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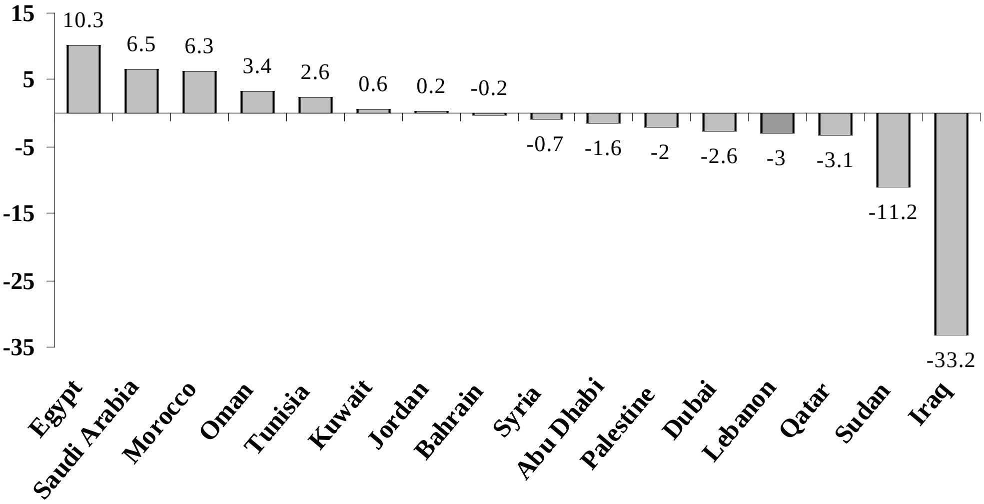
# LEBANON THIS WEEK

## In This Issue

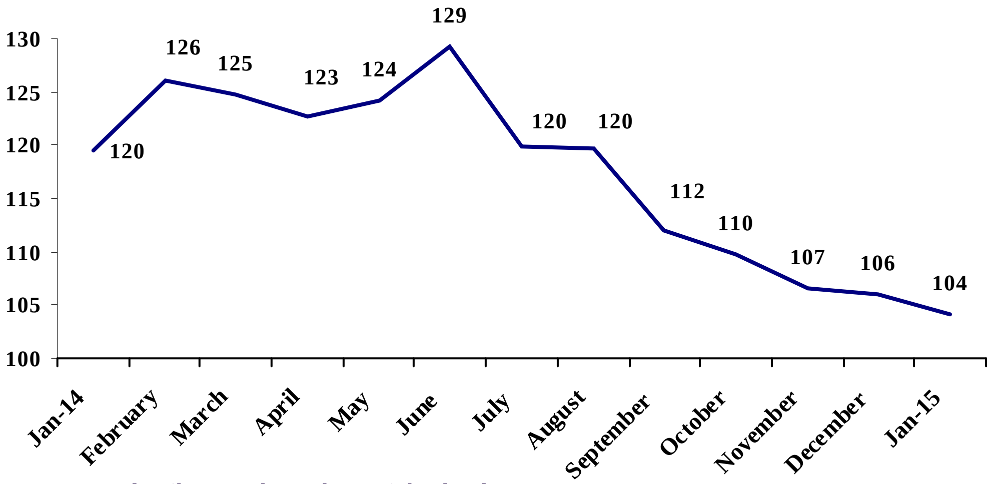


## Charts of the Week

**Performance of Arab Stock Markets in January 2015 (% change)**




**Performance of the Beirut Stock Exchange***




** Banque du Liban Market Value Weighted Index*
*Source: Local Stock Markets, Dow Jones Indices, Banque du Liban, Byblos Bank*

## Quote to Note

"The government's overall financial flexibility will continue to be constrained in the absence of reforms as Lebanon's political deadlock continues."

*Standard & Poor's, on the lack of political will to implement much-delayed structural reforms*

## Number of the Week

**18:** Number of times the Lebanese Parliament convened and failed to elect a President

## Lebanon in the News

| $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" | 10.94 | (0.09) | 126,290 | 9.72% |
| Solidere "B" | 10.99 | 0.73 | 72,797 | 6.35% |
| Byblos Common | 1.63 | 0.62 | 240,504 | 5.21% |
| Byblos Pref. 08 | 102.10 | 0.00 | 0 | 1.81% |
| Byblos Pref. 09 | 101.20 | 0.00 | 0 | 1.80% |
| BLOM GDR | 9.96 | (0.10) | 2,000 | 6.54% |
| BLOM Listed | 8.95 | 0.56 | 3,833 | 17.10% |
| Audi GDR | 6.50 | 0.00 | 3,000 | 6.67% |
| Audi Listed | 6.11 | 0.16 | 3,041 | 21.71% |
| HOLCIM | 15.00 | 0.00 | 0 | 2.60% |

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

| Sovereign Eurobonds | Coupon % | Mid Price $ | Mid Yield % |
|---|---|---|---|
| Apr 2015 | 10.000 | 101.65 | 2.65 |
| Jan 2016 | 8.500 | 104.50 | 3.68 |
| Mar 2017 | 9.000 | 109.38 | 4.34 |
| Nov 2018 | 5.150 | 101.38 | 4.75 |
| May 2019 | 6.000 | 102.88 | 5.24 |
| Mar 2020 | 6.375 | 104.50 | 5.35 |
| Apr 2021 | 8.250 | 112.75 | 5.77 |
| Oct 2022 | 6.100 | 102.13 | 5.75 |
| Jun 2025 | 6.250 | 100.25 | 6.22 |
| Nov 2026 | 6.600 | 102.75 | 6.27 |

*Source: Byblos Bank Capital Markets*

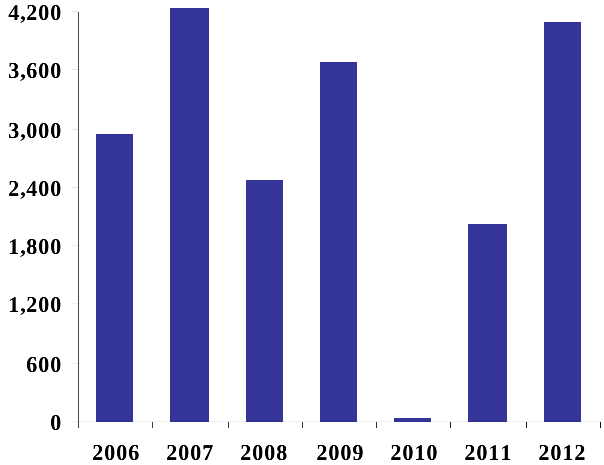
| | Jan 26-30 | Jan 19-23 | % Change | Jan 2015 | Jan 2014 | % Change |
|---|---|---|---|---|---|---|
| **Total Shares Traded** | 508,402 | 674,493 | (24.62) | 2,924,443 | 3,299,492 | (11.37) |
| **Total Value Traded** | $3,041,918 | $3,909,773 | (22.2) | $18,796,462 | $33,310,730 | (43.57) |
| **Market Capitalization** | $11.25bn | $11.23bn | 0.21 | $11.25bn | $11.05bn | 1.83 |

*Source: Beirut Stock Exchange (BSE)*

## Illicit financial outflows from Lebanon at $2.5bn annually, 35th highest worldwide

Global Financial Integrity, a Washington-based non-profit research and advocacy organization, estimated the cumulative illicit financial flows (IFFs) from Lebanon at $24.6bn between 2003 and 2012, which is equivalent to an average of $2.5bn per year during the covered period. Global Financial Integrity defines IFFs as funds that are illegally earned, transferred or utilized. It includes all unrecorded private financial outflows that drive the accumulation of foreign assets by residents in infringement of applicable laws and regulatory frameworks. It calculates IFFs as the sum of two components that are Gross Excluding Reversals (GER) and Hot Money Narrow (HMN). It noted that GER is a method of calculating gross illicit outflows, defined as the under-invoicing of exports and the over-invoicing of imports; while HMN derives illicit financial flows from leakages in the balance of payments.

**Illicit Financial Outflows from Lebanon (US$m)**




*Source: Global Financial Integrity*

The organization's estimates show that cumulative IFFs from Lebanon were the 35th highest among 147 countries globally, the 16th highest among 50 upper-middle income countries (UMICs) and the sixth largest among 18 Arab countries. Globally, IFFs from Lebanon were higher than those from Kuwait ($24.59bn), Côte d'Ivoire ($24.1bn) and Azerbaijan ($22.9bn), and were lower than those from Kazakhstan ($25.4bn), Bulgaria ($25.3bn) and Latvia ($24.9bn). Also, IFFs from Lebanon exceeded those from Azerbaijan, Ecuador ($16.4bn) and Hungary ($15.8bn), and were lower than those from Turkey ($35.6bn), Kazakhstan and Bulgaria among UMICs. They were lower than IFFs from Iraq ($89.1bn), Syria and Egypt ($37.7bn each) among Arab countries. Also, the annual average IFFs from Lebanon during the 2003-12 period were lower than the UMICs' annual average of $6.8bn, the global annual average of $4.5bn and the Arab yearly average of $4.3bn during the covered period. Further, Lebanon accounted for 3.3% of cumulative IFFs from Arab countries, for 0.7% of IFFs from UMICs and for 0.4% of global cumulative IFFs during the 10-year period. Cumulative IFFs from China were the highest worldwide at $125.2bn between 2003 and 2012.

In parallel, the survey said that illicit outflows from Lebanon on an HMN basis, or those that were channeled through balance-of-payments leakages, totaled $21bn between 2003 and 2012, and averaged $2.1bn per year during the covered period. It noted that Lebanon's cumulative IFFs from balance-of-payments leakages were the 14th highest worldwide, the seventh highest among UMICs and the fourth highest among Arab countries. Globally, HMN outflows from Lebanon were higher than those from Indonesia ($18.9bn) and Hungary ($15.8bn), and less than those from Venezuela ($33.8bn) and Vietnam ($26.6bn). It noted that the annual average HMN outflows from Lebanon during the 2003-12 period were lower than the annual average HMN outflows of $3.3bn from Arab countries, but higher than the UMICs' average outflows of $1.2bn and the global annual average outflows of $1.1bn. Lebanon accounted for 3.8% of total HMN outflows from Arab countries, for 3.7% of such outflows from UMICs, and for 1.4% of global HMN outflows during the covered period.

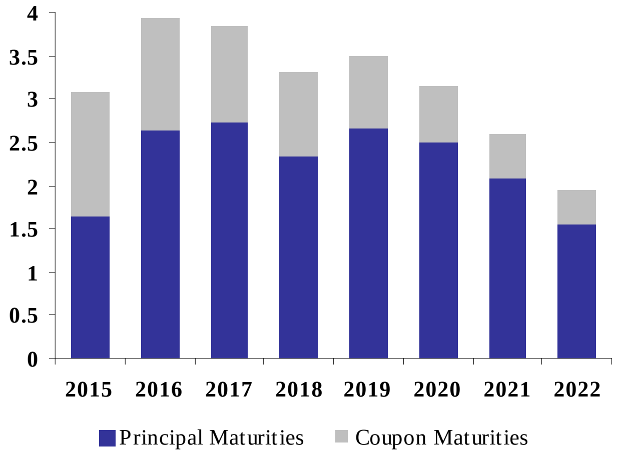
The organization added that illicit outflows from Lebanon on a GER basis, or those transferred through the deliberate mis-invoicing of external trade, totaled $3.6bn between 2003 and 2012 and averaged $363m per year during the covered period. As such, cumulative GER outflows from Lebanon were the 68th highest worldwide, the 25th highest among UMICs and the 10th highest among Arab countries. Globally, GER outflows from Lebanon were higher than those from Burkina Faso ($3.4bn), Jamaica ($3.3bn) and Papua New Guinea ($3.2bn), but lower than those from Ukraine ($4.1bn), Georgia ($4bn) and Mali ($3.9bn). It noted that the average GER outflows from Lebanon during the 2003-12 period were lower than the UMICs' annual average of $5.9bn, the global annual average of $3.7bn and the Arab annual average of $1.4bn. Further, Lebanon accounted for 1.9% of cumulative GER outflows from Arab countries, for 0.13% of such outflows from UMICs, and for 0.1% of global GER outflows during the covered period.

## Coincident Indicator up 3% in first 11 months of 2014

The Central Bank's Coincident Indicator, an index of economic activity in Lebanon, reached 268.7 points in November 2014 compared to 272.6 in October 2014 and 278.8 in November 2013. The Coincident Indicator, an average of 8 weighted economic indicators, regressed by 1.4% month-on-month and by 3.6% year-on-year in November 2014. The indicator averaged 271.1 in the 12 months ending November 2014, compared to 272 in the 12 months ending October 2014 and relative to 264.3 in the 12 months ending November 2013. As a result, the average coincident indicator declined by 0.3% month-on-month and rose by 2.6% year-on-year. Also, the indicator averaged 271.4 in the first 11 months of 2014 compared to 271.7 in the first 10 months of 2014 and 264.4 in the first 11 months of 2013. As a result, the average coincident indicator was nearly unchanged month-on-month and increased by 2.7% year-on-year during the covered period. In parallel, the indicator improved 16 times and regressed six times on a monthly basis in the month of November since 1993. It averaged 225.9 in 2009, 249.5 in 2010, 255.7 in 2011, 256.6 in 2012 and 264.7 points in 2013.

## Government to issue $1bn in Eurobonds

**Redemption Profile of Eurobonds (US$bn)**




*Source: Ministry of Finance, Byblos Research*

The Lebanese Republic intends to issue at least $1bn in Eurobonds in coming weeks to cover part of the government's operating expenditures and debt service payments in 2015. The upcoming issue will not be used to exchange the Eurobonds that mature in 2015. The issuance will be part of the $2.5bn in foreign currency borrowing that the Lebanese Parliament approved on November 4, 2014. The Parliament had to raise the ceiling on foreign currency borrowing last year in order for the government to be able to borrow externally and in order to reduce the government's reliance on the Central Bank for its financing needs. The amount of sovereign Eurobonds outstanding totaled $22.84bn as at the end of 2014, with a weighted interest rate of 6.4% and a weighted life of 5.35 years. According to the Finance Ministry, there are $3.1bn in maturing Eurobonds in 2015 that include $1.64bn in principal and $1.44bn in coupon payments.

In parallel, Central Bank Governor Riad Salamé encouraged commercial banks to subscribe to the upcoming Eurobond issue rather than investing in Certificate of Deposits issued by the Central Bank. He noted that the success of the issuance would provide the Lebanese Treasury with the needed funds in foreign currency, which would ease pressure on the Central Bank from utilizing its foreign currency reserves. He added that the banks' liquidity position and their capital adequacy ratios would not be negatively affected if they subscribe to the Eurobond issuance.

Lebanon's gross public debt reached $66.63bn at the end of November 2014, constituting a rise of 4.9% from $63.5bn at the end of 2013 and an increase of 5.3% from $63.26bn at end-November 2013. Domestic debt totaled $40.87bn at end-November, rising by 9.4% from end-2013 and by 10.2% annually; while external debt stood at $25.76bn, constituting a decrease of 1.4% from the end of 2013 and a decline of 1.5% from a year earlier. Local currency debt accounted for 61.3% of gross public debt at the end of November 2014 compared to 58.7% a year earlier; while foreign currency-denominated debt represented 38.7% of the total, relative to 41.3% a year earlier. Standard & Poor's and Fitch Ratings rate the sovereign at 'B-' and 'B', respectively. But based on the Credit Default Swaps market, Lebanon's implied sovereign rating stands at 'B+' as at end-January 2015.

## Trade deficit narrows by 0.6% to $17bn in 2014, exports down by 16%

Total imports reached $20.5bn in 2014, constituting a decrease of 3.5% from $21.2bn in 2013; while aggregate exports declined by 15.8% to $3.3bn, leading to a trade deficit of $17.2bn, down by 0.6% year-on-year. Lebanon's trade deficit narrowed from 37.4% of GDP in 2013 to 35.6% of GDP in 2014. The coverage ratio reached 16.2% in 2014 compared to 18.5% in 2013, while it reached 16.3% in December 2014 relative to 13.5% in December 2013. The value of imported oil & mineral fuels declined by 4.4% year-on-year to $4.9bn, and that of non-hydrocarbon imports dropped by 3.2% to $15.6bn. Oil & mineral fuels accounted for 23.8% of total imports in 2014 compared to a share of 24.1% in 2013.

In volume terms, imports reached 15.5 million tons in 2014, constituting a decrease of 2.6% from 15.9 million tons in 2013; while exports posted a 19.5% decline annually to 2.2 million tons. Imports of oil & mineral fuels increased by 4.6% year-on-year to 7.4 million tons, while non-hydrocarbon imports decreased by 8.4% annually to 8.1 million tons. Imported oil & mineral fuels accounted for 47.7% of total imports in 2014 compared to a share of 44.4% in 2013.

China was the main source of imports with $2.5bn or 12.1% of the total in 2014, followed by Italy with $1.6bn (8%), France with $1.3bn (6.2%), Germany with $1.25bn (6.1%), the United States with $1.2bn (6%), Russia with $887.3m (4.3%) and Greece with $816.3m (4%). Imports from Greece surged by 34.4% annually, those from China grew by 8.8% and those from Germany rose by 1.2%; while imports from the United States dropped by 18.2%, those from France regressed by 17%, imports from Italy declined by 8.1% and those from Russia fell by 1.5%.

Further, Saudi Arabia was the main export destination of Lebanese merchandise with $377.4m or 11.4% of the total, followed by the UAE with $320m (9.7%), South Africa with $297m (9%), Iraq with $255.9m (7.7%), Syria with $242m (7.3%), Turkey with $145m (4.4%) and Jordan with $129.8m (3.9%). Exports to Syria dropped by 53.8% year-on-year, those to South Africa declined by 25.4%, exports to Turkey regressed by 20.7%, those to Jordan fell by 8.4%, exports to Iraq decreased by 6% and those to the UAE fell by 3.5%; while exports to Saudi Arabia rose by 8.8% in 2014. Lebanon's main export product was jewelry at $510.5m or 16.8% of the total, followed by prepared foodstuff with $515.2m (15.6%), machinery & mechanical appliances with $445.1m (13.4%), chemical products with $381.4m (11.5%), base metals with $374.2m (11.3%), and paper & paperboard with $209.8m (6.3%). Re-exports totaled $439.9m in 2014 compared to $243.9m in 2013.

## Lebanon ranks 94th globally, ninth among Arab countries in economic freedom, economy remains in "mostly unfree" category

The Heritage Foundation/*Wall Street Journal* Index of Economic Freedom for 2015, a broad indicator of economic freedom in 178 countries, ranked Lebanon in 94th place worldwide and in ninth place among 15 Arab countries. Lebanon came in 28th place among 48 Upper Middle Income countries (UMICs) included in the survey. Lebanon ranked in 96th place globally and in eighth place regionally on the 2014 index. The index evaluates individual economies on the basis of 10 broad factors of economic freedom that are equally weighted. Scores range between zero and 100, with 100 reflecting the most free economy.

Globally, Lebanon has a higher level of economic freedom than Mongolia, Bosnia & Herzegovina and Zambia, and is less economically free than Serbia, Uganda and Namibia among economies with a GDP of $10bn or more. It also has a higher level of economic freedom than Bosnia & Herzegovina, Gabon and Tunisia; while it is less economically free than the Dominican Republic, Serbia and Namibia among UMICs.

Lebanon's level of economic freedom came at 59.3% in 2015 relative to 59.4% in 2014. Lebanon saw declines in the control of government spending, as well as in its monetary and business freedoms, which were offset by improvements in the freedom from corruption, and in labor and fiscal freedoms.

**Arab Countries Rankings & Scores**

| Country | Score | Arab Rank | Global Rank |
|---|---|---|---|
| Bahrain | 73.4% | 1 | 18 |
| UAE | 72.4% | 2 | 25 |
| Qatar | 70.8% | 3 | 32 |
| Jordan | 69.3% | 4 | 38 |
| Oman | 66.7% | 5 | 56 |
| Kuwait | 62.5% | 6 | 74 |
| Saudi Arabia | 62.1% | 7 | 77 |
| Morocco | 60.1% | 8 | 89 |
| **Lebanon** | **59.3%** | **9** | **94** |
| Tunisia | 57.7% | 10 | 107 |
| Djibouti | 57.5% | 11 | 112 |
| Egypt | 55.2% | 12 | 124 |
| Yemen | 53.7% | 13 | 133 |
| Mauritania | 53.3% | 14 | 135 |
| Algeria | 48.9% | 15 | 157 |

*Source: Heritage Foundation 2015, Byblos Research*

The survey maintained Lebanon's economic freedom status in the "mostly unfree" category for the third consecutive year. Lebanon was downgraded in the 2013 survey from the "moderately free" category as its score fell below the 60% that is required to remain in the "moderately free" category. Lebanon was upgraded to the "moderately free" category in the 2011 survey from the "mostly unfree" category where it remained for more than 10 years. Lebanon's 2014 score was below the global level of economic freedom of 60.4%, the Arab level of 61.5%, and the UMICs' level of 59.5%.

Lebanon tied with Guatemala and Lesotho, ranked ahead of Senegal and behind the Philippines globally, while it came ahead of only Yemen, Mauritania, Sudan and Libya regionally on the Business Freedom Sub-Index, which reflects the ability to create, operate and close an enterprise. In parallel, Lebanon tied with 14 countries that include Greece, Macedonia, Tanzania and the Philippines on the Investment Freedom Sub-Index, which is an assessment of the free flow of capital. Regionally, it came behind Jordan, Morocco, Djibouti, Bahrain and Oman. Also, Lebanon ranked ahead of Mozambique and came behind Azerbaijan globally; and ranked ahead of Egypt, Mauritania, Tunisia, Algeria, Sudan and Djibouti regionally on the Trade Freedom sub-index. This category measures the absence of tariff and non-tariff barriers that affect imports and exports of goods & services.

Further, Lebanon ranked ahead of Singapore and behind Macedonia globally, while it came ahead of Sudan, Egypt, Djibouti, Mauritania, Algeria, Tunisia and Morocco regionally on the Fiscal Freedom sub-index, which measures the tax burden of government. The survey estimated the tax burden at 15.7% of GDP, the 63rd lowest globally and the fifth highest among Arab countries. Further, Lebanon ranked ahead of Trinidad & Tobago and behind Jordan globally, while it came ahead of Egypt and behind Jordan among Arab countries on the Government Spending Sub-Index.

**Economic Freedom in Lebanon by Category**

| | Arab Rank | Global Rank | Lebanon Score | Change in Score | Arab Average | Global Average |
|---|---|---|---|---|---|---|
| Business Freedom | 15 | 133 | 54.7% | ↓ | 61.9% | 64.1% |
| Trade Freedom | 11 | 97 | 75.8% | ↔ | 72.6% | 75.4% |
| Fiscal Freedom | 10 | 25 | 91.3% | ↑ | 89.7% | 77.4% |
| Government Spending | 7 | 85 | 70.6% | ↓ | 62.8% | 61.7% |
| Monetary Freedom | 12 | 135 | 72.0% | ↓ | 73.7% | 75.0% |
| Investment Freedom | 6 | 81 | 60.0% | ↔ | 47.6% | 54.8% |
| Financial Freedom | 2 | 39 | 60.0% | ↔ | 45.9% | 48.5% |
| Property Rights | 14 | 138 | 20.0% | ↔ | 37.4% | 42.2% |
| Freedom from Corruption | 14 | 132 | 28.0% | ↑ | 35.9% | 41.9% |
| Labor Freedom | 12 | 100 | 60.7% | ↑ | 63.3% | 61.3% |

*Source: Heritage Foundation 2015, Byblos Research*

## Lebanon in the News

### Drop in global oil prices to benefit Lebanon's fiscal and external accounts

The World Bank anticipated that the drop in global oil prices would have a positive impact on Lebanon. First, the Bank expected that the decline in global oil prices would improve the country's structurally weak fiscal position. It said that lower oil prices would reduce Treasury transfers to the state-owned and money-losing Electricité du Liban (EdL), which averaged about 3.9% of GDP annually over the past decade. It indicated that Treasury transfers have financed EdL's annual losses, which are due to the fixing, since 1996, of electricity tariffs based on an average oil price of $23 per barrel. It noted that high global oil prices in the past few years led to larger-than-average transfers to EdL of about 4.7% of GDP per year since 2011. As such, it said that Treasury transfers to EdL are linked to oil prices, which means that reduced hydrocarbon prices would have a positive impact on the fiscal balance through lower transfers. But it noted that the pass through would materialize with a six- to nine-month lag, given the structure of EdL's outstanding contracts with fuel oil and gasoil suppliers.

Second, the Bank expected that lower global oil prices would reduce Lebanon's oil import bill and improve its balance-of-payments position, given that the country is a large net oil importer. It said that Lebanon's wide current account deficit reflects a large deficit in the trade balance, mainly from energy imports that averaged about 8.3% of GDP annually since 2010 and that account for 24% of the import bill. In parallel, it said that the country remains dependent on capital inflows, mainly in the form of remittances from the Lebanese Diaspora, to finance its balance of payments. It considered that lower oil prices would negatively affect remittance inflows given that a large share of these flows comes from Lebanese expatriates in the Gulf Cooperation Council countries. It added that the GCC economies are a major source of income for many Lebanese businesses. It considered that the positive impact of lower oil prices on oil imports would outweigh the negative impact on capital inflows.

Third, the Bank considered that the impact of lower oil prices on economic activity is uncertain, and will depend on the length and expectations of the decrease in prices. It said that reduced oil prices would benefit consumers and could support growth. But it noted that a sustained decrease in oil prices would weigh on remittance inflows from oil-producing economies, which would negatively affect consumption.

### Lebanon and Norway to cooperate on developing the domestic oil & gas sector

The Ministry of Energy & Water and the Ministry of Foreign Affairs & Emigrants signed an agreement with the Norwegian Agency for Development Cooperation (Norad) to launch Phase II of the Oil for Development (OfD) program. Under the three-year agreement, Norway would grant technical assistance worth about NOK30m or $3.8m to the Lebanese Petroleum Administration, as well as to the ministries of Energy & Water, Environment and Finance. The second phase of the OfD program would further develop the strategic and legal framework of the oil & gas sector, strengthen the organizational and functional capabilities of key government institutions, as well as improve the sector's transparency and accountability. Lebanon aims to benefit from Norway's knowledge and experience in managing oil & gas resources, while ensuring the use of international best practices in the petroleum industry. Phase II of the OfD program was approved in March 2013. The first phase was initiated in 2006 and was completed in early 2012. It focused mainly on the establishment of a regulatory framework for the oil & gas sector and general capacity building.

The Fraser Institute's Global Petroleum Survey for 2014 showed that Lebanon had the 36th highest barriers for investments in oil & gas exploration and production among 156 countries and jurisdictions around the world, and the seventh highest barriers among 18 countries in the Middle East & North Africa. The survey captures the opinions of oil & gas managers and executives about the level of investment barriers in oil & gas exploration and production in jurisdictions their companies are familiar with.

### Industrial exports down 8% to $2.7bn in first 10 months of 2014

Figures released by the Ministry of Industry show that industrial exports totaled $2.7bn in the first 10 months of 2014, constituting a decrease of 7.5% from $3bn in the same period of 2013. Industrial exports reached $269.1m in October 2014, nearly unchanged from September 2014 and up by 6.7% from $252.2m in October 2013. Machinery and mechanical appliances accounted for $609m, or 23% of total industrial exports in the first 10 months of 2014, followed by chemical products with $445.2m (16.8%) and prepared foodstuffs with $437.9m (16.5%). Arab countries were the destination of 55% of Lebanese industrial exports in October 2014, followed by African economies with 14%, European countries with 13.8%, Asian economies with 9.7% and countries in the Americas with 6.1%. On a country basis, the UAE was the main destination of such exports and accounted for 12.6% of the total in October 2014, followed by Saudi Arabia with 10%, Iraq with 9.4%, Syria with 6.9% and Turkey with 5.4%. In October 2014, 13 Arab countries, 10 European states, nine African economies, four Asian countries, three economies in the Americas and one country in Oceania imported $1m or more each in industrial products from Lebanon. Overall, Lebanon exported its industrial products to 44 European countries, 41 African economies, 29 Asian states, 29 countries in the Americas, 19 Arab economies and eight markets in Oceania in October 2014.

In parallel, industrial imports reached $230.1m in the first 10 months of 2014, down 12.9% from the same period of 2013. Italy was the main source of such imports and accounted for 21.6% of the total in the covered period, followed by China with 18.4% and Germany with 16.8%. Further, imports of industrial equipment and machinery reached $17.7m in October 2014, decreasing by 13.7% year-on-year. Germany was the main source of imports of industrial equipment in October and accounted for 22.7% of the total, followed by China with 19.8% and Italy with 12%.

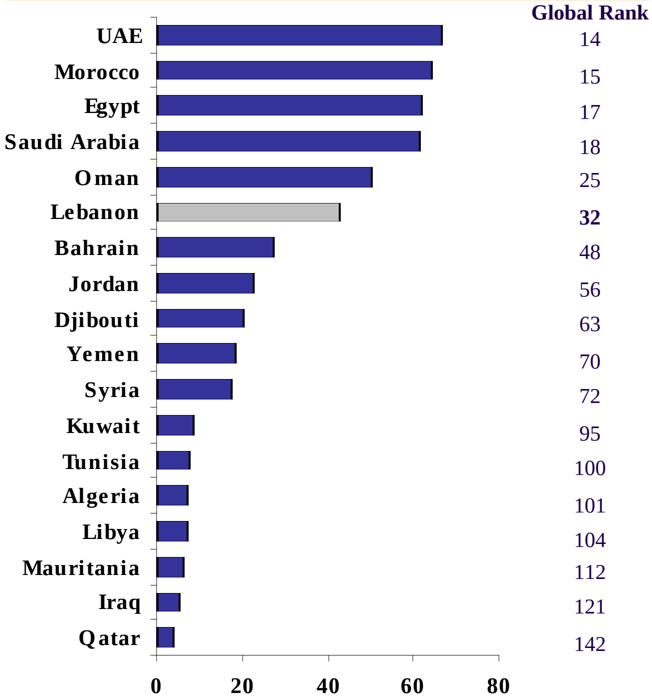
## Lebanon ranks 32nd globally, sixth among Arab countries on Liner Shipping Connectivity Index

The United Nations Conference on Trade and Development's Liner Shipping Connectivity Index (LSCI) for 2014 ranked Lebanon in 32nd place among 155 countries around the world and in sixth place among 18 Arab countries. Lebanon also came in sixth place among 45 upper-middle income countries (UMICs) included in the survey. Lebanon's global rank regressed by five spots from the 2013 survey, while its rank among Arab countries remained unchanged year-on-year.

The LSCI reflects how well countries are connected to global shipping networks. The index is a composite of five components that capture the deployment of container ships by liner shipping companies to a country's ports. They include the number of ships, the ships' container-carrying capacity, the number of companies providing services with their own operated ships, the number of services provided, and the size in 20-equivalent units of the largest ship deployed. The score of the index is an average of the five components for each country. A higher score reflects a better performance on the LSCI index.

Globally, Lebanon has a lower connectivity to global shipping networks than India, Thailand and Panama, and higher connectivity than Canada, Brazil and Mexico. It also has a lower connectivity to global shipping networks than only China, Malaysia, Turkey, Thailand and Panama among UMICs. Further, Lebanon has a lower connectivity than only the UAE, Morocco, Egypt, Saudi Arabia and Oman among Arab countries. Lebanon received a score of 42.63 points, down 1.2% from a score of 43.16 points in the 2013 survey. Lebanon's score was higher than the global average score of 24.95 points, the Arab average of 27.59 points, and the UMIC's average score of 22.51 points. It was also higher than the Gulf Cooperation Council (GCC) countries' average score of 36.12 points and that of non-GCC Arab countries of 23.32 points.

**Connectivity to Global Shipping Networks**




*Source: UNCTAD, Byblos Research*

## Public-sector salaries and benefits nearly unchanged in first half of 2014

Figures issued by the Ministry of Finance show that salaries, wages and related benefits paid to public-sector employees totaled $1.4bn in the first half of 2014, constituting a marginal increase of 0.2% from the same half of 2013. They represented the largest component of total primary spending and accounted for 30% of such expenditures in the first half of 2014, compared to a share of 29% in the same half of 2013. The figures include basic salaries, indemnities, allowances, contributions to civil servants' cooperatives, as well as contributions to other mutual funds providing health insurance for specific categories of civil servants, mainly judges, religious judges and employees at the Parliament. The payments exclude retirement and end-of-service indemnities, as well as salaries, wages and benefits of employees at public institutions. Salaries and benefits of military personnel reached $890.2m and accounted for 63.8% of the total, followed by personnel in public education with $285.2m (20.5%), civil staff with $143.9m (10.3%), government contribution to the employees' cooperative with $62.4m (4.5%) and customs employees with $12.6m (0.9%). The distribution of military personnel salaries and benefits shows that the Lebanese Army's salaries totaled $538.6m in the first half of 2014 and represented 60.5% of the military personnel's salaries and benefits. They were followed by salaries of the Internal Security Forces with $274m (30.8%), General Security Forces with $60.4m (6.8%), and State Security Forces with $17.9m (2%).

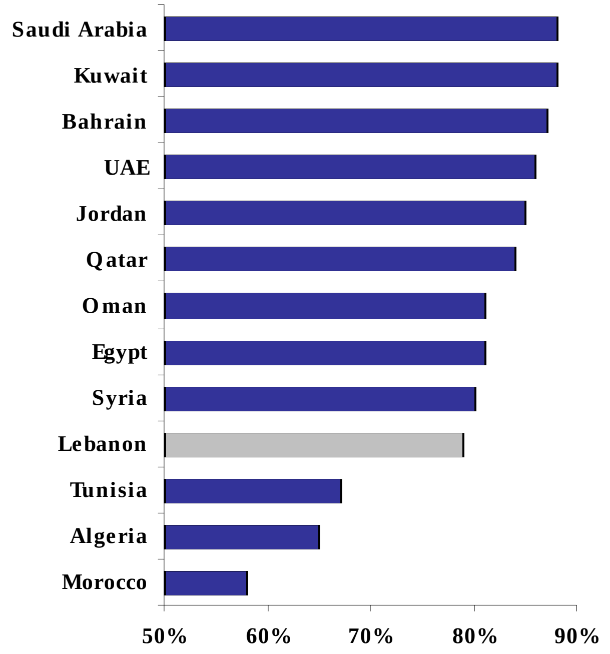
The overall increase in salaries, wages and related benefits paid to public-sector employees reflects an $8.6m increase in other payments to public-sector employees and a $6.6m rise in basic salaries. They were offset in part by a $5.3m drop in indemnities and a $4m decline in allowances. The rise in basic salaries reflects a $31.8m increase in the basic salaries of military personnel, which was offset in part by a $13.9m decline in the basic salaries of the public education sector and an $11.9m decrease in payments to civil service personnel. Overall, other expenses increased by 11.8% year-on-year to $81.6m in the first half of 2014 and basic salaries grew by 0.6% to $1bn; while indemnities fell by 7.1% to $69.7m and allowances dropped by 2.1% to $185.7m.

## Vast majority of Lebanese say salary and benefits are most important factors in choosing ideal job

A survey conducted by regional job portal *Bayt.com* and market research agency *YouGov* about career aspirations in the Middle East & North Africa region indicated that 79% of participants in Lebanon cited salary & benefits as the most important factor in choosing their ideal job. This was followed by opportunities for career growth (76% of respondents), work-life balance (26% of participants), the organization's reputation (24% of respondents), feeling of accomplishment (21% of participants), a challenging work (20% of respondents), job security (17% of participants), fair evaluation and flexible working hours (14% of respondents each), and manageable workload and a pre-defined number of working hours (3% of participants each).

In comparison, 81% of participants in the MENA region identified salary & benefits as the most important factor in choosing their ideal job, followed by opportunities for career growth (59% of respondents), job security (30% of participants), work-life balance (28% of respondents), the organization's reputation (22% of participants), feeling of accomplishment (21% of respondents), a challenging work (18% of participants), fair evaluation (14% of respondents), flexible working hours (10% participants), and manageable workload and a pre-defined number of working hours (6% of respondents each). The survey was conducted between December 3 and December 10, 2014. Its results are based on online interviews with about 8,963 adults residing in Algeria, Bahrain, Egypt, Jordan, Kuwait, Lebanon, Morocco, Oman, Qatar, Saudi Arabia, Syria, Tunisia, and the UAE.

**% of Respondents who say that Salaries & Benefits are Most Important Factor in Choosing Ideal Job**




*Source: Bayt.com, Byblos Research*

Further, 58% of participants in Lebanon indicated that the lack of growth opportunities is the main barrier to personal career growth, followed by poor management within their current company (43% of respondents), the fact that their educational qualification is not related to their current job profile (20% of participants), favoritism in the workplace (19% of respondents), lack of training and poor labor laws (17% of participants each), lack of experience (15% of respondents), lack of funding (12% of participants), personal or social obligations (7% of respondents), gender stereotypes in the workplace (4% of participants) and a high level of competition (3% of respondents. In comparison, 46% of respondents in the MENA region identified poor management within the company as the main barrier to their career growth, followed by the lack of growth opportunities (45% of participants), favoritism in the workplace (27% of respondents), the fact that their educational qualification is not related to their current job profile (21%), the lack of training opportunities (21% of participants), lack of experience (18% of respondents), poor labor laws (17% of participants), lack of funding (12% of respondents), personal or social obligations (10% of participants), and gender stereotypes in the workplace and a high level of competition (6% of respondents each).

# Corporate Highlights

## Byblos Bank's net profits up 13% to $176m in 2014

Byblos Bank sal, one of the top banking and financial services groups in Lebanon, declared unaudited net profits of $175.7m in 2014, constituting an increase of 12.5% from $156.2m in 2013. The Bank posted consolidated pre-tax profits of $220.2m in 2014, up by 18.6% from $185.6m in 2013. Net interest income reached $247.2m in 2014 and grew by 6.5% from $232.2m in the preceding year; while net fees & commissions income stood at $90.2m relative to $92.2m in 2013. Net operating income totaled $437.6m in 2014, constituting a rise of 10.6% from $395.6m in 2013.

Total assets reached $19bn at the end of 2014 and rose by 3% from $18.5bn at end-2013. Net loans & advances grew by 4.8% from end-2013 to $4.73bn at the end of 2014, and included net loans & advances to related parties of $16.4m that rose by 7% from end-2013. Byblos Bank maintained strong financial buffers to mitigate unexpected risks and to counter economic volatility. The Bank's net non-performing loans, or NPLs net of specific provisions and reserved interest, were equivalent to 0.94% of net loans at the end of 2014. Also, the NPL coverage ratio, including collective provisions, was 120% at the end of 2014. The Bank's capital adequacy ratio stood at 16.5% at end-June 2014 according to Basel III criteria, which is significantly above the minimum regulatory requirements of 11.5% for 2014 and 12% for 2015, and one of the highest such ratios in the Lebanese banking sector. The Bank's return on average assets improved from 0.88% in 2013 to 0.94% in 2014; while its return on average common equity rose from 9.8% in 2013 to 11.1% in 2014.

The Bank's total deposits totaled $15.72bn at the end of 2014 and increased by 6.5% from the end of 2013. They included deposits from related parties of $207.5m that rose by 14% year-on-year. The Bank's shareholders' equity totaled $1.69bn at the end of 2014, reflecting a rise of 2.3% from end-2013. The Byblos Bank Group has a direct presence in Iraq, Syria, Sudan, the United Arab Emirates, Nigeria, Armenia and the Democratic Republic of Congo, as well as in Belgium, France, the United Kingdom and Cyprus.

## Aggregate profits of publicly listed banks up 12% in 2014

Financial results issued by five out of six banks listed on the Beirut Stock Exchange show that their aggregate net profits reached $1.1bn in 2014, constituting an increase of 11.7% from net earnings of $965m in 2013. The banks' unaudited net profits reached $243.5m in the first quarter of 2014, $279m in the second quarter, $243m in the third quarter and $312.8m in the fourth quarter of 2014. Further, the banks' aggregate pre-tax profits grew by 14.2% to $1.35bn in 2014. The aggregate net interest income of the five banks reached $1.9bn in 2014, up 17.1% from $1.62bn in 2013; while their total net fees & commissions income grew by 19.5% to $558m year-on-year. The banks' total operating income reached $3bn in 2014 and increased by 12.8% from $2.7bn in 2013.

In parallel, the aggregate assets of the five banks rose by 10% from the end of 2013 to $105.4bn; while their total loans, including those to related parties, grew by 12.2% to $33.7bn at the end of 2014. Also, total deposits, including those from related parties, increased by 10% to $87.9bn at the end of 2014.

The five banks' aggregate loans-to-deposits ratio stood at 38.3% at the end of 2014, up from 37.5% a year earlier. BLOM Bank had the lowest loans-to-deposits ratio at 28.8% compared to 28.1% at end-2013; followed by Byblos Bank with a ratio of 30.1% relative to 30.6% a year earlier, Bank of Beirut with 38% compared to 37.1% at end-2013; Bank Audi with 48%, up from 47.3% at end-2013; and Banque BEMO with a ratio of 53% relative to 50.3% a year earlier.

Further, the banks' collective cost-to-income ratio stood at 48.3% in 2014 relative to 48% in 2013. BLOM Bank posted the lowest cost-to-income ratio among listed banks at 39.7% last year compared to 37.1% in 2013. It was followed by Bank of Beirut with 43.6% in 2014, down from 47.7% a year earlier; Byblos Bank with a ratio of 46.7% relative to 46.9% in 2013; Bank Audi with 55.3% in 2014, down from 56.1%; and Banque BEMO with a ratio of 64.7%, compared to 66.3% in 2013.

**Results of Listed Banks in 2014**

| | Byblos | BLOM | Audi | BoB | BEMO |
|---|---|---|---|---|---|
| Net Profits | $175.7m | $365.4m | $350.3m | $175.5m | $11.17m |
| % Change* | 12.5% | 3.7% | 15% | 20.7% | 74.9% |
| Total Assets | $19.04bn | $27.98bn | $41.96bn | $14.96bn | $1.48bn |
| % Change* | 3% | 7% | 15.9% | 9.7% | (0.6%) |
| Loans | $4.73bn | $6.91bn | $17.17bn | $4.22bn | $0.64bn |
| % Change* | 4.8% | 8.9% | 16.7% | 10.5% | 5.3% |
| Deposits | $15.72bn | $24.0bn | $35.82bn | $11.14bn | $1.22bn |
| % Change* | 6.5% | 6.4% | 15.2% | 8% | 0.1% |

**Year-on-year*

*Source: Banks' financial statements, Byblos Research*

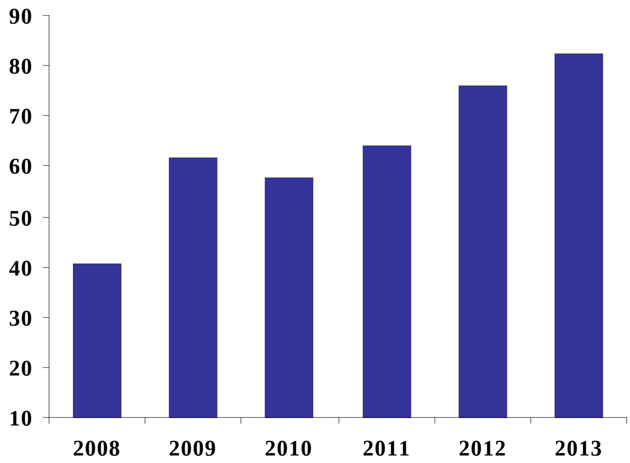
### Stock market activity down 44% to $19m in January 2015

Figures released by the Beirut Stock Exchange indicate that total trading volume reached 2.9 million shares in January 2015, constituting a decrease of 11.4% from the same month in 2014; while aggregate turnover amounted to $18.8m, down 43.6% from a turnover of $33.3m in January 2014. Market capitalization increased by 1.8% from end-January 2014 to $11.3bn, of which 80.8% was in banking stocks, followed by real estate shares with 16.1%, industrial equities with 2.9%, and trading stocks with 0.3%. The market liquidity ratio was 0.2% compared to 0.3% in January 2014. Banking stocks accounted for 83.8% of aggregate trading volume in January 2015, followed by real estate equities with 14.4%, trading stocks with 1.8% and industrial shares with 0.1%. Also, banking stocks accounted for 74.2% of the aggregate value of traded shares, followed by real estate equities with 24.7%, trading stocks with 0.9% and industrial shares with 0.2%. The average daily traded volume for the month was 139,259 shares for an average daily value of $895,070. The figures reflect decreases of 19.8% in volume and 48.9% in value year-on-year.

### Net profits of life insurance segment up 8% to $83m in 2013, claims up 12% to $177m

Figures released by the Insurance Control Commission (ICC) show that the aggregate net profits of insurance companies active in the life branch in Lebanon reached $82.5m in 2013, constituting an increase of 8.2% from $76.3m in 2012. The 'term life protection' segment posted profits of $49.5m in 2013 and accounted for 59.9% of the life branch's aggregate net profits, followed by the 'life protection with savings' segment with $18.5m (22.5%) and the 'life protection with unit-linked savings' segment with $14.5m (17.6%). There were 32 active insurance companies in the 'term life protection' segment in 2013, and 21 companies in both the 'life protection with unit-linked savings' and the 'life protection with savings' segments.

**Net Profits from the Life Insurance Segment**




*Source: Insurance Control Commission*

Further, gross written premiums from the life category increased by 7.5% to $408.7m in 2013. Written premiums from the 'term life protection' segment totaled $163.8m and accounted for 39.4% of aggregate life insurance premiums, followed by the 'life protection with savings' segment with $134m (32.2%), and the 'life protection with unit-linked savings' segment with $118.4m (28.4%). Also, the number of policies in the 'term life protection' segment reached 497,166 in 2013; while those of the 'life protection with savings' and 'life protection with unit-linked savings' segments totaled 161,494. ALICO led all life insurers with $25.3m in net profits in 2013 and accounted for 30.7% of the life sector's aggregate net earnings, followed by Bancassurance with $11.7m (14.2%), LIA with $10.3m (12.5%), Sogecap with $7.8m (9.5%) and CLA with $6.8m (8.2%).

In parallel, claims paid to beneficiaries totaled $176.6m in 2013, constituting a rise of 12.3% from $157.3m in 2012. Paid claims in the 'life protection with unit-linked savings' category reached $96.5m and accounted for 54.7% of the total, followed by 'life protection with savings' with $58m (32.8%), and 'term life protection' with $22m (12.4%). In terms of volume, claims were paid to 9,924 beneficiaries in the 'term life protection' category in 2013, while 17,438 claims were paid to beneficiaries in the 'life protection with unit-linked savings' and the 'life protection with savings' segments.

The top three companies in the 'life protection with unit-linked savings' and the 'life protection with savings' categories generated premiums of $153.8m and accounted for 61.1% of the segment's total premiums. In addition, they accounted for 77.2% of the total number of policies in 2013. The top three companies in the 'life protection with unit-linked savings' and the 'life protection with savings' categories paid $88.6m in claims and accounted for 57.3% of the segment's overall paid claims.

The top five companies in the 'term life protection' category generated premiums of $71.9m or 45.8% of the segment's premiums. Also, they accounted for 19.5% of total number of policies in 2013. In parallel, the top five companies paid $11.4m or 52.1% of aggregate paid claims; while they accounted for 89.6% of total number of claims in 2013.

## 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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