 relative to $48.2bn in 2014. It forecast Lebanon's inflation rate to average 2.5% in 2015 compared to average rates of 4.2% in Arab countries, 6.6% in MENA economies and 8.2% for the region's oil importers. Lebanon's average inflation rate would be the ninth lowest among 19 countries in the region. Lebanon's inflation rate averaged 4.8% in 2013 and 2.1% in 2014.

Net External Gains from Lower Oil Prices in 2015 (% of GDP)



Source: International Monetary Fund, Byblos Research

In parallel, the Fund revised downwards its projections for Lebanon's fiscal deficit to 10.3% of GDP in 2015 from an October forecast of 12% of GDP, due to lower global oil prices that would reduce the oil imports bill. It also reduced its estimate for the 2014 fiscal deficit to 8.5% of GDP from 11.1% of GDP previously. Further, it expected the public debt level to increase from 140.3% of GDP at the end of 2014 to 142% of GDP at end-2015, and for the total gross external debt to rise from 173.1% of GDP at the end of 2014 to 173.9% of GDP at end-2015.

Further, the Fund revised its historical figures for Lebanon's current account deficit and adjusted its forecast accordingly. As such, it expected the current account deficit to narrow from 19.4% of GDP in 2014 to 15% of GDP in 2015, relative to deficits of 17.8% of GDP in 2012 and 20.7% of GDP in 2013. It indicated that the drop in global oil prices would result in net external gains equivalent to 4.3% of GDP for Lebanon in 2015, the second highest gains among oil importers in the Middle East & Central Asia. Lebanon's current account deficit for 2015 would be the fourth widest in the MENA region, narrower than only Djibouti (-27.7% of GDP), Libya (-23.9% of GDP) and Oman (-17.6% of GDP). Further, the Fund projected the country's official foreign reserves at $40.7bn at the end of 2015 relative to $39.6bn at end-2014.

Consumer Price Index down 1% year-on-year in December 2014

The Central Administration of Statistics' Consumer Price Index declined by 0.7% in December 2014 from December 2013. Prices of clothing & footwear increased by 19.2%, followed by alcoholic beverages & tobacco (+10.7%), the cost of education (+4.5%), housing costs (+4.2%), prices at restaurants & hotels (+3.3%), recreation & entertainment (+2.1%), miscellaneous goods & services (+1.7%), furnishings & household equipment (+1.5%) and food & non-alcoholic beverages (+1.3%). In contrast, communication costs fell by 23.6%, followed by water, electricity, gas & other fuels (-8.9%) and transportation costs (-8.5%); while healthcare costs remained unchanged year-on-year in December 2014.

Further, the CPI regressed by 1.2% in December 2014 from the preceding month, relative to a decrease of 0.4% month-on-month in November 2014. The prices of alcoholic beverages & tobacco increased by 2.1% month-on-month in December 2014, followed by clothing & footwear (+0.6%), communication costs (+0.5%), recreation & entertainment and restaurants & hotels (+0.2% each) and miscellaneous goods & services (+0.1%); while transportation costs fell by 4.4% month-on-month, followed by housing, water, electricity, gas & other fuels (-1.4%), healthcare costs (-1.2%) and food & non-alcoholic beverages (-0.9%). Further, the cost of education and furnishings & household equipment was unchanged month-on-month. Also, imputed rent increased by 0.4% month-on-month, while actual rent rose by 0.3% from the preceding month. In parallel, the Fuel Price Index regressed by 9.2% month-on-month in December 2014, while the Education Price Index was unchanged.

The CPI decreased by 2.1% month-on-month in each of the Bekaa and Nabatieh, by 1.6% in the South, by 1.4% in the North, by 1% in Mount Lebanon and by 0.7% in Beirut. Prices of food & non-alcoholic beverages dropped by 2.5% in the South, by 1.4% in Nabatieh, by 0.8% in each of Beirut and Mount Lebanon, by 0.7% in the North and by 0.5% in the Bekaa region. The cost of housing, water, electricity, gas & other fuels, as well as transportation and healthcare costs regressed across all regions. The cost of communication rose by 5.2% in Nabatieh, by 0.5% in each of Beirut and the North, by 0.2% in Mount Lebanon and by 0.1% in each of the South and Bekaa. Also, the prices of clothing & footwear increased by 2.6% in Mount Lebanon and by 0.3% in the South, while they decreased across all the other regions in December 2014.

Standard & Poor's maintains assessment of Lebanese banking sector

Standard & Poor's maintained Lebanon's Banking Industry Country Risk Assessment (BICRA) at 'Group 8', its economic risk score at '9' and its industry risk score at '7'. The BICRA framework evaluates and compares global banking systems, and covers a country's rated and unrated financial institutions. It assigns scores to banking systems on a scale from one to 10, with 'Group 1' including the least risky banking sectors. Other countries in BICRA 'Group 8' include Azerbaijan, Kazakhstan, Nigeria and Tunisia.

S&P indicated that Lebanon's economic risk score reflects its "extremely high risks" in terms of economic resilience, its "high risks" in economic imbalances, and its "very high risks" in terms of credit risk in the economy. It said that Lebanon's political divisions, which are blocking economic and fiscal policies and decision-making, as well as the conflict in Syria, are preventing the economy from achieving its growth potential and are reducing domestic lending opportunities for banks. It expected political risks to continue to be a significant weakness for the economy, given the latter's high vulnerability to internal and external political shocks. It forecast private sector annual credit growth at about 8% to 9% during the 2014-15 period, driven by trade, services, domestic consumption and real estate lending.

Further, the agency considered that Lebanese banks' exposure to the sovereign constitutes the key credit risk for the banks. It noted that domestic banks continue to use large and resilient deposit inflows to subscribe to sovereign bonds. It added that this is allowing the government to finance its wide fiscal deficit, but is inflating the banks' balance sheets and is exposing them to a single large borrower. Further, S&P considered that loan quality is not likely to improve in the near term due to the prevailing economic conditions that are constraining borrowers' ability to repay loans. But it noted that banks are in a good position to withstand the gradually deteriorating quality of private sector loans. It added that the coverage by loan-loss reserves is adequate at about 100%, which would allow banks to cushion the impact of the sustained and high cost of risk. The agency pointed out that the trend for economic risk in Lebanon is "negative" given the rising risks related to banks' exposure to the sovereign, the weak economic prospects for the coming two years and the deteriorating public finances. It anticipated that the government's overall financial flexibility would continue to be constrained by the ongoing political deadlock and by the lack of reforms.

S&P indicated that Lebanon's industry risk score reflects "high risks" in its institutional framework, competitive dynamics and system-wide funding. It said that Lebanon has an adequate track record of regulation and supervision, as well as favorable interest rates, which support the banks' ability to attract steady flows of deposits and support the government's financing needs. It added that the sector's competitive landscape is crowded but is largely concentrated around a dozen players. Further, it noted that resilient retail deposits constitute the bulk of the banking sector's funding. But it added that the deteriorating domestic public finances and poor growth prospects are increasing the burden that banks face by relying on funds from the Lebanese Diaspora to source foreign currency inflows.

The agency expected the banking sector's profitability to be affected by the low interest rate environment and by the high cost of risk. It anticipated that the cost of regulatory compliance requirements would slow down the banks' earnings, given the narrow margin to reduce their operating costs. S&P classified the Lebanese government's propensity to support the domestic banking sector as "uncertain", given the large size of the banking sector, the government's large debt burden, the country's wide current account deficit and the lack of financial flexibility. The agency pointed out that the trend for industry risk in Lebanon is "negative", reflecting the rise in system-wide funding risks.

Revenues through Port of Beirut down 5% to $2.4bn in first 11 months of 2014

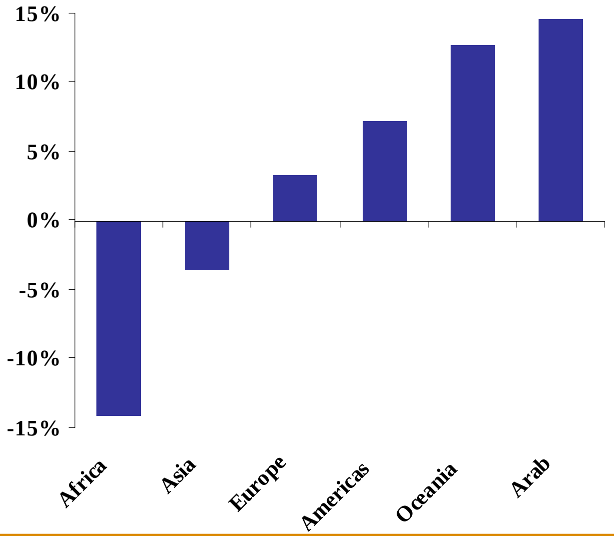
Figures released by the Port of Beirut show that overall receipts generated through the port reached $2.4bn in the first 11 months of 2014, constituting a decrease of 5% from the same period of 2013. Customs receipts through the port totaled $1.1bn in the first 11 months of 2014, down 7% from $1.2bn in the same period of 2013; while receipts from the value-added tax reached $1bn, down by 3% year-on-year. Also, the port's overall revenues totaled $195.7m in the first 11 months of 2014, down by 2.7% from the same period of 2013. Further, the Port of Beirut handled an aggregate freight of 7.52 million tons in the first 11 months of 2014, up by 0.3% from 7.5 million tons in the same period of 2013. Imported freight accounted for 88.1% of the total, while the remaining 11.9% was export cargo. A total of 1,803 ships docked at the port in the first 11 months of 2014 compared to 1,952 vessels in the same period of 2013.

In parallel, overall revenues generated through the Port of Tripoli reached $102.5m in the first 11 months of 2014, constituting a decrease of 1.2% from $103.8m in the same period of 2013. Receipts from the value-added tax reached $51.5m in the first 11 months of 2014, down by 0.8% year-on-year; while customs receipts through the port reached $40.7m and declined by 3.6% from $42.2m in the first 11 months of 2013. The port's revenues rose by 7.6% year-on-year to $10.3m in the first 11 months of 2014. Further, the Port of Tripoli handled an aggregate weight of 1.1 million tons of freight in the first 11 months of last year, constituting a decrease of 12.3% from 1.2 million tons in the same period of 2013. A total of 508 vessels docked at the port in the first 11 months of 2014, constituting an increase of 0.4% from 506 ships in the same period of 2013.

Tourist arrivals up 6% in 2014, still down 18% from 2011

The number of incoming tourists to Lebanon totaled 1,354,647 in 2014, constituting an increase of 6.3% from 1,274,362 tourists in 2013, a decline of 0.8% from 1,365,845 tourists in 2012 and a drop of 18.2% from 1,655,051 tourists in 2011. Arab tourists accounted for 34% of total visitors in 2014 and were followed by visitors from European countries with 33%, the Americas with 16.6%, Asia with 8.4%, Africa with 4.1% and Oceania with 3.8%. Also, tourists from Iraq accounted for 14% of total visitors in 2014, followed by visitors from France with 8.9%, the United States with 8.4%, Canada with 5.8%, Jordan with 5.4% and Egypt with 5.1%. The number of visitors from Arab countries increased by 14.6% in 2014, followed by visitors from Oceania (+12.7%), the Americas (+7.2%) and Europe (+3.2%); while the number of tourists from African countries decreased by 14.2% year-on-year and that from Asian countries fell by -3.5%. Further, the number of visitors from Turkey declined by 32.3% annually, followed by visitors from Venezuela with a 23.5% decrease and Jordan with a 5.4% drop. In parallel, the number of tourists from Iraq rose by 33%, followed by visitors from the UAE with a 14.2% increase, Saudi Arabia (+11.8%), Germany (+11.2%), Italy (+11.1%), the United States (+10.2%), Canada (+9.2%), Egypt (+8.8%), Sweden (+8.4%), Kuwait (+8%), Brazil (+3.2%), France (+2.5%) and England (+1.4%).

Change in the Number of Tourist Arrivals in 2014



Source: Ministry of Tourism, Byblos Research

Customs receipts down 6% to $1.4bn in 2014

Figures released by the Lebanese Customs Administration indicate that customs revenues reached $1.4bn in 2014, constituting a decrease of 6.2% from $1.5bn in 2013. The Port of Beirut continues to be the main source of customs receipts as it accounted for about 87.6% of the total in 2014. It was followed by the Hariri International Airport with 7.5%, the Port of Tripoli with 3.3%, the Masnaa crossing point with 0.8%, the Port of Saida with 0.7% and the Port of Tyre with 0.1%.

Customs receipts from the value-added tax totaled $1.36bn in 2014, reflecting a decrease of 3% from $1.4bn in 2013. The Port of Beirut accounted for 81.5% of such receipts, followed by the Hariri International Airport with 10.9%, the Port of Tripoli with 4.1%, the Masnaa crossing point with 2.4% and the Port of Saida with 0.9%, while the Port of Tyre and the Abboudieh and Arida crossing points had a 0.1% share each. As such, overall customs receipts reached $2.8bn in 2014, with the Port of Beirut accounting for 84.6% of the total, followed by the Hariri International Airport with 9.2%, the Port of Tripoli with 3.7%, the Masnaa crossing point with 1.6%, the Port of Saida with 0.8% and the Port of Tyre with 0.1%.

World Bank lends $474m to Lebanon to finance water infrastructure

The Ministry of Energy & Water and the Council for Development & Reconstruction (CDR) signed a $474m concessional loan with the World Bank to co-finance the Water Supply Augmentation (WSA) project, which supports the development of the water sector and the management of sustainable water resources in the Greater Beirut and Mount Lebanon area. The soft loan is for 20 years and has a five-year grace period. The project would be co-financed by a $128m loan from the Islamic Development Bank and by $15m from the Lebanese government. The $617m WSA project consists of the construction of the Bisri dam in the South with a storage capacity of 125 million cubic meters of water and its annexed structures. The loan also covers the cost of land expropriation. The loan still awaits Parliament's approval.

The dam would secure potable water to Lebanon's largest urban area and would directly benefit over 1.6 million persons. The WSA project also aims to reduce water consumption from illegal wells, as well as from expensive tanker trucks and bottled water. In parallel, the World Bank would provide technical assistance to public agencies to implement international best practices for dam safety, to manage sustainable water resources and to mitigate environmental and social impacts. The project needs nine years to be implemented, which consist of two years for preparation, five years for construction activities and another two years for monitoring operations in conformity with international standards.

In parallel, the CDR is in the process of awarding a contract under the Greater Beirut Water Supply Project (GBWSP Awwali) worth about $196m to support the construction of a 24-kilometer tunnel and a 10-kilometer underground pipeline that links the Bisri dam to Beirut. Lebanon currently stores 6% of its water resources compared to a water storage rate of 85% for the Middle East & North Africa region, while residents of the Greater Beirut and Mount Lebanon area pay up to 15% of their total household expenditures to secure water to their homes.

Fiscal deficit at 22% of expenditures in first nine months of 2014 when assuming $952m in telecom revenues

Figures released by the Finance Ministry show that the fiscal deficit reached $2.2bn in the first nine months of 2014 and narrowed by 32.5% from $3.3bn in the same period of 2013. The deficit was equivalent to 22% of total budget and Treasury expenditures compared to 32% of overall spending in the first nine months of 2013. Overall government expenditures reached $10.1bn and decreased by 1.8% year-on-year, while total revenues rose by 12.6% to $7.9bn. Budgetary expenditures increased by 7.8% to $8.8bn and included $1.5bn in transfers to Electricité du Liban and $569.6m in outlays from previous years, while budget revenues rose by 5.7% to $7bn. Tax revenues grew by 3.8% year-on-year to $5.4bn, of which 31%, or $1.7bn were in VAT receipts that rose by 0.9% year-on-year. Tax revenues accounted for 76.8% of budgetary revenues and for 67.8% of total Treasury and budgetary receipts. Based on the Finance Ministry's own estimates, telecom receipts reached $951.7m in the first nine months of 2014 compared to $904.5m in the same period of 2013. On a cash basis for the two periods, public revenues increased by 13.7% year-on-year; while the fiscal deficit widened to $3.2bn and was equivalent to 31.3% of expenditures.

The distribution of other tax revenues shows that receipts from taxes on income, profits & capital gains increased by 12.2% to $1.6bn in the first nine months of 2014; revenues from customs regressed by 6.7% year-on-year to $1bn; receipts from property taxes rose by 8.9% to $618.9m; revenues from taxes on goods & services grew by 6.2% to $260m; and other tax receipts, mainly stamp fees, increased by 6.8% to $243.5m. Further, the distribution of income tax revenues shows that receipts from taxes on profits accounted for 44.9% of total income tax receipts, followed by the tax on interest deposits with 22.2%, taxes on wages & salaries with 21.1% and the capital gains tax with 9.9%. Receipts from the tax on profits increased by 14.7%, income from capital gains rose by 13.5%, revenues from the taxes on wages & salaries grew by 11.3%, and receipts from the tax on interest deposits rose by 6.5%.

Also, the distribution of property taxes shows that revenues from real estate registration fees increased by 7.5% to $416.4m, receipts from built property taxes rose by 28.5% to $123.1m and revenues from the inheritance tax regressed by 7% to $79.4m. In parallel, non-tax budgetary receipts rose by 12.3% to $1.6bn, with revenues from government properties rising by 11.3% to $1.2bn and administrative fees & charges growing by 13.7% to $318.7m. Based on the ministry's assumption, receipts from telecom services accounted for 78.9% of income from government properties and for 58.8% of non-tax revenues.

Debt-servicing cost totaled $3.1bn in the first nine months of 2014, up by 12.6% year-on-year. It accounted for 30.5% of total expenditures and for 35.2% of budgetary spending, and absorbed 39% of overall revenues and 44.3% of budgetary receipts. Interest payment on domestic debt grew by 18.7% year-on-year to $1.9bn, while interest disbursement on foreign debt rose by 5.1% to $1bn. Also, the repayment of principal on foreign debt decreased by 5% to $132.5m. Excluding debt servicing, the primary budget balance posted a surplus of $1.3bn, or 14.9% of budget expenditures compared to a surplus of $1.2bn, or 15% of budget spending in the first nine months of 2013. The overall primary balance posted a surplus of $866.6m or 8.6% of spending in the first nine months of 2014, relative to a deficit of $546.4m or 5.3% of total expenditures in the same period of 2013.

Fiscal Results in First Nine Months of 2014

	Including Assumed Telecom Receipts	**Excluding Assumed Telecom Receipts***
	US$m	**US$m**
Budget revenues	6,979	6,027
Tax revenues	5,361	5,361
Non-tax revenues	1,618	665.9
of which Telecom revenues	*951.7*	-
Budget expenditures	8,761	8,761
Budget Surplus/Deficit	**(1,783)**	**(2,735)**
In % of budget expenditures	*(20.4%)*	*(31.2%)*
Budget Primary Surplus	**1,306**	**353.9**
In % of budget expenditures	*14.9%*	*4.0%*
Treasury receipts	931	931
Treasury expenditures	1,370	1,370
Total Revenues	7,910	6,958
Total Expenditures	10,132	10,132
Total Deficit	**(2,222)**	**(3,173)**
In % of total expenditures	*(21.9%)*	*(31.3%)*
Total Primary Surplus/Deficit	**866.6**	**(85.1)**
In % of total expenditures	*8.6%*	*(0.8%)*

** Cash basis*

Source: Ministry of Finance, Byblos Research

Corporate Highlights

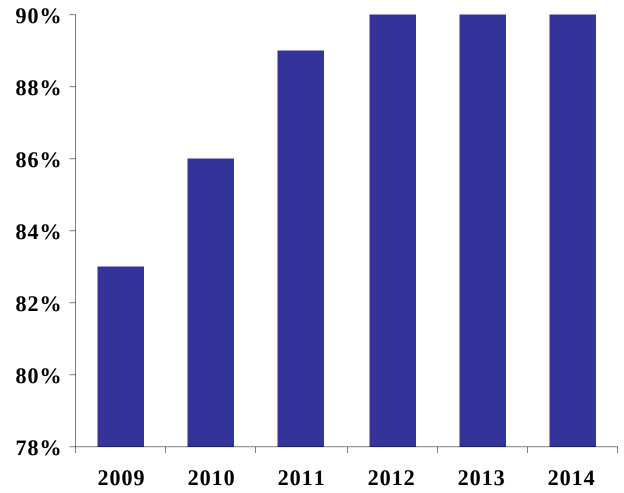
New car sales up 5% in 2014

Figures released by the Association of Automobile Importers in Lebanon (AIA) indicate that 37,816 new passenger cars were sold in 2014, constituting an increase of 4.7% from 36,109 cars in 2013. A total of 3,294 new passenger cars were sold in December 2014 compared to 2,438 vehicles in the preceding month.

Korean cars accounted for 41% of total sales in 2014, followed by Japanese cars with a 34.1% share, European automobiles with 18.4%, American vehicles with 5%, and Chinese cars with 1.6%. The number of Japanese cars sold rose by 27.8% in 2014; while the number of Chinese cars sold declined by 22.2%, followed by American vehicles with a 5.2% drop, Korean cars with a 4.5% decrease and European automobiles with a 1.4% decline in sales.

Kia is the leading brand in the Lebanese market with 8,350 cars sold in 2014, followed by Hyundai with 7,128 cars sold, Toyota (4,865), Nissan (4,767), Renault (1,310), Mitsubishi (1,085) and Chevrolet (1,034). In parallel, 2,319 new commercial vehicles were sold in 2014, constituting a rise of 2.7% from 2,257 vehicles sold in 2013 and an increase of 6.1% from 2,185 vehicles in 2012.

Share of Small Engine Cars from Sales of New Cars



Source: Association of Automobile Importers in Lebanon

The AIA indicated that the number of registered new and imported used cars sold in 2014 dropped by 3% from 2013, and regressed by 8% from 2012 and by 11% from 2011. It said that the luxury car segment accounted for only 3.5% of total new registered cars. It reiterated that about 90% of new cars sold were small automobiles that cost $15,000 or less each.

The number of new vehicles sold by the country's top five distributors reached 29,165 in 2014 and accounted for 72.7% of new vehicles sold. NATCO sal sold 8,350 vehicles last year, equivalent to 20.8% of the total, followed by Century Motor Co. sal with 7,275 (18.1%), Rasamny Younis Motor Co. sal with 5,318 (13.3%), Boustany United Machineries sal with 5,248 (13.1%) and Bassoul Heneine sal with 2,974 (7.4%).

Top five freight forwarders' import activity nearly unchanged in first 11 months of 2014

Figures released by the Port of Beirut Authority show that overall import shipping operations by the top five freight forwarders reached 318,559 20-foot equivalent units (TEUs) in the first 11 months of 2014, constituting a marginal increase of 0.2% from 317,903 TEUs in the same period of 2013. They accounted for 59% of the total import freight forwarding market during the covered period.

Mediterranean Shipping Company (MSC) handled 105,457 TEUs in imports in the first 11 months of 2014, equivalent to 19.5% share of the total freight forwarding import market. It was followed by Merit Shipping with 69,829 TEUs (12.9%), Sealine Group with 64,088 TEUs (11.8%), Metz Group with 43,871 TEUs (8.1%) and Gezairy Transport with 35,314 TEUs (6.5%). Further, Gezairy Transport registered the highest growth in import shipping among the top five freight forwarders at 65.6% year-on-year, while Sealine Group posted the steepest drop of 24.2% year-on-year.

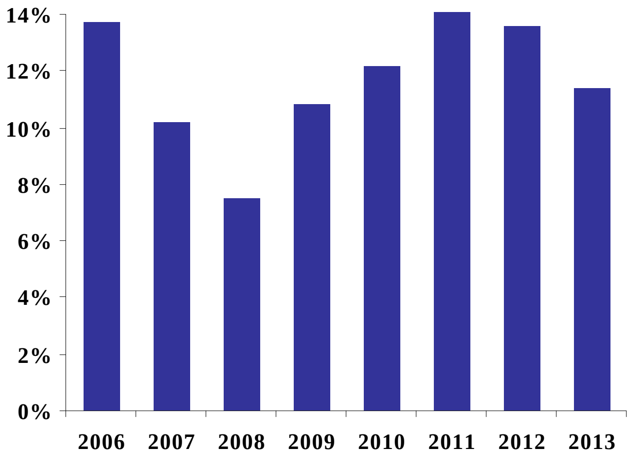
In parallel, export shipping operations by the top five freight forwarders reached 59,941 TEUs in the first 11 months of 2014, constituting a decrease of 10.5% from 66,954 TEUs in the same period of 2013. They accounted for 94% of the total export freight forwarding market during the covered period.

Merit shipping group handled 20,908 TEUs of freight, equivalent to a 32.8% share of the total freight forwarding Lebanese cargo export market. It was followed by Sealine group with 20,345 TEUs (31.9%), Metz Group with 10,491 TEUs (16.4%), MSC with 4,935 TEUs (7.7%) and Gezairy Transport with 3,262 TEUs (5.1%). Further, Metz Group registered the highest growth in export shipping among the top five freight forwarders at 76.1% year-on-year, while Sealine Group posted the steepest drop at 39.9%.

Insurers' return on assets at 2.8%, return on investment at 3.8% and return on equity at 11.4% in 2013

Figures released by the Insurance Control Commission (ICC) show that the aggregate assets of 52 insurance companies operating in Lebanon reached $4bn at the end of 2013, constituting an increase of 7.6% from $3.7bn at end-2012. The largest 10 insurance firms by assets had assets of $2.8bn at the end of 2013 and accounted for 70.2% of aggregate assets, the following 10 insurers had $730.3m in assets (18.2%), the next 10 companies had assets of $284.5m (7.1%), and the remaining 22 firms had $183.4m in assets (4.6%). Also, insurance companies posted a combined return on assets (ROA) of 2.8% in 2013, down from 3.4% in 2012. The largest 10 insurers had an ROA of 3.5% in 2013, the following 10 firms posted an ROA of 2.9%, the next 10 insurers posted a return of -1.1%, and the remaining 22 companies had an ROA of -2.7%. Further, the aggregate net earnings of the 10 largest insurers reached $98.8m and accounted for 88.1% of the sector's total profits, while the following 10 companies had net profits of $21.5m (19.2%). In contrast, the next 10 insurers posted net losses of $3.3m while the remaining 22 firms posted net losses of $5m.

Return on Equity of Insurance Firms in Lebanon



Source: Insurance Control Commission

Insurers' cumulative investments reached $3bn in 2013, constituting an increase of 8.4% from $2.7bn in 2013. The largest 10 insurers had investments of $2.3bn in 2013 and accounted for 76.3% of aggregate investments, the next 10 companies had $453.4m in investments (15.3%), the following 10 firms had investments of $133.7m (4.5%), and the remaining 22 insurers had $112.6m in investments (3.8%). Also, the return on investments (ROI) of the insurance sector reached 3.8% in 2013, down from 4.6% in 2012. The largest 10 insurers had an ROI of 4.4% in 2013, the next 10 firms had an ROI of 4.7%, the following 10 companies posted a return of -2.4% and the remaining 22 insurers had a ratio of -4.4%.

In parallel, the shareholders' equity of the insurance sector reached $985.1m in 2013, constituting a rise of 6.2% from $927.8m in 2012. Shareholders' equity at the largest 10 insurers stood at $590m at the end of 2013 and accounted for 59.9% of aggregate equity, equity of the next 10 firms reached $239.8m (24.3%), that of the following 10 companies totaled $94.7m (9.6%), and that at the remaining 22 companies was $60.5m (6.1%). As such, the sector's return on equity (ROE) was 11.4%, down from 13.6% in 2012. The largest 10 insurers posted a combined ROE of 16.7%, the following 10 firms had an ROE of 9%, the next 10 companies posted an overall ROE of -3.4% and the remaining 22 firms had a total ROE of -8.2%.

Ratio Highlights

(in % unless specified)	2012	2013	2014	Change*
Nominal GDP ($bn)	43.0	45.0	47.5	
Public Debt in Foreign Currency / GDP	56.7	58.0	54.1	(389)
Public Debt in Local Currency / GDP	77.4	83.0	86.9	389
Gross Public Debt / GDP	134.1	141.0	141.0	(5)
Total Gross External Debt / GDP	168.2	173.8	176.4	260
Trade Balance / GDP	(39.1)	(38.4)	(37.1)	134
Exports / Imports	21.1	18.5	15.9	(260)
Fiscal Revenues / GDP	21.9	20.9	20.8	(10)
Fiscal Expenditures / GDP	31.0	30.3	32.0	170
Fiscal Balance / GDP	(9.1)	(9.4)	(11.1)	(170)
Primary Balance / GDP	(0.3)	(0.5)	(0.3)	20
Gross Foreign Currency Reserves / M2	69.4	69.5	68.8	(73)
M3 / GDP	241.9	247.0	246.9	(11)
Commercial Banks Assets / GDP	353.2	366.3	364.5	(177)
Private Sector Deposits / GDP	290.7	302.7	302.3	(37)
Private Sector Loans / GDP	101.1	105.3	107.0	172
Private Sector Deposits Dollarization Rate	64.8	66.1	65.7	(40)
Private Sector Lending Dollarization Rate	77.6	76.5	75.6	(90)

** Change in basis points 13/14*
Source: Association of Banks in Lebanon, International Monetary Fund, Byblos Research Estimates & Calculations
Note: M2 includes money in circulation and deposits in LBP, M3 includes M2 plus Deposits in FC and bonds

Risk Outlook

Lebanon	Mar 2013	Feb 2014	Mar 2014	Change*	Risk Level
Political Risk Rating	53.0	52.0	52.0	▲	High
Financial Risk Rating	35.0	38.0	38.0	▼	Low
Economic Risk Rating	34.0	27.0	27.0	▲	High
Composite Risk Rating	61.0	58.5	58.5	▲	High

Regional Average	Mar 2013	Feb 2014	Mar 2014	Change*	Risk Level
Political Risk Rating	58.6	58.4	58.3	▲	High
Financial Risk Rating	41.6	40.4	40.5	▲	Very Low
Economic Risk Rating	36.3	35.9	35.9	▲	Low
Composite Risk Rating	68.2	67.4	67.3	▲	Moderate

**year-on-year change in risk tolerance*
Source: The PRS Group, Byblos Research
Note: Political & Composite Risk Ratings range from 0 to 100 (where 100 indicates the lowest risk)
Financial & Economic Risk ratings range from 0 to 50 (where 50 indicates the lowest risk)

Ratings & Outlook

Sovereign Ratings	Foreign Currency			Local Currency		
	LT	ST	Outlook	LT	ST	Outlook
Moody's	B2	NP	Negative	B2		Negative
Fitch Ratings	B	B	Negative	B		Negative
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
EIU		CCC	

Source: Rating agencies

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