



LEBANON THIS WEEK

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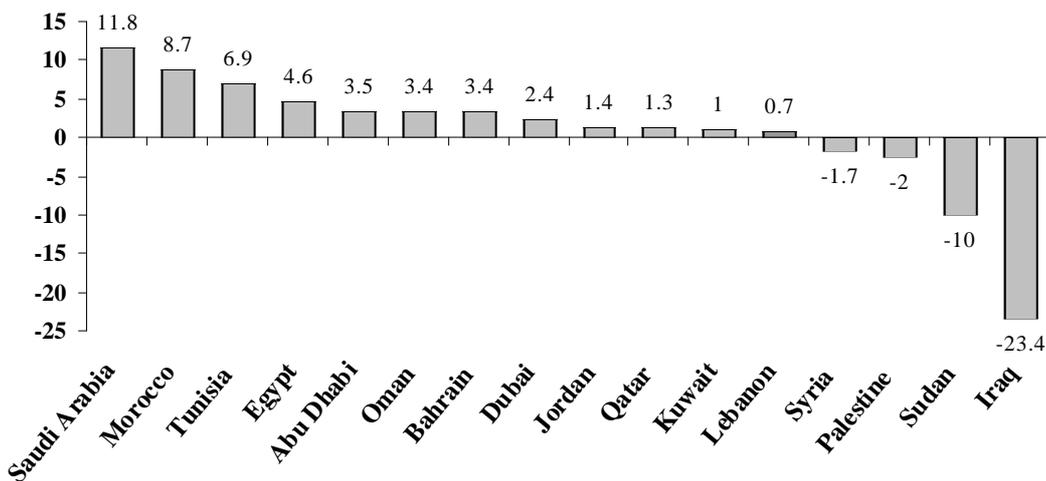
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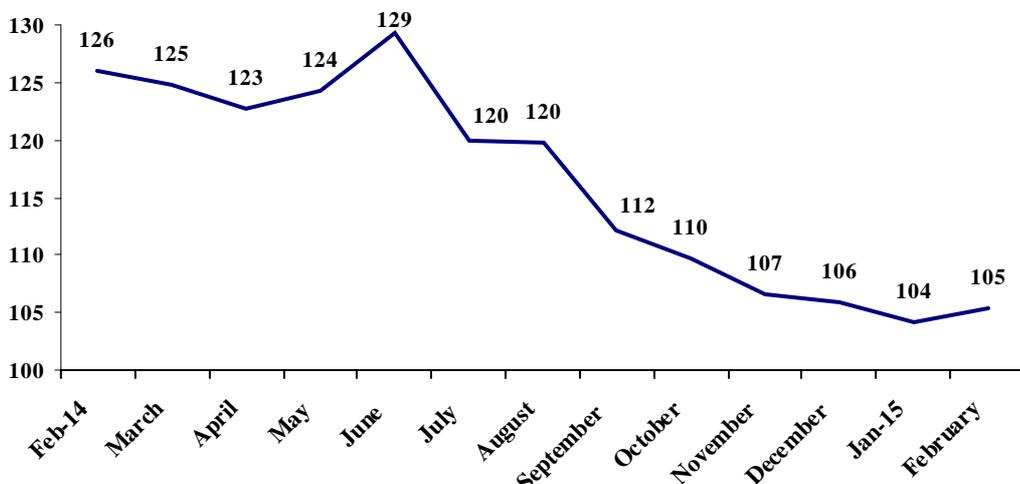
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Charts of the Week

Performance of Arab Stock Markets in the First Two Months of 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

"We expect economic performance to remain weak, following the steady deterioration in fundamentals since 2012."

Global Investment bank Merrill Lynch, on Lebanon's economic growth outlook

Number of the Week

\$32.4bn: Gross foreign currency reserves at the Central Bank at the end of 2014

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
Consumer Price Index**	3.89	5.04	1.54	0.81	1.24	(0.27)	-

* Year-on-Year

** Year-on-Year percentage change

Note: bps i.e. basis point

Source: Association of Banks in Lebanon, Banque du Liban, Byblos Research

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"	11.26	0.36	126,911	9.56%	Apr 2015	10.000	100.90	3.62
Solidere "B"	11.15	(0.36)	15,698	6.16%	Jan 2016	8.500	102.88	5.09
Byblos Common	1.68	0.00	0	5.13%	Mar 2017	9.000	108.50	4.60
Byblos Pref. 08	102.00	0.00	0	1.73%	Nov 2018	5.150	100.88	4.89
Byblos Pref. 09	102.20	0.00	50	1.74%	May 2019	6.000	102.75	5.26
BLOM GDR	9.86	(0.50)	1,920	6.19%	Mar 2020	6.375	103.75	5.51
BLOM Listed	9.10	0.55	2,829	16.62%	Apr 2021	8.250	112.75	5.74
Audi GDR	7.25	7.25	43,442	7.16%	Oct 2022	6.100	102.00	5.77
Audi Listed	6.75	2.43	29,925	22.92%	Jun 2025	6.250	100.88	6.13
HOLCIM	15.00	(3.23)	2,640	2.49%	Nov 2026	6.600	103.25	6.20

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

Source: Byblos Bank Capital Markets

	Feb 23-27	Feb 16-20	% Change	Feb 2015	Feb 2014	% Change
Total Shares Traded	563,915	19,471,089	(97.10)	21,880,303	6,037,763	262.39
Total Value Traded	\$9,590,872	\$127,097,795	(92.45)	\$156,374,052	\$43,140,999	262.47
Market Capitalization	\$11.77bn	\$11.66bn	1.03	\$11.77bn	\$11.30bn	4.21

Source: Beirut Stock Exchange (BSE)



Association of Banks calls for strengthening anti-money laundering framework

The Association of Banks in Lebanon (ABL) called on Parliament to ratify three draft laws related to anti-money laundering that the Cabinet approved three years ago, as well as to approve Lebanon's adherence to the United Nation's 1999 International Convention for the Suppression of the Financing of Terrorism. It said that the first draft law allows amendments to anti-money laundering Law 318, the second draft law regulates the transfer of funds across borders and the third one is about the exchange of tax information. It considered that the ratification of the three draft laws would strengthen the country's anti-money laundering framework.

The ABL indicated that the requirements for Lebanon to join the United Nation's treaty are simple and consist of including the international organization's definition of terrorism in clauses 314, 315 and 316 of the Lebanese Penal Code. It said that Lebanon's banking secrecy does not contradict the United Nation's convention due to the presence of the Special Investigation Commission against Money Laundering that regulates the lifting of banking secrecy. Also, it noted that Lebanon ratified the Arab Convention on the Suppression of Terrorism in 1999 and signed several bilateral agreements to combat terrorism that are similar to the United Nation's convention. It added that 171 countries, including 15 Arab countries, have already joined the United Nation's 1999 International Convention for the Suppression of the Financing of Terrorism.

The ABL noted that the first draft law consists of expanding the definition of anti-money laundering to include most financial crimes, such as the protection of intellectual property, as well as to expand the declaration forms to include new professional sectors, such as public notaries and lawyers, in accordance with international criteria. Further, the ABL pointed out that regulating the transfer of funds across borders does not put at risk capital inflows to Lebanon. It noted that the law requires incoming visitors to disclose the amount of cash they have at border entry points, which would facilitate the deposit of these amounts at financial institutions in Lebanon. It noted that most of the financial inflows to Lebanon go through the financial and banking sector, while inflows in the form of cash represent a small share of total inflows. Finally, the ABL said that the draft law on the exchange of tax information is part of the Organization for Economic Cooperation and Development's (OECD) decisions and mechanisms to combat tax evasion. It covers the exchange of tax information for nationals of OECD countries, and would not have an impact on Lebanese working in GCC countries or in Africa.

Finance Ministry issues \$2.2bn in Eurobonds

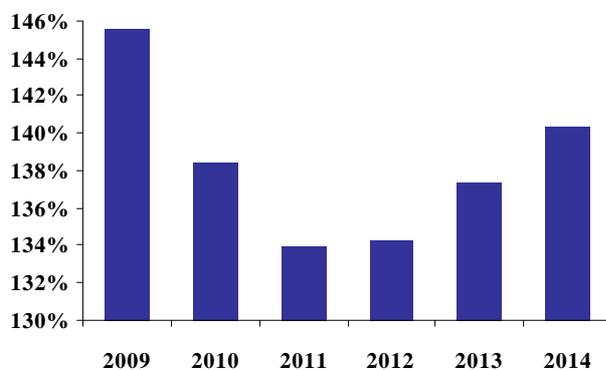
The Ministry of Finance issued a \$2.2bn dual-tranche Eurobond under the Republic of Lebanon's Global Medium Term Note Program to cover part of the government's operating expenditures and debt service payments in 2015. The issuance is Lebanon's largest since the country started issuing Eurobonds in the 1990s. The ministry was seeking to raise \$1bn from this issuance but it increased the amount to \$2.2bn, given that demand from local and foreign investors reached \$4.9bn.

The first series consists of a 15-year \$1.4bn Eurobond that matures in February 2030 and that carries an annual coupon rate of 6.65%, while the second series consists of a 10-year \$800m Eurobond that matures in February 2025 and that carries an annual coupon rate of 6.2%. Both coupons are paid on a semi-annual basis. The demand for the 15-year Eurobond totaled \$3.2bn and orders for the 10-year bond amounted to \$1.6bn. Commercial banks subscribed to about 64% of the issued amount, the Central Bank and non-bank local institutions subscribed to about 21% of the issuance, and foreign investors acquired the remaining 15%. The ministry indicated that the coupon rates on the issued Eurobonds are lower than those on Treasury bonds, as the cost of borrowing in local currency on 10-year bonds is 7.46%, which is significantly higher than the coupon rate on the newly-issued 10-year Eurobond.

The issuance was part of the \$2.5bn in foreign currency borrowing that the Lebanese Parliament approved on November 5, 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 to reduce its reliance on the Central Bank for its financing needs. As such, Central Bank Governor Riad Salamé repeatedly encouraged commercial banks to subscribe to the new Eurobonds. The ministry indicated that it needs to raise an additional \$2.2bn to fully cover the government's financing needs for 2015. It announced that it intends to ask Parliament to issue a new law before June 2015 that increases the ceiling on foreign currency borrowing, as it can only issue \$300m under the current law.

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 and 7.5% in 2012. The gross public debt grew by \$5.78bn in 2013 and by \$3.1bn in 2014. Domestic debt totaled \$41bn at end-2014, and rose by 9.7% from end-2013; while debt in foreign currency stood at \$25.6bn, constituting a decrease of 2% from a year earlier. Foreign currency-denominated debt represented 38.5% of the total relative to 41.1% 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 of February 26, 2015.

Gross Public Debt (% of GDP)



Source: International Monetary Fund, Byblos Research

Foreign investments of financial sector at \$6.3bn at end-June 2014, commercial banks account for 67% of long-term debt securities and for 27% of equity investments

Figures issued by the Central Bank show that the net investment portfolio of Lebanese banks and financial institutions in foreign debt and equity securities totaled \$6.3bn at the end of June 2014, constituting an increase of 2.1% from \$6.1bn at end-2013 and a drop of 2.1% from \$6.4bn at end-June 2013. Investments in long-term debt securities reached \$3.4bn at the end of June 2014 and accounted for 54.2% of the total, followed by investments in equities at \$2.8bn (44.2%) and short-term debt securities at \$97.3m (1.6%). According to the Central Bank, the figures cover the net assets of resident banks and financial institutions in foreign tradable debt and equity instruments. They help provide a clearer picture about the flow of funds from Lebanon and, therefore, about the balance of payments.

Commercial banks' net portfolio in foreign long-term debt securities totaled \$2.3bn and accounted for 67% of aggregate investments in such securities at the end of June 2014. The figure includes banks' investments for their own account, on behalf of their clients and on a custodial basis. Medium- and long-term banks followed with \$863m (25.4%), than insurance firms with \$165m (4.9%) and financial institutions with \$95.2m (2.8%). Commercial banks also represented 91.4% of investments in short-term debt securities, followed by medium & long-term banks and financial institutions with 4.1% each and insurance companies with 0.6%. In parallel, financial institutions' net assets in equities reached \$1.1bn and accounted for 41.2% of total investments in such securities. They were followed by commercial banks with \$745.4m (26.9%), medium- and long-term banks with \$725.8m (26.2%) and insurance companies with \$155.4m (5.6%).

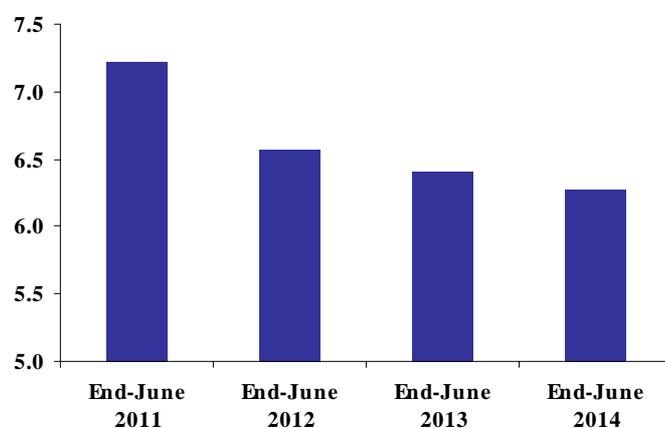
The distribution of investments by destination shows that the United States was the leading recipient of equity investments by banks and financial institutions operating in Lebanon with \$1.44bn or 51.9% of the total at end-June 2014. Bahrain followed with \$259.7m (9.4%), than Luxembourg with \$155.2m (5.6%), France with \$138.8m (5%) and Jordan with \$132.8m (4.8%), while other countries accounted for the remaining 23.4% of total equity investments. In parallel, the United Kingdom represented \$576.7m or 16.9% of investments in long-term debt securities, followed by France with \$450m (13.2%), the United States with \$425.7m (12.5%), the UAE with \$273m (8%) and the Netherlands with \$145.6m (4.3%), while other countries accounted for the remaining 45%. Further, Qatar accounted for 43.9% of investments in short-term debt securities, followed by the UAE with 30.3%, Australia (12.2%), France (4%) and Venezuela (2.9%), while other countries represented the remaining 6.8%.

Tourist arrivals up 23% in January 2015

The number of incoming tourists to Lebanon totaled 90,784 in January 2015, constituting an increase of 22.6% from 74,019 tourists in January 2014, a rise of 12% from 81,060 tourists in January 2013 and a drop of 5.3% from 95,816 tourists in the same month of 2012. Arab tourists accounted for 38.3% of total visitors in January 2015 and were followed by visitors from European countries with 30%, the Americas with 14.9%, Asia with 9.4%, Africa with 4.5% and Oceania with 2.9%. Also, tourists from Iraq accounted for 13.4% of total visitors in January 2015, followed by visitors from France and the United States with 7.6% each, Egypt with 6.5%, Saudi Arabia with 5.7%, Jordan with 5.1% and Canada with 4.9%.

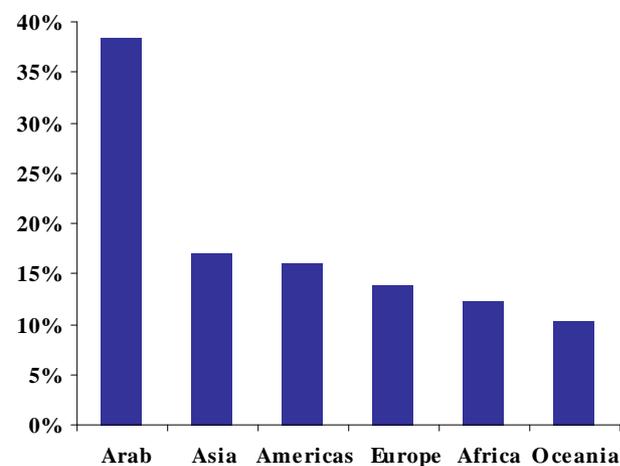
The number of visitors from Arab countries increased by 38.4% in January 2015, followed by visitors from Asia (+17.1%), the Americas (+16%), Europe (+14%), Africa (+12.2%) and Oceania (+10.3%). In parallel, the number of tourists from the UAE surged by 145.3% year-on-year in January 2015, followed by visitors from Saudi Arabia with a 133.3% rise, Kuwait (+125.5%), Turkey (+56%), Iraq (+34%), Egypt (+28%), Brazil (+26.8%), Canada (+19.1%), the United States (+15.1%), Sweden (+13%), France (+12.2%), England (+10.3%), Italy (+6%) and Germany (+5.2%). In contrast, the number of visitors from Venezuela declined by 13% annually, while visitors from Jordan decreased by 5.3% year-on-year in January.

Foreign Investments of Financial Sector (US\$bn)



Source: Central Bank, Byblos Research

Change in the Number of Tourist Arrivals in January 2015*



*year-on-year percentage change

Source: Ministry of Tourism, Byblos Research

Occupancy rate at Beirut hotels at 50%, room yields up 43.5% in January 2015

EY's benchmark survey of the hotel sector in the Middle East indicated that the average occupancy rate at hotels in Beirut was 50% in January 2015, up from 36% in January 2014 and compared to an average rate of 61.1% in 11 Arab markets included in the survey. The occupancy rate at Beirut hotels was the fifth lowest in the region in January 2015, while it was the second lowest in the same month of 2014. Manama and Amman posted the lowest occupancy rates of 43% each in the covered month, followed by Cairo and Kuwait city (49% each). Also, the occupancy rate at hotels in Beirut rose by 14 percentage points year-on-year, constituting the second highest increase among the 11 Arab markets, and relative to an average rise of 1.5 percentage points for the region.

The average rate per room at Beirut hotels was \$181 in January 2015, ranking the capital's hotels as the third least expensive in the region, relative to Amman (\$155) and Cairo (\$106). The average rate per room at Beirut hotels rose by 3.8% year-on-year and posted the third highest growth among all markets in the region, as it underperformed only Cairo (45.9%) and Doha (11.8%). The average rate per room in Beirut came below the regional average of \$212.5, which decreased by 2.8% from the same month of 2014.

Further, revenues per available room (RevPAR) were \$92 in Beirut in January 2015, up from \$64 in January 2014, and came in eighth place in the region, higher than in Manama (\$83), Amman (\$68) and Cairo (\$53) only. Beirut's RevPAR surged by 43.5% year-on-year and posted the second highest increase among Arab markets, relative to a growth rate of 177.3% in Cairo. Further, Dubai posted the highest average rate per room in the region at \$321, the highest occupancy rate at 86% and the highest room yield at \$278 in January 2015.

Opened letters of credits at \$6.3bn for imports and \$3.1bn for exports in 2014

Figures issued by the Central Bank indicate that the value of letters of credits (LCs) opened to finance imports to Lebanon totaled \$6.28bn in 2014, constituting a decrease of 6.2% from \$6.69bn in 2013. The value of LCs opened to finance imports to Lebanon reached \$1.53bn in the first quarter, \$1.68bn in the second quarter, \$1.71bn in the third quarter and \$1.35bn in the fourth quarter of 2014. Further, utilized credits for imports reached \$6.2bn in 2014, down by 5.5% from \$6.6bn in 2013. They accounted for 97% of opened LCs last year compared to a 98.2% share in 2013. Utilized credits for imports totaled \$1.65bn in the first quarter, \$1.42bn in the second quarter, \$1.83bn in the third quarter and \$1.31bn in the fourth quarter of 2014. Also, outstanding import credits amounted to \$984.1m at the end of 2014 compared to \$1.1bn at end-2013. Further, the aggregate value of inward bills for collection reached \$1.72bn in 2014, constituting an increase of 6.2% from \$1.62bn in 2013. The value of inward bills for collection totaled \$478.8m in the first quarter, \$421.3m in the second quarter, \$369.9m in the third quarter and \$453.5m in the fourth quarter of 2014. Outstanding bills for collection reached \$143m at the end of 2014 relative to \$161.4m at end-2013.

In parallel, the value of documentary letters of credits opened to finance exports from Lebanon reached \$3.1bn in 2014, constituting a decrease of 13.1% from \$3.54bn in 2013. It totaled \$650.1m in the first quarter, \$943.5m in the second quarter, \$819.6m in the third quarter and \$666.1m in the fourth quarter of 2014. Further, utilized credits for exports reached \$3bn in 2014, down 14.1% from \$3.46bn of used credits in 2013. They totaled \$643.9m in the first quarter, \$763m in the second quarter, \$859.5m in the third quarter and \$701.4m in the fourth quarter of 2014. Outstanding export credits reached \$1.14bn at end-2014 compared to \$1.28bn at end-2013. The aggregate value of outward bills for collection amounted to \$1.7bn in 2014, constituting an increase of 25.3% from \$1.4bn in 2013. They were \$394.4m in the first quarter, \$491.9m in the second quarter, \$435.4m in the third quarter and \$408.6m in the fourth quarter of last year. The outstanding value of outwards bills for collection reached \$500.6m at end-2014 relative to \$450.7m a year earlier.

Coincident Indicator up 3% in 2014

The Central Bank's Coincident Indicator, an index of economic activity in Lebanon, reached 292.5 points in December 2014 compared to 268.7 in November 2014 and 267.9 in December 2013. The Coincident Indicator, an average of 8 weighted economic indicators, improved by 8.9% month-on-month and by 9.2% year-on-year in December 2014. The indicator averaged 273.2 in 2014, compared to 271.1 in the 12 months ending November 2014 and relative to 264.7 in 2013. As a result, the average coincident indicator declined by 0.8% month-on-month and rose by 3.2% year-on-year. In parallel, the indicator improved 11 times and regressed 11 times on a monthly basis in the month of December since 1993. It averaged 225.9 in 2009, 249.5 in 2010, 255.7 in 2011 and 256.6 points in 2012.

Hotel Sector Performance in January 2015

	Occupancy Rate (%)	RevPAR (US\$)	RevPAR % change
Dubai	86	278	(5.7)
Doha	75	206	20.4
Jeddah	68	169	(3.1)
Abu Dhabi	78	167	(4.0)
Riyadh	62	134	0.2
Madina	69	131	(12.0)
Kuwait	49	121	(-35.1)
Beirut	50	92	43.5
Manama	43	83	(14.1)
Amman	43	68	(19.1)
Cairo City	49	53	177.3

Source: EY, Byblos Research

Subsidized interest loans at \$336m in first half of 2014

Figures released by the Central Bank show that the amount of subsidized interest loans to productive sectors in Lebanon totaled \$336.4m in the first half of 2014. The industrial sector was the beneficiary of \$175.1m in subsidized interest loans, equivalent to 52.1% of the total, followed by tourism with \$95.3m (28.3%) and agriculture with \$65.9m (19.6%). Subsidized interest loans extended in the first half of 2013 totaled \$243.4m relative to \$425.9m and \$482.5m in the same period of 2012 and 2011, respectively. The cumulative amount of subsidized interest loans to productive sectors in Lebanon amounted to \$5.8bn between 1997 and June 2014.

Subsidized medium & long-term loans amounted to \$277.2m in the first half of 2014, equivalent to 82.4% of the total. The industrial sector accounted for 52.7% of total subsidized medium & long-term loans, followed by tourism with 31.4% and agriculture with 15.9%. The program was established in the first quarter of 1997 and consists of a 5% to 7% subsidy on the interest on loans extended in foreign currency to productive sectors.

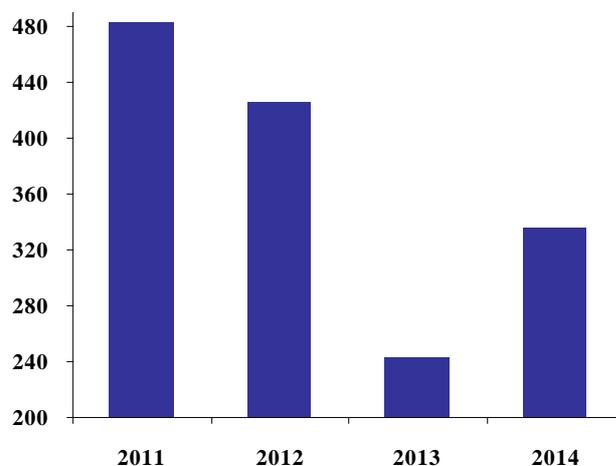
Also, subsidized interest loans guaranteed by the Kafalat Corporation totaled \$55m, or 16.3% of the total. The industrial sector received 45.2% of Kafalat-backed subsidies, followed by agriculture with 39.7% and tourism with 15.1%. Kafalat provides financial guarantees for loans of up to \$400,000 for small and medium-sized enterprises in productive sectors. Further, subsidized interest loans granted by leasing companies totaled \$4.2m in the first half of 2014, or 1.2% of the total, and were extended in full to the industrial sector.

Industrial activity regresses in second quarter of 2014

The Central Bank's quarterly business survey shows that industrial production continued to deteriorate in the second quarter of 2014, as the balance of opinions stood at -9 compared to -8 in the preceding quarter and to -5 in the same quarter of 2013. The balance of opinions was the lowest in Beirut & Mount Lebanon at -25, followed by the Bekaa (-8), the North (zero) and the South (+40). The business survey reflects the opinions of enterprise managers on the evolution of their businesses, in order to depict the evolution of a number of key economic variables. The balance of opinions for overall demand for industrial goods stood at -9 in the second quarter of 2014 compared to -10 in the preceding quarter, and was unchanged from the same quarter of 2013. The balance of opinions about overall demand for industrial goods was the lowest in Beirut & Mount Lebanon where it reached -25, followed by the Bekaa (-10), the North (+5) and the South (+34).

Further, the balance of opinions for the volume of investments in the industrial sector stood at -3 in the second quarter of 2014 compared to zero in the preceding quarter and to +3 in the same quarter of 2013. The balance of opinions about the volume of investments was the lowest in the South at -37, followed by the North (-4), Beirut & Mount Lebanon (-1) and the Bekaa (+7). Also, the balance of opinions for foreign demand for industrial goods stood at -22 during the second quarter of 2014 compared to -11 in the preceding quarter and to -13 in the second quarter of 2013. The balance of opinions is the difference between the proportion of surveyed managers who consider that there was an improvement in a particular indicator and the proportion of those who reported a decline in the same indicator.

Subsidized Interest Loans* (US\$m)



*in the first half of each year

Source: Central Bank, Byblos Research

Industrial Activity: Evolution of Opinions				
Aggregate results	Q2-11	Q2-12	Q2-13	Q2-14
Production	-11	-11	-5	-9
Total demand	-11	-11	-9	-9
Foreign demand	-13	-19	-13	-22
Volume of investments	4	9	3	-3
Inventories of finished goods	-9	-6	-8	-12
Inventories of raw material	0	-5	-3	-10
Registered orders	-24	-11	-11	-15

Source: Central Bank Business Survey for Second Quarter 2014



Residential buildings represent 84% of construction permits for new buildings in 2014, Mount Lebanon accounts for 62% of the total

Figures released by the Order of Engineers & Architects of Beirut show that the surface area of construction permits for new buildings totaled 7.67 million square meters (sqm) in 2014, constituting an increase of 5.7% from 7.23 million sqm in 2013. The surface area of construction permits for new residential buildings was 6.45 million sqm last year and accounted for 84.1% of the total. It was followed by commercial buildings with 587,855 sqm (7.7%), industrial- and agricultural-related buildings with 271,072 sqm (3.5%), general purpose buildings with 158,602 sqm (2.1%), general service buildings such as hospitals and schools with 126,985 sqm (1.7%), and hotel- and tourism-related buildings with 78,965 sqm (1%).

The distribution of the surface area of construction permits for new residential buildings shows that Mount Lebanon accounted for 61.7% of the total, followed by the South with 14.2%, Beirut with 9.4%, the Bekaa with 6.8%, Nabatieh with 6.6% and the North with 1.3%. Also, new residential units totaled 23,422 in 2014, with residential buildings accounting for 74.2% of total units, followed by residential complexes (11.4%), individual houses (6.9%), villas and luxurious residential buildings (3.2% each) and luxurious residential complexes (1.1%).

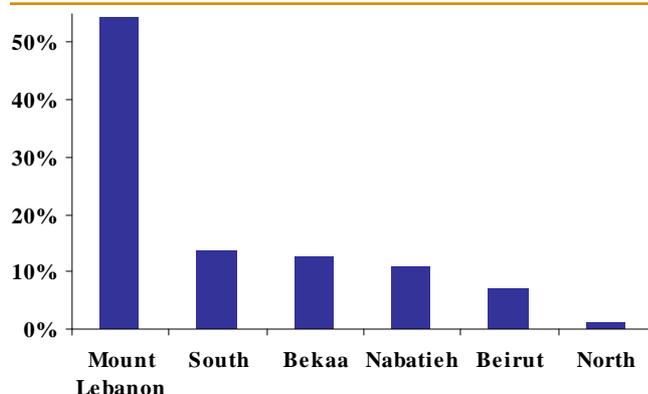
In parallel, the Order of Engineers & Architects issued 6,779 authorizations to start construction work in 2014, constituting a decrease of 3.4% from 7,016 in 2013 and relative to an increase of 11.2% in 2013. All construction permits for new buildings, modifications or extensions of building and restorations are subject to the mandatory authorization for the start of the actual construction. Applications for the authorizations should be filed during a period of up to one year after receiving the construction permit, depending on the surface area of the project. Mount Lebanon accounted for 42.7% of total authorizations in 2014, followed by the South (20.4%), Nabatieh (19.3%), the Bekaa (14.4%), Beirut (1.9%) and the North (1.3%). In parallel, the surface area of issued authorizations reached 8.2 million sqm in 2014, constituting a marginal decrease of 0.8% from 8.3 million sqm in 2013 and compared to a decline of 10% in 2013. Mount Lebanon accounted for 4.5 million sqm or 54.4% of the total in 2014. It was followed by the South with 1.1 million sqm (13.7%), the Bekaa with one million sqm (12.6%), Nabatieh with 897,244 sqm (10.9%), Beirut with 576,364 sqm (7%) and the North with 99,136 sqm (1.2%).

Average value of real estate transactions down 4% to \$147,800 in January 2015

Figures released by the Ministry of Finance indicate that the number of real estate transactions totaled 3,551 in January 2015, constituting a decrease of 28.4% from 4,959 deals in the same month of 2014. In comparison, the number of real estate transactions rose by 8.9% in January 2014 and dropped by 15.5% in the same month of 2013. Also, the aggregate value of real estate transactions reached \$524.8m in January 2015, constituting a drop of 31.6% from \$766.8m in the same month of 2014. In comparison, the value of real estate deals totaled \$480.4m in January 2013 and \$562.1m in the same month of 2012. In parallel, the average value per real estate transaction dropped by 4.4% year-on-year to \$147,797 in January 2015, relative to an average value of \$154,633 in the same month of 2014 and \$105,510 in January 2013.

Further, there were 89 real estate transactions executed by foreigners in January 2015, increasing by 32.8% from 67 deals in the same month of 2014, and compared to annual decreases of 14.1% in January 2014 and 19.6% in the same month of 2013. The number of real estate transactions by foreigners accounted for 2.5% of total real estate deals in January 2015, up from 1.4% in the same month last year and from 1.7% in January 2013.

Regional Distribution of Authorizations to Start Construction Work in 2014*



*Surface area

Source: Order of Engineers & Architects of Beirut, Byblos Research

Lebanese businesses are less likely to hire in the near term, banking sector attracts top talent

A survey conducted by regional job portal *Bayt.com* indicates that employers in Lebanon are less likely to hire staff in the coming three- to 12 months than they were planning to do in the August 2014 survey. The survey covered a sample of 2,694 business owners, CEOs, executives, and senior and mid-level managers in Algeria, Bahrain, Egypt, Jordan, Kuwait, Lebanon, Morocco, Oman, Qatar, Pakistan, Saudi Arabia, Syria, Tunisia and the UAE. The study was conducted online between December 11, 2014 and January 20, 2015, and covered a sample of 99 respondents in Lebanon.

Results of the survey show that 27% of respondents in Lebanon plan to "definitely hire" in the next three months compared to 34% of respondents who were planning to do the same in the August 2014 survey. In comparison, 36% of respondents in the MENA region are planning to "definitely hire" in the next three months. Hiring expectations of firms in Lebanon were the third lowest among 14 economies covered by the survey, and came higher than expectations in Tunisia (23%) and Syria (20%). Hiring expectations of firms in Lebanon were the sixth lowest in the August 2014 survey.

In parallel, 31% of respondents in Lebanon plan to "definitely hire" in the next 12 months, down from 35% in the August 2014 survey. In comparison, 36% of respondents in the region are planning to "definitely hire" in the next 12 months. Hiring expectations of firms in Lebanon were the fifth lowest among 14 economies covered by the survey, and came higher than expectations in Egypt (30%), Jordan (28%), Bahrain and Algeria (27% each). Hiring expectations of firms in Lebanon were the seventh highest among 14 economies in the August 2014 survey.

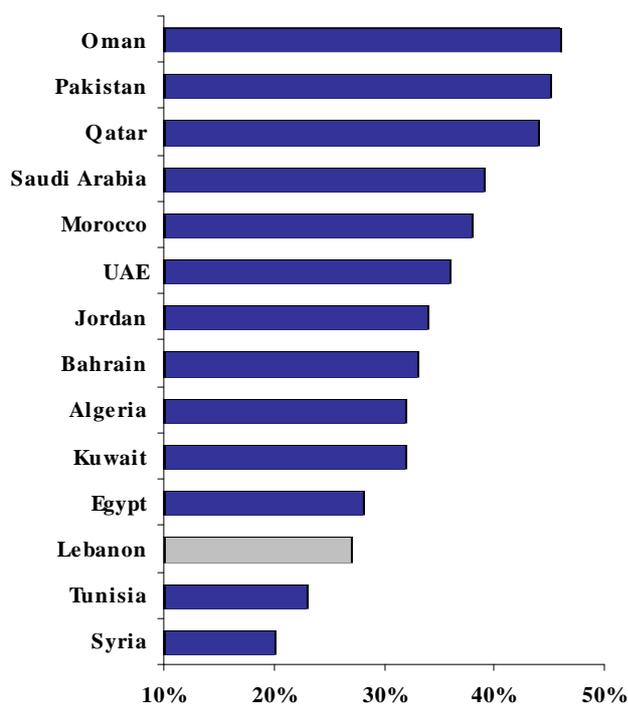
Further, the survey's results show that employers in Lebanon consider the most important requirement for a job candidate to be a team player, followed by having good communication skills in English and Arabic and the ability to work under pressure, having good leadership skills, being trustworthy and honest, being efficient and productive, and being able to take on new challenges. The survey shows that respondents in Lebanon believe that the banking & finance sector is attracting the top talent in the country, followed by advertising, information technology, telecommunications, construction, tourism & hospitality and consumer goods. The survey's results for Lebanon are mitigated by the fact that the sample size is not representative enough and that the survey was conducted via the Internet, which is not the most reliable methodology for opinion polling.

Industrial exports down 7% to \$3.1bn in 2014

Figures released by the Ministry of Industry show that industrial exports totaled \$3.1bn in 2014, constituting a decrease of 6.9% from \$3.4bn in 2013. Industrial exports reached \$260.1m in December 2014, up by 11.8% from November 2014 and by 7.4% from \$242.1m in December 2013. Machinery & mechanical appliances accounted for \$710.7m or 22.6% of total industrial exports in 2014, followed by prepared foodstuffs with \$528.9m (16.8%), chemical products with \$519.6m (16.5%) and base metals with \$377.8m (12%). Arab countries were the destination of 57.5% of Lebanese industrial exports in December 2014, followed by African economies with 14.5%, European countries with 13.5%, Asian economies with 10%, countries in the Americas with 3.1% and countries in Oceania with 0.5%. On a country basis, Saudi Arabia was the main destination of such exports and accounted for 13.2% of the total in December 2014, followed by the UAE with 10.5%, Iraq with 7.4%, Syria with 6.4% and Turkey with 5.6%. In December 2014, 16 Arab countries, 10 European states, eight 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 nine markets in Oceania in December 2014.

In parallel, industrial imports reached \$269.1m in 2014, down by 10.4% from \$300.4m in 2013. Italy was the main source of such imports and accounted for 20.8% of the total in 2014, followed by China with 18.1% and Germany with 16%. Further, imports of industrial equipment and machinery reached \$20.7m in December 2014, increasing by 1.8% year-on-year. China was the main source of industrial equipment imports in December and accounted for 17.3% of the total, followed by Italy with 16.7% and Germany with 12.5%.

Percentage of respondents who plan to definitely recruit in the next three months



Source: *Bayt.com, Byblos Research*

Stock market activity up 2.3 times to \$175m in first two months of 2015

Figures released by the Beirut Stock Exchange indicate that total trading volume reached 24.8 million shares in the first two months of 2015, constituting an increase of 165.7% from the same period of 2014; while aggregate turnover amounted to \$175.2m, up 2.3 times from a turnover of \$76.5m in the first two months of 2014. Market capitalization increased by 4.2% from end-February 2014 to \$11.77bn, of which 81.2% was in banking stocks, followed by real estate shares with 15.7%, industrial equities with 2.7%, and trading stocks with 0.3%. The market liquidity ratio was 1.5% compared to 0.7% in the first two months of 2014. Banking stocks accounted for 95.5% of aggregate trading volume in the first two months of the year, followed by real estate equities with 4.2% and trading shares with 0.2%. Also, banking stocks accounted for 93.2% of the aggregate value of shares traded, followed by real estate equities with 6.6%, trading and industrial stocks with 0.1% each. The average daily traded volume for the period was 620,119 shares for an average daily value of \$4.4m. The figures reflect increases of 152.4% in volume and 117.7% in value year-on-year.

Lebanon borrows \$6.4m to strengthen mobile Internet ecosystem

The Ministry of Telecommunications signed a three-year \$6.4m soft loan with the World Bank to finance the Mobile Internet Ecosystem Project (MIEP). The \$12.8m MIEP intends to support innovation and entrepreneurship in the Lebanese mobile Internet ecosystem. The Telecom Ministry will provide \$6.4m, or 50%, of the total cost. The MIEP aims to bridge the gap between the academic world and the needs of the market by providing hands-on training to students with the support of international experts. In addition, the MIEP aims to enhance the mobile Internet enabling environment in order to raise Lebanon's regional and global competitiveness.

The MIEP is the first of its kind initiative in the Middle East, and aims to move Lebanon from a consumer to a producer of technology by promoting the development of mobile phone applications. The MIEP supports the implementation of open innovation mechanisms and crowdsourcing in order to stimulate innovation and enhance skills. The project is expected to be completed by the end of 2017. The World Bank approved the loan initially on July 31, 2013. The loan still awaits Parliament's approval.

Launch of \$52m venture capital fund

The Beirut-based Berytech announced the launch of a \$51.5m venture capital fund named Berytech Fund II that will be operational in March 2015. The fund plans to invest between \$0.5m and \$3m per firm in more than 20 small- and medium-sized Lebanese enterprises in the information & communications technology sector, as well as in the digital content, industrial design, fashion & jewelry, and renewable energy industries. The fund intends to invest 10% of its capital in early stage & start-up companies, 20% in firms at the early-acceleration stage and 60% at the subsequent acceleration phase. Berytech Fund II has set an investment and divestment periods of up to 10 years. Byblos Bank sal, one of the top banking and financial services groups in Lebanon, committed a total of \$5m in Berytech Fund II. The fund has also received investment commitments from 18 other banks and financial institutions in Lebanon.

The fund is fully compliant 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, and would take 50% of the profits made from each successful divestment.

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

**Includes portion of public debt owed to non-residents, liabilities to non-resident banks, non-resident deposits (estimated by the IMF), Bank for International Settlements' claims on Lebanese non-banks

Source: 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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