



LEBANON THIS WEEK

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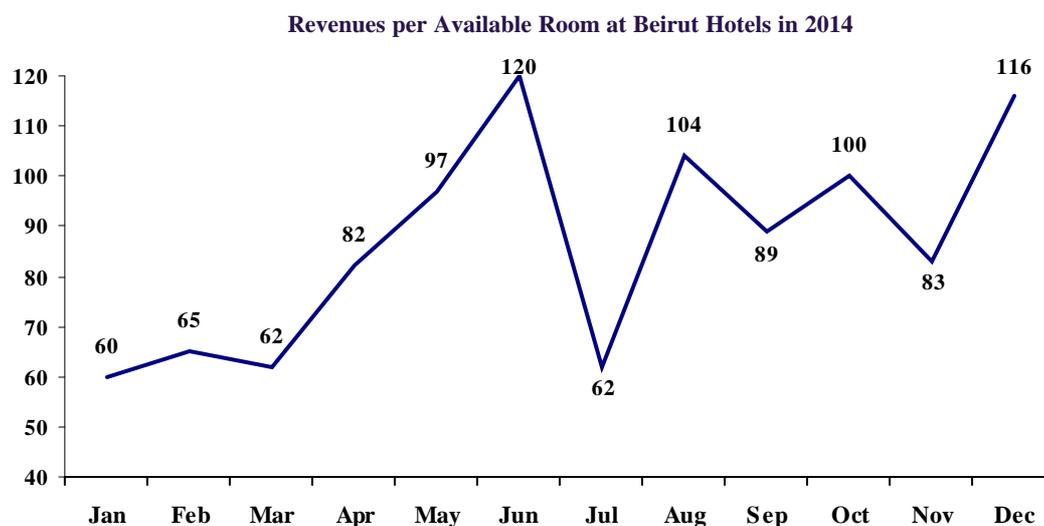
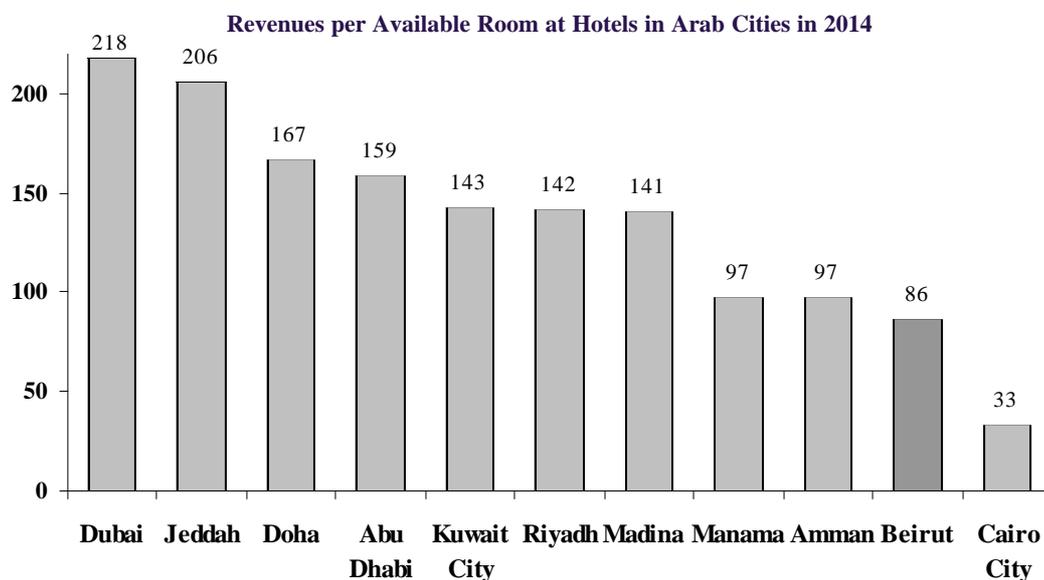
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Source: EY, Byblos Bank

Quote to Note

"The fiscal deficit is likely to ease on lower oil prices, but reforms remain needed to decrease vulnerabilities."

Global investment bank Merrill Lynch, on the urgent need to implement much-delayed structural reforms to reduce public finance vulnerabilities

Number of the Week

70%: Penetration rate of smartphones in Lebanon in 2014, according to research firm Ipsos MediaCT

Lebanon in the News

\$m (unless otherwise mentioned)	2013	Oct 13	July 14	Aug 14	Sep 14	Oct 14	% Change*
Exports	3,936	272	276	285	282	279	2.57
Imports	21,228	1,757	1,657	2,120	1,671	1,724	(1.88)
Trade Balance	(17,292)	(1,485)	(1,381)	(1,835)	(1,389)	(1,445)	(2.69)
Balance of Payments	(1,128)	(794)	(85)	(564)	131	(566)	(28.72)
Checks Cleared in LBP	17,047	1,516	1,454	1,558	1,553	1,587	4.64
Checks Cleared in FC	55,321	4,698	4,694	4,973	4,852	4,730	0.68
Total Checks Cleared	72,368	6,214	6,148	6,531	6,405	6,317	1.65
Budget Deficit/Surplus	(4,220)	(228.92)	238.07	(318.75)	(564.21)	(216.28)	(5.52)
Primary Balance	(239.68)	233.07	513.55	(141.93)	(84.64)	258.98	11.12
Airport Passengers	6,265,470	524,730	641,830	814,800	640,546	549,726	4.76

\$bn (unless otherwise mentioned)	2013	Oct 13	July 14	Aug 14	Sep 14	Oct 14	% Change*
BdL FX Reserves	31.71	31.86	35.14	33.09	32.34	33.09	3.87
<i>In months of Imports</i>	<i>17.65</i>	<i>18.13</i>	<i>21.21</i>	<i>15.61</i>	<i>19.35</i>	<i>19.19</i>	<i>5.86</i>
Public Debt	63.46	62.44	65.62	65.86	65.97	66.21	6.03
Net Public Debt	53.18	52.50	55.17	55.59	55.89	56.23	7.11
Bank Assets	164.82	160.63	169.74	170.33	171.34	171.27	6.62
Bank Deposits (Private Sector)	136.21	132.10	141.32	141.52	142.02	142.04	7.52
Bank Loans to Private Sector	47.38	46.50	49.38	49.74	49.95	50.10	7.74
Money Supply M2	45.60	44.72	47.28	47.48	47.90	47.82	6.93
Money Supply M3	111.16	109.02	115.58	115.62	116.07	116.02	6.42
LBP Lending Rate (%)	7.29	7.59	7.36	7.21	7.08	7.29	(30bps)
LBP Deposit Rate (%)	5.44	5.44	5.54	5.51	5.51	5.58	14bps
USD Lending Rate (%)	6.88	6.85	6.96	6.96	6.94	6.95	10bps
USD Deposit Rate (%)	2.95	2.94	3.02	3.13	3.04	3.12	18bps
%* Change in CPI**	3.89	5.04	1.54	0.81	1.24	(0.27)	-

* 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	Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
Solidere "A"	11.40	3.64	67,965	9.77%	Apr 2015	10.000	101.43	2.25
Solidere "B"	11.18	2.29	91,155	6.23%	Jan 2016	8.500	104.50	3.47
Byblos Common	1.69	0.60	178,850	5.21%	Mar 2017	9.000	108.75	4.56
Byblos Pref. 08	102.10	0.00	20	1.75%	Nov 2018	5.150	100.75	4.93
Byblos Pref. 09	101.20	0.00	0	1.73%	May 2019	6.000	102.88	5.24
BLOM GDR	9.91	(0.50)	3,000	6.28%	Mar 2020	6.375	104.25	5.40
BLOM Listed	9.05	1.12	3,683	16.68%	Apr 2021	8.250	112.50	5.80
Audi GDR	7.00	1.45	65,000	6.97%	Oct 2022	6.100	101.80	5.80
Audi Listed	6.50	1.25	121,940	22.27%	Jun 2025	6.250	100.63	6.17
HOLCIM	15.50	3.26	833	2.59%	Nov 2026	6.600	103.13	6.22

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

Source: Byblos Bank Capital Markets

	Feb 9-13	Feb 2-6	% Change	Jan 2015	Jan 2014	% Change
Total Shares Traded	554,146	1,291,153	(57.08)	2,924,443	3,299,492	(11.37)
Total Value Traded	\$4,315,222	\$15,370,164	(71.92)	\$18,796,462	\$33,310,730	(43.57)
Market Capitalization	\$11.67bn	\$11.45bn	1.88	\$11.25bn	\$11.05bn	1.83

Source: Beirut Stock Exchange (BSE)



Advertising spending in Lebanon up 2% to \$189m in 2014

The annual survey of the advertising market in the Arab world by *ArabAd* magazine and research firm Ipsos shows that real advertising expenditures in Lebanon totaled \$189m in 2014, constituting a rise of 1.9% from \$185.5m in 2013. In comparison, advertising expenditures grew by 1.9% in 2013 and 4.5% in 2012, contracted by 3% in 2011, and posted increases of 15.4% in 2010 and 18.5% in 2009.

Television attracted \$80m or 42.3% of advertising expenditures, followed by outdoor billboards with \$44m (23.3%), newspapers with \$28m (14.8%), radio with \$15m (7.9%), magazines with \$13m (6.9%), online with \$7m (3.7%) and cinemas with \$2m (1.1%). Ads at cinemas increased by twofold last year, online advertising rose by 27.3%, radio ads grew by 7.1% and TV ads improved by 6.7%; while magazines ads regressed by 7.1%, newspaper ads contracted by 6.7% and ads on outdoor billboards fell by 4.3% year-on-year.

Procter & Gamble was the biggest corporate spender on advertising in Lebanon, followed by Solvid, XXL, BankMed, Nestlé, Jane Nassar, Sayfco Holding, Byblos Bank, Banque Libano-Française and Mondelez International. Procter & Gamble was the largest spender on TV ads last year, Samsung was the biggest client of outdoor billboard ads, BankMed spent the most on press ads, Yokohama was the biggest spender on Radio ads, and Sayfco Holding was the largest spender on cinema ads.

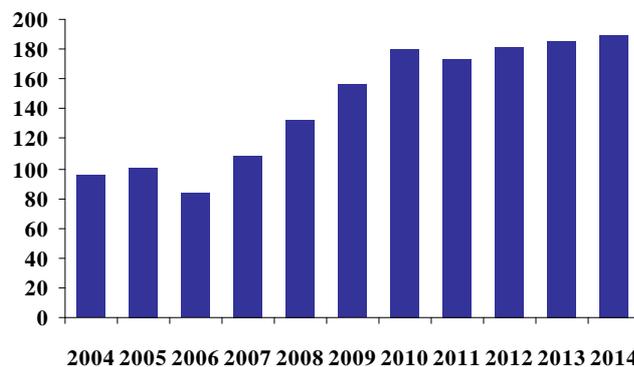
Further, Buzz was the top advertised brand in all media, followed by XXL, BankMed, Ariel, Jane Nassar, Byblos Bank, Banque Libano-Française, IBL Bank, ITN Insurance Team Network, and Beirut Beer. Buzz was the top advertised brand on television in 2014, Samsung was the most frequently promoted brand on out-of-home advertising, BankMed was the most advertised in the printed press, Yokohama was the most frequently promoted brand on radio, and Nokia was the top advertised brand in cinemas.

According to Ipsos, monitored advertising expenditures in Lebanon reached \$1.6bn in 2014, up 6.2% from \$1.5bn in 2013. Lebanon's monitored advertising expenditures accounted for 6.4% of total spending in Arab countries, the fourth highest such share behind Pan Arab (34%), Egypt (31.6%) and the UAE (9%). The survey indicated that the discrepancy between monitored rates and actual figures continues, as monitored rates are 8.4 times larger than real advertising expenditures. It attributed this trend to big client discounts, inflated rate cards, big barter deals, as well as to a lack of transparency in the industry in reporting earnings. It noted that monitored ad spending on TV is 15.7 times larger than actual spending, followed by outdoor billboards with a 3.8 ratio, radio with a 3.4 ratio, magazines with a 3.2 ratio, newspapers at 2.1 times and cinemas with a ratio of 1.6.

Balance of payments posts deficit of \$1.4bn in 2014

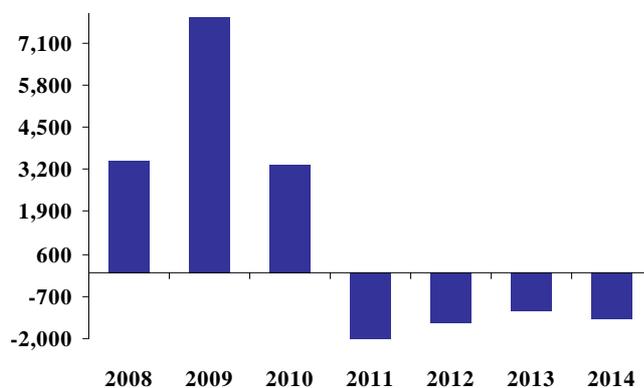
Central Bank figures show that Lebanon's balance of payments posted a deficit of \$1.4bn in 2014 compared to a deficit of \$1.1bn in 2013. The balance of payments posted a deficit of \$115.5m in December 2014 compared to a deficit of \$424.4m in November 2014 and a surplus of \$533.9m in December 2013. The December 2014 deficit was caused by a deficit of \$755.6m in the net foreign assets of the Central Bank, which was partly offset by a surplus of \$640.2m in those of banks and financial institutions. The cumulative deficit in 2014 was caused by a deficit of \$5.2bn in the net foreign assets of banks and financial institutions, and was partly offset by a surplus of \$3.8bn in those of the Central Bank. The balance of payments posted surpluses of \$7.9bn in 2009 and \$3.3bn in 2010, and deficits of \$2bn in 2011 and \$1.5bn in 2012.

Real Advertising Expenditures in Lebanon (\$m)



Source: ArabAd, Byblos Research

Balance of Payments (US\$m)



Source: Central Bank of Lebanon



Lebanon ranks 94th globally, 13th in MENA region in retirement environment

The Global Retirement Index (GRI) for 2015, issued by global asset management firm Natixis, ranked Lebanon in 94th place among 150 countries, in 31st place among 40 Upper Middle-Income Countries (UMICs) included in the survey, and in 13th place among 21 countries in the Middle East & North Africa region. Lebanon's rank declined by 22 spots in 2015 from 72nd place in the previous survey, constituting the fourth steepest deterioration globally relative to Iran (-38 spots), Greece (-37 spots) and Spain (-26 spots). Also, Lebanon's rank fell by 19 spots in 2014, the eighth steepest decline globally. As such, Lebanon's rank fell by 41 spots since the 2013 survey due mainly to the deterioration of the quality of life in the country.

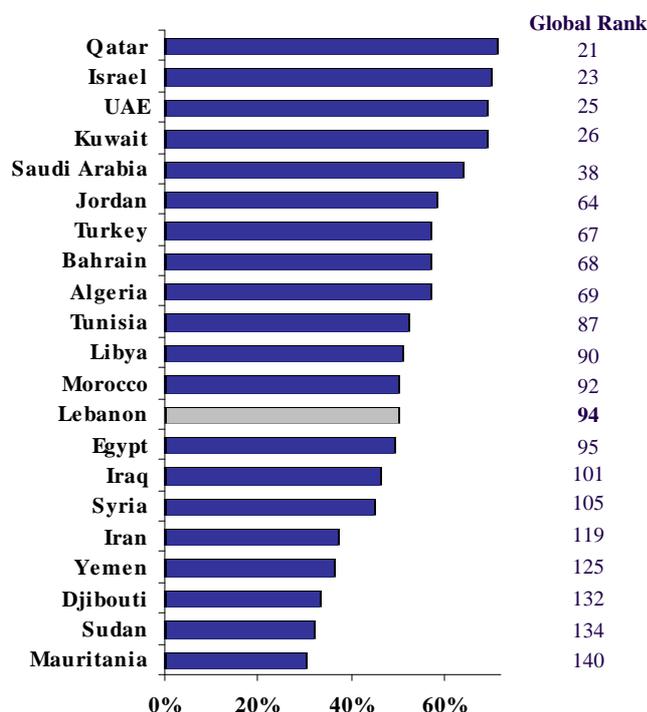
The GRI is a global benchmark that aims to help individuals assess a country's suitability in meeting welfare expectations and needs in retirement and old age. It covers key aspects for welfare in retirement that include access to quality health services, having enough material means to live a comfortable life, having access to quality financial services, and living in a clean and safe environment. The index is composed of 20 indicators that are grouped into four sub-indices, which are the Health Sub-Index, Material Well-being Sub-Index, Quality of Life Sub-Index and Finances Sub-Index. The individual countries' scores range from 0% to 100%, with 100% representing the ideal country for retirement.

Globally, Lebanon has a better retirement environment than Egypt, Honduras and Pakistan, and a less favorable one than Laos, Morocco and Serbia. It also has a more favorable retirement environment than only Turkmenistan, Iraq, Namibia, Angola, Bosnia & Herzegovina, Macedonia, Iran, Botswana and South Africa among UMICs. Lebanon received a score of 50% on the 2015 GRI, similar to the MENA region's average score, but down from 56% in the 2014 survey and 63% in the 2013 survey. Lebanon's score fell by six percentage points year-on-year in the 2015 survey, constituting the eighth steepest decline globally.

Lebanon ranked ahead of Liberia, Libya, Haiti, Tanzania, Lesotho, Comoros and Togo on the Quality of Life Sub-Index. This category captures the level of happiness in a society and the effects that environmental factors have on the quality of life. Also, Lebanon ranked ahead of Libya among UMICs and in the MENA region. Lebanon's global rank on the Quality of Life Sub-Index fell by 56 spots to 143rd place in the 2015 survey, the steepest decline globally. It fell by 20 spots in the 2014 survey. Also, Lebanon came ahead of Cyprus and behind Latvia on the Health Sub-Index. This category covers life expectancy at birth, health spending per capita, non-insured health expenditures, and the number of hospital beds and physicians per 1,000 people. Lebanon came behind only Cuba, Argentina, Hungary, Belarus, Romania and Bulgaria among UMICs; while it ranked behind only Qatar and Israel in the region.

Further, Lebanon tied with the Philippines and Tunisia, came ahead of Nigeria and behind Ghana on the Material Well-being Sub-Index, which measures the ability of residents to generate enough income to cover their material needs. It tied with Tunisia, ranked ahead of Turkmenistan and behind Ecuador among UMICs; while it ranked ahead of Morocco, Syria, Iran, Yemen, Sudan, Djibouti and Mauritania in the MENA region. Finally, Lebanon tied with Afghanistan and Madagascar, ranked ahead of Italy and came behind Russia on the Finances Sub-Index, which captures the soundness of a country's financial system, the level of returns on savings and investments in the country, and the preservation of the purchasing power of savings. It also ranked ahead of Bosnia & Herzegovina and behind Albania among UMICs; while it came ahead of only Egypt, Turkey, Tunisia, Yemen, Syria, Iran and Sudan in the region.

Global Retirement Index 2015



Source: Natixis, Byblos Research

Components of the 2015 Global Retirement Index for Lebanon

Sub-Indices	Global Rank	MENA Rank	UMIC Rank	MENA	
				Lebanon Score	Average Score
Health Sub-Index	44	3	7	69%	48%
Material Well-being Sub-Index	82	13	24	50%	53%
Finances Sub-Index	110	14	29	51%	49%
Quality of Life Sub-Index	143	20	39	34%	53%

Source: Natixis, Byblos Research



Cost of sending remittances to Lebanon increases in fourth quarter of 2014

Figures issued by the World Bank show that the cost of sending \$500 in remittances from the United States to Lebanon reached 5.26% in the fourth quarter of 2014, constituting an increase from 5.12% in the third quarter of 2014 and down from 5.37% in the second quarter and from 5.41% in the first quarter of 2014. The cost includes the transaction fee and exchange rate margin, and represents the average cost of transferring money through commercial banks and money transfer operators (MTOs). In nominal terms, the cost of sending \$500 from the U.S. to Lebanon was \$26.3 in the fourth quarter of 2014 and \$25.62 in the preceding quarter. Lebanon is the ninth most expensive destination for sending \$500 from the U.S. among 30 countries with available data. The World Bank indicated that the average cost of sending \$500 in remittances from the United States through commercial banks to Lebanon was 8.5% and the average cost through MTOs was 3.64% in the fourth quarter of 2014.

Further, the cost of sending remittances from Canada to Lebanon reached 7.88% in the fourth quarter of 2014 for a transfer of CAD500 relative to 7.76% in the third quarter, 7.62% in the second quarter and 5.52% in the first quarter of 2014. In nominal terms, the cost of sending CAD500 from Canada to Lebanon was CAD39.39 in the fourth quarter of 2014 relative to CAD38.79 in the preceding quarter. Lebanon is the second most expensive destination for sending CAD500 from Canada among 12 countries with available data.

Also, the cost of sending remittances from Australia to Lebanon reached 6.88% in the fourth quarter of 2014 compared to 6.60% in the third quarter, 6.75% in the second quarter and 6.82% in the first quarter of 2014. In nominal terms, the cost of sending AUD500 from Australia to Lebanon was CAD34.38 in the fourth quarter of 2014 relative to AUD33.01 in the previous quarter. Lebanon is the sixth most expensive destination for sending AUD500 from Australia among 14 countries with available data.

In parallel, the cost of sending remittances from Germany to Lebanon reached 8.1% in the fourth quarter of 2014 for a transfer of €345, down from 8.36% in the third quarter, 8.12% in the second quarter and 8.44% in the first quarter of 2014. In nominal terms, the cost of sending €345 from Germany to Lebanon was €27.94 in the fourth quarter of 2014 relative to €28.85 in the previous quarter.

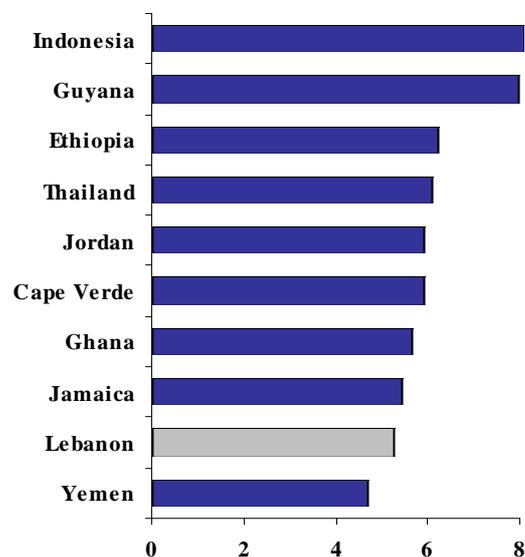
Value of cleared checks up 3%, returned checks up 4% in 2014

The value of cleared checks reached \$74.6bn in 2014, constituting an increase of 3.1% from 2013, compared to a rise of 1.9% in 2013 and a decrease of 1.5% in 2012. The value of cleared checks in Lebanese pounds rose by 6.6% to the equivalent of \$18.2bn in 2014, while the value of cleared checks in US dollars increased by 2% to \$56.5bn. The dollarization rate of cleared checks decreased to 75.7% from 76.4% in 2013. Also, the value of returned checks in domestic and foreign currencies rose by 3.9% to \$1.6bn in 2014, compared to annual increases of 3.1% in 2013 and 3.5% in 2012. In parallel, the number of cleared checks totaled 13 million in 2014, down by 1.9% from 13.2 million checks in 2013. Also, the number of returned checks totaled 256,600 in 2014, down 4.4% from 268,500 checks in 2013.

Industrial exports down 8% to \$2.9bn in first 11 months of 2014

Figures released by the Ministry of Industry show that industrial exports totaled \$2.9bn in the first 11 months of 2014, constituting a decrease of 8% from \$3.1bn in the same period of 2013. Industrial exports reached \$232.7m in November 2014, down by 13.5% from October 2014 and by 14% from \$270.4m in November 2013. Machinery & mechanical appliances accounted for \$653.7m or 22.6% of total industrial exports in the first 11 months of 2014, followed by chemical products and prepared foodstuffs with \$478.9m each (16.6% each) and base metals with \$349.8m (12.1%). Arab countries were the destination of 56.6% of Lebanese industrial exports in November 2014, followed by European economies with 17%, African countries with 15.2%, Asian economies with 7% and countries in the Americas with 3.2%. On a country basis, Saudi Arabia was the main destination of such exports and accounted for 10.2% of the total in November 2014, followed by Iraq with 9.8%, the UAE with 7.9%, Syria with 5.9% and Spain with 3.8%. In November 2014, 14 Arab countries, 10 European states, 10 African economies, five Asian countries, two 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 November 2014.

Costliest Destinations of Remittances from the United States*



*Cost of sending \$500 from the U.S.

Source: World Bank, Byblos Research

Net public debt at \$57.3bn at end-2014

Lebanon's gross public debt reached \$66.56bn at the end of 2014, constituting a rise of 4.9% from \$63.5bn at the end of 2013 and compared to increases of 10% in 2013, 7.5% in 2012, 2% in 2011 and 2.9% in 2010. In nominal terms, the gross public debt grew by \$3.1bn in 2014 relative to increases of \$5.78bn in 2013, \$4bn in 2012, \$1bn in 2011 and \$1.5bn in 2010. Domestic debt totaled \$41bn at end-2014, and rose by 9.7% from end-2013 relative to an increase of 12.2% in 2013; while debt in foreign currency stood at \$25.6bn, constituting a decrease of 2% from the end of 2013 and compared to a rise of 7.1% in 2013. Local currency debt accounted for 61.5% of gross public debt at the end of 2014 compared to 58.9% a year earlier, while foreign currency-denominated debt represented 38.5% of the total relative to 41.1% a year earlier. The weighted interest rate on outstanding Treasury bills was 6.89% and that on Eurobonds was 6.4% at the end of 2014. Further, the weighted life on Eurobonds was 5.35 years, while that on Treasury bills was 1,193 days.

Commercial banks accounted for 51% of the local public debt at the end of 2014 compared to 53.1% a year earlier. They were followed by the Central Bank with 32.2%, up from 30.5% at end-2013; while public agencies, financial institutions and the public accounted for 16.9% of local debt compared to 16.4% at the end of 2013. Eurobond holders, foreign private sector loans and special T-bills in foreign currencies accounted for 90.8% of the external debt; followed by foreign governments with 4.8%; multilateral institutions with 4.2%; and Paris II loans with 0.3%. The net public debt, which excludes public sector deposits at the Central Bank and at commercial banks from overall debt figures, increased by 7.7% to \$57.3bn at end-2014. In parallel, the gross market debt accounted for about 65% of total public debt. Gross market debt is the total public debt less the portfolios of the Central Bank, the National Social Security Fund, bilateral and multilateral loans, as well as Paris II and Paris III related debt.

Association of Banks amends reference rates on US dollar and Lebanese pound lending

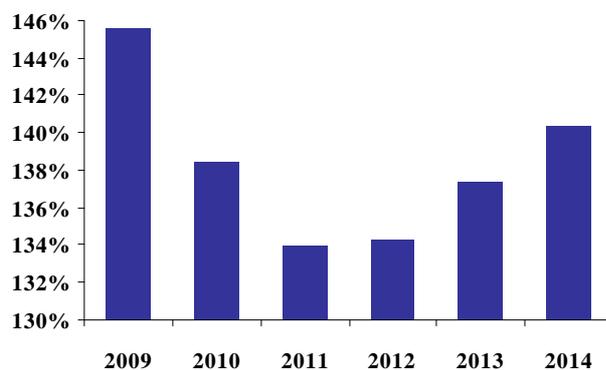
The Association of Banks in Lebanon (ABL) recommended to its member banks to decrease the Beirut Reference Rate (BRR) in US dollars to 6.08% in March 2015 from 6.11% currently. The rate, considered as the reference rate for lending in foreign currency, replaced the London Inter-Bank Offering Rate (LIBOR) in 2009 as the ABL considered that the LIBOR no longer accurately reflects the cost of funding and lending in Lebanon. Additionally, the ABL recommended to its member banks to decrease the Beirut Reference Rate in Lebanese pounds to 8.67% in March from the current rate of 8.69%. The Beirut Reference Rate in US dollars and Lebanese pounds were adopted in March and May 2009, respectively. The ABL considers that the BRR does not replace the Beirut Prime Lending Rate in each currency, but constitutes the basis to calculate the prime rate after adding the cost of liquidity and refinancing, credit risks and the profitability of banks to the prime lending rate.

Treasury transfers to Electricité du Liban down 7% to \$1.4bn in first eight months of 2014

Figures released by the Finance Ministry show that Treasury transfers to Electricité du Liban (EdL) totaled \$1.4bn in the first eight months of 2014, constituting a decline of 6.5% from \$1.5bn in the same period of 2013. The ministry said that reimbursements to the Kuwait Petroleum Corporation (KPC) and to Algerian energy conglomerate Sonatrach totaled \$1.39bn, or 98.6% of transfers in the covered period, while EdL's debt servicing represented \$19.1m or 1.4% of the total. It attributed the decrease in transfers to a drop of \$75.6m, or 5.1%, in payments to KPC and Sonatrach during the covered period, as well as to a decline of \$21.9m, or 53.4%, in debt servicing.

In parallel, the ministry said that the decrease in payments to KPC and Sonatrach reflects an 11% year-on-year decline in the quantity of imported gas oil and a 0.7% drop in oil prices at the time when the oil contracts were executed, which were partly offset by an 11.5% increase in the quantity of imported fuel oil. Also, it pointed out that EdL contributed 3.6% of the repayments to the two oil suppliers during the covered period compared to 2.5% in the same period last year. EdL transfers accounted for 22.4% of primary expenditures in the first eight months of 2014, down from 22.5% in the same period of 2013. They constitute the third largest expenditures item after debt servicing and salaries & wages in overall fiscal spending. EdL transfers were equivalent to 5.3% of GDP in 2012 and to 4.6% of GDP in 2013.

Gross Public Debt (% of GDP)



Source: International Monetary Fund, Byblos Research

Lebanon ranks 98th globally, second in MENA region in press freedoms

In its 2015 survey about press freedoms in 180 countries, international organization Reporters Without Borders ranked Lebanon in 98th place worldwide and in second place among 19 countries in the Middle East & North Africa (MENA) region. In comparison, Lebanon came in 106th place globally and in third place regionally in the 2014 survey, as well as in 101st place globally and in second place in the MENA region in the 2013 survey.

The index measures the level of freedom that journalists and the media have in each country, as well as government efforts to respect press freedoms. The survey reflects press freedoms in each country based on events between October 2013 and October 2014. The index's calculation is based on answers to a questionnaire that covers seven general criteria. The criteria assess the level of opinion diversity in the media; media independence; self-censorship and the work environment of journalists; the legislative framework; the transparency of the institutions and procedures that affect the production of news and information; the quality of the infrastructure that supports the production of news and information; and the level of violence and harassment during the covered period. Reporters Without Borders assigns index scores in ascending order, which means that lower scores reflect higher levels of press freedoms in a given country.

Globally, Lebanon has a higher level of press freedoms than Brazil, Kenya and Israel, and a lower level of freedom than Gabon, the Seychelles and Uganda. Lebanon received a score of 31.81 points in the 2015 survey, slightly better than its score of 31.89 points in the 2014 survey. Lebanon's score was better than the global and MENA region average scores of 37.19 points and 49.2 points, respectively. The level of press freedoms in Lebanon places it, along with 61 other countries, in the "noticeable problems" category.

Lebanon's rank improved by eight spots in the 2015 surveys, constituting along with Jamaica, Belgium, Greece and the Philippines, the 16th largest increase globally. The improvement in Lebanon's rank was the largest in the MENA region. Finland has the highest level of press freedom globally, while Eritrea has the lowest level of media freedom worldwide.

Tourism Ministry launches strategy for rural tourism

The Ministry of Tourism (MoT) launched the 'Rural Tourism Strategy for Lebanon' that aims to improve the competitiveness of the rural tourism segment in the country. The five-year plan seeks to develop marketing techniques to raise consumers' awareness about rural tourism destinations, products and services in the country; as well as to improve the conservation of the environmental, cultural, historical and agricultural heritage of rural areas. Also, the initiative aims to diversify and modernize the quality of rural destinations, products and services, as well as to develop related policies and regulation.

The MoT expected the strategy to raise the contribution of Lebanon's rural tourism segment from 5% of overall tourism activity to 20% of the total in five years. It indicated that rural assets in Lebanon are diverse and include mountains, artificial and natural lakes, rivers, villages, rural towns, orchards and agricultural fields, as well as farmhouses, museums, forest reserves, protected areas, hiking trails, historic and religious sites and rural lodgings, among others.

The 'Rural Tourism Strategy for Lebanon' is part of the \$41.7m Lebanon Industry Value Chain Development (LIVCD) project that is funded by the United States Agency for International Development. The goal of the five-year LIVCD project is to enhance economic opportunities in Lebanese rural areas through improving the competitiveness of specific value chains, including rural tourism and set of agriculture sub-sectors and food products.

The tourism sector, a main driver of economic activity in the country, has suffered over the past four years from deteriorating domestic security conditions, political uncertainties and regional turmoil, as well as from the lack of any comprehensive strategy to place Lebanon on the regional or global tourism maps. As a result, the number of incoming tourists to Lebanon declined from 2.17 million in 2010 to 1.35 million in 2014.

Press Freedom Index for 2015

	Score	MENA	Global	Change
	Rank	Rank	Rank	in Rank
Kuwait	30.84	1	90	+1
Lebanon	31.81	2	98	+8
Israel	32.09	3	101	-5
Qatar	35.35	4	115	-2
Algeria	36.63	5	119	+2
UAE	36.73	6	120	-2
Tunisia	38.68	7	126	+7
Oman	38.83	8	127	+7
Morocco	39.19	9	130	+6
Palestine	41.01	10	140	-2
Jordan	42.07	11	143	-2
Libya	45.99	12	154	-17
Iraq	47.76	13	156	-3
Egypt	50.17	14	158	+1
Bahrain	58.69	15	163	0
Saudi Arabia	59.41	16	164	0
Yemen	66.36	17	168	-1
Iran	72.32	18	173	0
Syria	77.29	19	177	0

Source: Reporters Without Borders, Byblos Research

Byblos Bank commits \$25m to venture capital funds

Byblos Bank sal, one of the top banking and financial services groups in Lebanon, committed a total of \$25m to three venture capital funds in Lebanon. It pledged \$10m in the IMPACT Fund, \$5m in Berytech Fund II Holding and \$10m in LEAP Investments I Holding sal. The commitments are in line with the Central Bank of Lebanon's Intermediate Circular 331 that was issued in August 2013. The circular authorized commercial banks operating in Lebanon to invest up to 3% of their private funds in the capital of start-up firms in the knowledge economy, with a 10% limit per firm of this percentage. Intermediate Circular 331 also stipulates that the Central Bank of Lebanon would guarantee 75% of banks' investments into start-up companies or in local venture capital funds targeting the knowledge economy.

The IMPACT Fund is managed by the Middle East Venture Partners Holding sal. It plans to invest between \$0.5m and \$3m per firm in Lebanese knowledge-based start-ups, mainly in the information & communications technology sector. The Fund's size currently stands at about \$63m. The fund has set an investment period of four years and a divestment period of three years. The fund has so far received investment commitments from more than 14 banks in Lebanon.

The Berytech Fund II intends to invest between \$0.5m and \$2m per firm in about 25 Lebanese seed stage companies, mainly those in the information & communications technology sector, as well as in the digital content, industrial design, fashion & jewelry, and renewable energy industries. The Fund's size currently stands at about \$51.5m, of which 20% would be invested in firms at the early-acceleration stage and 60% at the acceleration phase. Berytech Fund II expects to make its first capital call in March 2015 and has set an investment and divestment periods of up to 10 years. The fund has so far received investment commitments from 17 banking groups in Lebanon. Further, the LEAP Investments I Holding sal plans to invest between \$3m and \$7m per firm in Lebanese companies at their growth stage, mainly in the information & communications technology sector and in other knowledge-based industries.

New car sales down 26% month-on-month in January 2015

Figures released by the Association of Automobile Importers in Lebanon (AIA) indicate that 2,436 new passenger cars were sold in January 2015, constituting a drop of 26% from 3,294 cars in December 2014 and an increase of 2.7% from 2,372 cars sold in the same month of 2014. Japanese cars accounted for 39.8% of total sales in January 2015, followed by Korean cars with a 27.9% share, European automobiles with 25.9%, American vehicles with 6% and Chinese cars with 0.4%. The number of European cars sold rose by 27% in January 2015, followed by American vehicles with a 21.5% growth and Japanese cars with an 18.6% increase; while the number of Chinese cars sold declined by 71.4% year-on-year in January 2015 and sales of Korean cars dropped by 24.7%. Kia is the leading brand in the Lebanese market with 405 cars sold in January 2015, followed by Toyota with 378 cars sold, Nissan (305), Hyundai (274), Suzuki (126), Renault (96) and Audi (78). In parallel, 125 new commercial vehicles were sold in January 2015, down by 31.7% from 183 vehicles in the same month last year.

The AIA attributed the drop in the sale of new passenger cars to the Central Bank's decision to impose a minimum down payment of 25% of the car value for consumers seeking an auto loan, as well as to the challenging domestic operating environment. It indicated that the number of registered new and imported used cars sold in January 2015 dropped by 19% from December 2014, and regressed by 6% from the same month of 2014 and by 8% from January 2013. 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 1,660 in January 2015 and accounted for 65% of new vehicles' total sales. NATCO sal sold 405 vehicles, equivalent to 15.9% of the total, followed by Boustany United Machineries sal with 404 (15.8%), Rasamny Younis Motor Co. sal with 334 (13.1%), Century Motor Co. sal with 280 (11%) and Bassoul Heneine sal with 237 (9.3%).

Balance sheet of investment banks up 3% in 2014

Figures released by the Central Bank show that the consolidated balance sheet of investment banks in Lebanon reached LBP6,202bn, or \$4.1bn at the end of 2014, constituting a rise of 3.2% from end-2013 and compared to a drop of 0.8% in 2013. Private sector deposits totaled \$2bn at the end of 2014, and rose by 2.9% from end-2013 relative to a 10.6% decrease in 2013. Resident deposits in foreign currencies stood at \$946.6m, followed by resident deposits in Lebanese pounds at \$735.1m and non-resident deposits in foreign currencies at \$254.1m. Also, commitments to the financial sector reached \$636.6m at the end of 2014, constituting a rise of 6.5% year-on-year and compared to an increase of 4.9% in 2013.

On the assets side, investment banks' cash balance and deposits at commercial banks reached \$1.9bn at end-2014, down by 1.8% from end-2013. Also, lending to the private sector totaled \$1.4bn, constituting a rise of 14.7% year-on-year. Investments in government securities totaled \$547.6m at end-2014, up by 11% from end-2013 and compared to a decline of 35.3% in 2013. Further, the aggregate capital account of investment banks reached \$1.14bn at the end of 2014, constituting an increase of 13.8% from a year earlier. There were 16 investment banks operating in Lebanon with a total of 21 branches as at March 2014.

Central Bank warns of volatility in global currency markets

In the monthly meeting between the Central Bank and the Association of Banks in Lebanon (ABL), Governor Riad Salamé indicated that the foreign exchange market is stable and is witnessing excess supply from time to time. He stressed the need to strictly implement the circular about currency trading, whereby banks have to ask for a minimum margin of 20% from clients who trade in the foreign exchange market. He warned of the high volatility involved in currency trading, similar to what happened following the unpegging of the Swiss franc from the euro. He added that currency markets could fluctuate in the United States, Europe and Japan in case authorities continue to use monetary policy measures to stimulate growth. He stressed that the 20% margin requirement is important to protect the bank as well as its clients from volatile currency fluctuations.

Further, Governor Salamé indicated that the level of interest rates in Lebanon would remain stable after the reduction that the Central Bank implemented, which would help manage liquidity at lower interest rates. Also, Governor Salamé informed the ABL that the Central Bank issued a circular that regulates the work of *comptoirs*, similar to the measures it previously took to regulate the operations of money dealers. He added that the new circular falls within the context of efforts to regulate non-bank financial institutions.

In parallel, the ABL informed Governor Salamé that commercial banks have not yet received the LPB 40 billion owed from the Public Corporation for Housing (PCH) for 2014, despite the agreement between the Finance Ministry and the Ministry of Social Affairs to resolve this issue. The ABL added that banks cannot be dependent on advances from the Treasury when it comes to the dues from the PCH, given that these advances could be arbitrarily approved or denied as is the case currently with the LPB 40 billion. In addition, the ABL submitted a proposal to the Central Bank to resolve the issue of outstanding loans processed by the PCH while preserving the low interest rates for borrowers. The governor indicated that the Central Bank's Central Council will take a decision about this issue in the near future.

Fitch affirms Holcim's ratings, outlook 'stable'

Fitch Ratings affirmed the Long-term Issuer Default Ratings (IDR) of the Swiss-based building materials company Holcim Ltd at 'BBB', with a 'stable' outlook. It also affirmed the firm's short-term rating at 'F2'. Holcim Ltd is the parent company of Holcim Liban sal and holds a 52% stake in the Lebanese firm. The agency indicated that the affirmation follows the announcement that Holcim and French industrial company Lafarge would jointly sell their global portfolio assets to Irish building materials company CRH for an enterprise value of €6.5bn. Holcim and Lafarge are required to dispose of sizable assets in several countries in order to comply with the requirements of antitrust authorities and to complete their merger.

Fitch expected the proceeds from the disposal of the sale of global assets to support the merged entity's financial profile, as it would improve the combined group's credit metrics and financial flexibility given Lafarge higher leverage than Holcim. It noted that the higher-than-expected proceeds from the disposal would mitigate a weaker-than-expected recovery in recent quarters.

Further, the agency considered that the merger would create a larger and more diversified company with improved market positions and substantial synergy potential. It said that the resulting entity from the merger would hold number one market positions in cement, aggregates and ready-mix products and would benefit from the individual companies' complementary asset base in Latin America, Africa and the Middle East.

Holcim Liban sal posted net profits of \$9.4m in the first half of 2014, constituting an increase of 15.2% from \$8.1m in the same period of 2013. The firm's sales totaled \$93.2m in the first half of the year, up 4.9% from \$88.8m in the same period of 2013. Holcim's gross profits margin reached 30.7% relative to 26.7% in the same period of 2013. The firm's total assets reached \$269.2m at end-June 2014 relative to \$292.1m at end-2013; while its shareholders' equity was \$221.7m at end-June 2014 compared to \$212.3m at the end of 2013. The company's total loans and borrowings reached \$8.4m at the end of June, down 4.6% from \$8.8m at end-2013; while its banks' balance and cash fell by 74.2% from end-2013 to \$9.5m. Holcim's share price on the Beirut Stock Exchange closed at \$15.5 on February 13, 2015, constituting a rise of 1.6% from end-2014.

Ratio Highlights

(in % unless specified)	2012	2013	2014	Change*
Nominal GDP (\$bn)	43.3	46.2	48.2	
Public Debt in Foreign Currency / GDP	56.3	56.6	53.1	(346)
Public Debt in Local Currency / GDP	76.9	80.9	85.0	413
Gross Public Debt / GDP	133.2	137.4	138.1	68
Total Gross External Debt / GDP	166.8	168.7	173.1	440
Trade Balance / GDP	(38.8)	(37.4)	(35.6)	178
Exports / Imports	21.1	18.5	16.2	(238)
Fiscal Revenues / GDP	22.1	18.5	20.8	40
Fiscal Expenditures / GDP	30.7	29.3	29.3	-
Fiscal Balance / GDP	(8.6)	(9.0)	(8.5)	50
Primary Balance / GDP	(0.3)	(0.5)	1.4	-
Gross Foreign Currency Reserves / M2	69.4	69.5	66.5	(299)
M3 / GDP	240.2	240.6	244.1	354
Commercial Banks Assets / GDP	350.8	356.8	364.5	776
Private Sector Deposits / GDP	288.7	294.8	299.6	482
Private Sector Loans / GDP	100.4	102.6	105.6	304
Private Sector Deposits Dollarization Rate	64.8	66.1	65.7	(43)
Private Sector Lending Dollarization Rate	77.6	76.5	75.6	(98)

* Change in basis points 13/14

Source: Association of Banks in Lebanon, International Monetary Fund, Institute of International Finance, 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	Apr 2013	Mar 2014	Apr 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	Apr 2013	Mar 2014	Apr 2014	Change*	Risk Level
Political Risk Rating	58.6	58.3	58.3	▲	High
Financial Risk Rating	41.5	40.5	40.7	▲	Very Low
Economic Risk Rating	36.3	35.9	36.1	▲	Low
Composite Risk Rating	68.2	67.3	67.5	▲	Moderate

*year-on-year change in risk

Source: The PRS Group, Byblos Research

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

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

Ratings & Outlook

Sovereign Ratings	Foreign Currency			Local Currency		
	LT	ST	Outlook	LT	ST	Outlook
Moody's	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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