

LEBANON THIS WEEK

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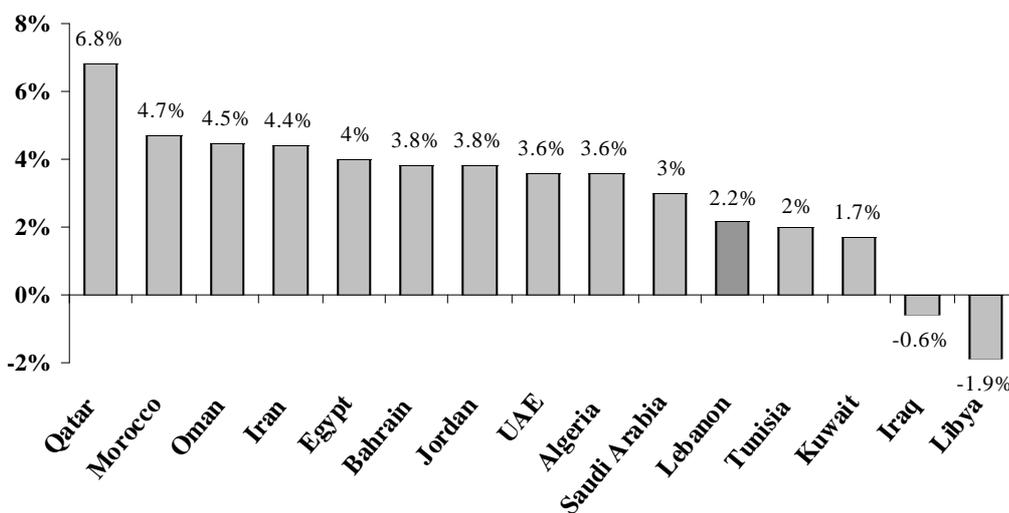
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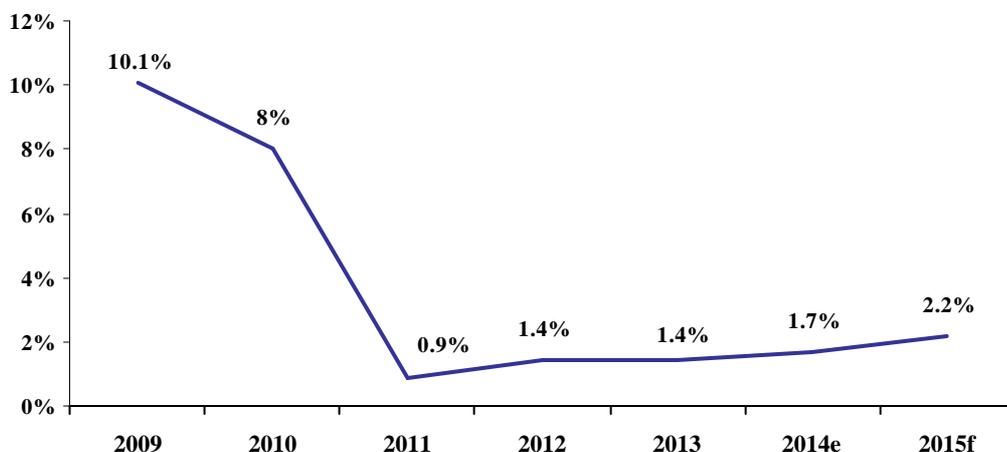
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Charts of the Week

Projected Non-Oil Real GDP Growth of MENA Countries in 2015 (%)



Real GDP Growth Rate in Lebanon (%)



Source: Institute of International Finance - March 2015, Byblos Bank

Quote to Note

"Despite increased political instability and economic weakness, the Lebanese banking sector continues to attract deposits from residents and non-residents."

Deutsche Bank, on the trust of depositors in Lebanese banks

Number of the Week

\$50: Real per capita spending on advertising in Lebanon, according to Ipsos Media CT

Lebanon in the News

\$m (unless otherwise mentioned)	2013	Nov 13	Aug 14	Sep 14	Oct 14	Nov 14	% Change*
Exports	3,936	263	285	282	279	248	(5.70)
Imports	21,228	1,772	2,120	1,671	1,724	1,393	(21.39)
Trade Balance	(17,292)	(1,509)	(1,835)	(1,389)	(1,445)	(1,145)	(24.12)
Balance of Payments	(1,128)	(192)	(564)	131	(566)	(424)	120.83
Checks Cleared in LBP	17,047	1,451	1,558	1,553	1,587	1,415	(2.49)
Checks Cleared in FC	55,321	4,584	4,973	4,852	4,730	4,367	(4.73)
Total Checks Cleared	72,368	6,035	6,531	6,405	6,317	5,782	(4.19)
Budget Deficit/Surplus	(4,220)	(463.41)	(318.75)	(564.21)	(216.28)	(585.95)	(26.44)
Primary Balance	(239.68)	2.97	(141.93)	(84.64)	258.98	(100.54)	-
Airport Passengers	6,265,470	407,869	814,800	640,546	549,726	427,403	4.79

\$bn (unless otherwise mentioned)	2013	Nov 13	Aug 14	Sep 14	Oct 14	Nov 14	% Change*
BdL FX Reserves	31.71	31.78	33.09	32.34	33.09	33.87	6.58
<i>In months of Imports</i>	<i>17.65</i>	<i>17.93</i>	<i>15.61</i>	<i>19.35</i>	<i>19.19</i>	<i>24.32</i>	<i>35.58</i>
Public Debt	63.46	63.26	65.86	65.97	66.21	66.64	5.34
Net Public Debt	53.18	52.75	55.59	55.89	56.23	56.71	7.51
Bank Assets	164.82	161.92	170.33	171.34	171.27	172.21	6.36
Bank Deposits (Private Sector)	136.21	133.15	141.52	142.02	142.04	142.74	7.20
Bank Loans to Private Sector	47.38	46.81	49.74	49.95	50.10	50.51	7.90
Money Supply M2	45.60	45.05	47.48	47.90	47.82	48.07	6.70
Money Supply M3	111.16	109.34	115.62	116.07	116.02	116.47	6.52
LBP Lending Rate (%)	7.29	7.01	7.21	7.08	7.29	6.96	(5bps)
LBP Deposit Rate (%)	5.44	5.47	5.51	5.51	5.58	5.55	8bps
USD Lending Rate (%)	6.88	6.88	6.96	6.94	6.95	7.01	13bps
USD Deposit Rate (%)	2.95	2.97	3.13	3.04	3.12	3.10	13bps
Consumer Price Index**	3.89	4.96	0.81	1.24	(0.27)	0.48	-

* 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
Solidere "A"	11.35	(3.73)	222,017	9.52%
Solidere "B"	11.12	(6.40)	214,249	6.07%
Byblos Common	1.71	(1.72)	654,993	5.16%
Byblos Pref. 08	102.50	0.10	15	1.72%
Byblos Pref. 09	102.40	0.00	4,050	1.72%
BLOM GDR	10.00	0.00	2,750	6.20%
BLOM Listed	9.70	5.78	25,046	17.50%
Audi GDR	6.76	0.15	26,046	6.78%
Audi Listed	6.95	1.46	6,245,879	22.68%
HOLCIM	15.00	0.00	0	2.46%

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

Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
Apr 2015	10.000	100.23	6.47
Jan 2016	8.500	103.63	3.85
Mar 2017	9.000	108.50	4.45
Nov 2018	5.150	100.50	5.00
May 2019	6.000	102.50	5.32
Mar 2020	6.375	103.60	5.53
Apr 2021	8.250	112.60	5.75
Oct 2022	6.100	101.75	5.81
Jun 2025	6.250	100.43	6.19
Nov 2026	6.600	102.65	6.28

Source: Byblos Bank Capital Markets

	Mar 23-27	Mar 16-20	% Change	Feb 2015	Feb 2014	% Change
Total Shares Traded	7,402,195	361,279	1949	21,880,303	6,037,763	262.39
Total Value Traded	\$51,270,799	\$3,022,388	1596	\$156,374,053	\$43,140,999	262.47
Market Capitalization	\$11.92bn	\$11.93bn	(0.08)	\$11.77bn	\$11.30bn	4.21

Source: Beirut Stock Exchange (BSE)



Lebanon's travel & tourism sector to generate 21% of overall economic activity in 2015

The World Travel & Tourism Council (WTTC) estimated that the travel & tourism (T&T) industry would directly contribute \$3.61bn to the Lebanese economy in 2015, equivalent to about 7.5% of GDP, and that direct industry employment will reach 115,400 persons, representing 7.5% of total employment in Lebanon this year. It expected the sector's direct contribution to the economy to grow by 1.8% in real terms in 2015, the 144th highest growth rate among 184 countries; and its direct contribution to employment to rise by 1.2% this year, the 117th highest expansion rate worldwide. It added that, since the T&T industry affects all sectors of the economy, its real direct and indirect impact is more significant. As such, it forecast the sector to generate \$10.1bn or 21.1% of Lebanon's overall economic activity in 2015, including 318,000 jobs or 20.3% of total employment. It expected the sector's overall contribution to GDP to increase by 2.4% in real terms, the 129th highest growth rate in the world; and its aggregate contribution to employment to rise by 1.6% in 2015, the 106th highest rate worldwide.

The WTTC said that the T&T industry's direct contribution to Lebanon's economic activity will rise to LBP9,363.1bn in 2025 in constant 2014 prices, equivalent to 8.9% of GDP; while the broader T&T economy will contribute LBP26,392.1bn, or 25.2% of GDP by 2025. It projected the T&T industry in Lebanon to grow by 5.7% in real terms annually between 2015 and 2025; compared to real growth rates of 4.6% in the Middle East and 3.8% globally over the same period. It forecast the T&T industry's direct contribution to grow by 5.6% in real terms yearly during the 2015-25 period compared to real growth rates of 4.6% in the Middle East and of 3.9% in the world. Globally, Lebanon ranks in 32nd place in terms of the sector's annualized growth rate over the 2015-25 period and in 35th place in terms of the expected growth of the sector's direct contribution to GDP over the covered period.

Further, the WTTC projected the number of jobs in the T&T direct industry to grow by 3.1% in real terms annually and to reach 156,200, or 9.1%, of total jobs in Lebanon by 2025. It also forecast employment in the T&T economy to rise by 3% in real terms annually and to reach 429,400 jobs overall, equivalent to 25.1% of total employment by 2025. In comparison, the WTTC forecast direct industry employment in the Middle East to grow by 3.1% over the 2015-25 period and to account for 3.4% of total employment, while it forecast the T&T economy's employment to grow by 3.2% and to account for 8.2% of the region's total employment. Lebanon ranks in 42nd place in terms of the expected growth of the sector's total contribution to employment and in 40th place in terms of the industry's direct contribution to employment during the 2015-25 period.

In parallel, the WTTC noted that the T&T industry had a direct contribution of \$3.55bn to the Lebanese economy in 2014, equivalent to 7.6% of GDP, and that direct industry employment reached 114,000, representing 7.4% of Lebanon's total employment in 2014. Also, the sector's direct contribution to the economy rose by 7.7% in real terms in 2014 and its direct contribution to employment increased by 8.3%. It added that the T&T's real direct and indirect impact generated \$9.8bn or 21.1% of overall economic activity in Lebanon in 2014, including 313,000 jobs that represented 20.3% of total employment. The sector's overall contribution to GDP increased by 6.9% in real terms, while its aggregate contribution to employment rose by 7.3% in 2014.

Travel & Tourism contribution in Lebanon (LBPbn)			
	2015	2025f	Growth*
Visitors Exports	10,593.2	16,342.1	4.4%
Leisure Spending	11,040.3	16,598.3	4.2%
Domestic Spending	2,344.9	3,831.4	5.0%
Business Spending	1,897.8	3,575.2	6.5%
Capital Investment	2,036.7	3,523.1	5.6%
T&T Direct Contribution to GDP	5,447.0	9,363.1	5.6%
T&T Total Contribution to GDP	15,187.0	26,392.1	5.7%
T&T Direct Employment**	115.4	156.2	3.1%
T&T Economy Employment**	318.0	429.4	3.0%

*real annualized growth rate over 2015-2025

**thousands of jobs

Source: World Tourism & Travel Council

Hotel occupancy rate at 49.3% in February 2015

Figures released by STR Global show that the occupancy rate at Beirut hotels reached 49.3% in February 2015, constituting an increase of 24.7% from the same month last year; while revenues per available room (RevPAR) stood at \$73.28, up 29.7% from February 2014. STR said that Beirut posted the second largest increase in occupancy rates among cities in the Middle East & Africa region, behind Cairo that registered a 39.7% increase in its occupancy rates. It also noted that that the rise in Beirut hotel's RevPAR was the region's second highest in February 2015. It added that Beirut was among three markets that registered an increase of more than 25% in their RevPAR in February 2015, along with Abu Dhabi (+29.2%) and Cairo (+43.9%). The occupancy rate at hotels in the Middle East was 74.4% in February 2015 relative to 75.9% in the same month last year; while the RevPAR was \$159.61, down 1.3% from \$161.7 in February 2014. Also, the occupancy rate at hotels in North Africa was 47.1% in February 2015 compared to 45.4% in the same month of 2014, while the RevPAR was \$40.71, up 13.8% from \$35.8 in the same month last year.



Standard & Poor's affirms long-term sovereign ratings at 'B-', maintains outlook at 'stable'

Standard & Poor's affirmed Lebanon's long- and short-term foreign and local currency sovereign credit ratings at 'B-/B' and maintained the 'stable' outlook on the long-term ratings. It said that the 'stable' outlook reflects sustained deposit inflows into the Lebanese financial system, which would allow the government to meet its financing needs despite the difficult internal and external political environments. It pointed out that the government's debt servicing capacity is heavily dependent on the strength of deposit inflows and on the financial sector's willingness and ability to continue buying government debt. The agency indicated that private sector deposits increased by 6% in 2014 and expected such inflows to grow at a similar pace in 2015. It considered that the current growth rate of private sector deposits would be sufficient to allow the banking sector to finance the wide fiscal deficit and to meet credit demand from the private sector. S&P noted that confidence in the Lebanese financial system is strong and is not likely to be significantly affected by domestic political developments, except in the case of a major escalation of local unrest. It added that the resiliency of the financial sector is supported by the Central Bank's policies of maintaining a high level of foreign currency reserves, price stability and a favorable interest rate differential. However, it noted that the government's dependence on a single source to finance its needs is a structural weakness that increases the country's vulnerabilities to adverse business, financial and economic conditions.

S&P anticipated that regional crises will continue to limit economic growth and did not expect a significant rebound in tourism, financial & trade services, or FDI in 2015. It noted that the Lebanese economy is highly sensitive to swings in consumer and investment confidence. It considered that the election a president this year, followed by the formation of a new government, would likely lead to a pickup in consumer and investor confidence and, therefore, would generate stronger growth. The agency expected that lower oil prices would positively affect the Lebanese economy and will ease pressure on the fiscal and current account deficits, given that Lebanon imports all of its hydrocarbon needs. However, S&P did not expect the government to use the lower oil price environment, and the resulting fiscal space, to implement the structural reforms that would reduce fiscal vulnerabilities and promote longer-term economic growth. It added that the net benefits of lower oil prices could be partly offset by the ongoing conflicts in the region, mainly in Syria.

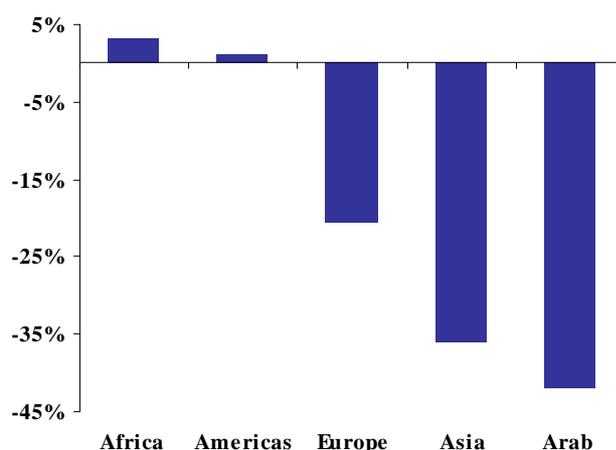
Further, S&P forecast the fiscal deficit to widen from 6% of GDP in 2014 to 8.2% of GDP in 2015, despite expected savings this year of between 1.5% of GDP and 2% of GDP from lower transfers to Electricité du Liban due to lower oil prices. It expected public finances to remain under pressure and the already high public debt level to continue to rise. S&P forecast Lebanon's gross external financing needs to average 102.7% of its current account receipts (CARs) plus usable reserves between 2015 and 2018. It also projected the current account deficit to average 21% of CARs during the 2015-18 period, while it forecast the country's net external liabilities to average 62.3% of its CARs between 2015 and 2018. The agency cautioned that it would downgrade the ratings if the political and economic situation deteriorates to the point where it would halt deposit growth, or if public finances worsen significantly.

Tourist arrivals up 21% in first two months of 2015

The number of incoming tourists to Lebanon totaled 175,859 in the first two months of 2015, constituting an increase of 20.5% from 145,891 tourists in the same period of 2014, a rise of 4.4% from 168,471 tourists in the first two months of 2013 and a drop of 9.1% from 193,383 tourists in the same period of 2012. Arab tourists accounted for 37.5% of total visitors in the first two months of 2015, followed by visitors from European countries with 31.4%, the Americas with 13.8%, Asia with 9.4%, Africa with 5.2% and Oceania with 2.6%. Also, tourists from Iraq accounted for 14.8% of total visitors in the first two months of 2015, followed by visitors from France with 8.4%, the United States with 6.8%, Egypt with 6%, Jordan with 5.2%, Canada with 4.7% and Saudi Arabia with 4.5%.

The number of visitors from Arab countries increased by 28% in the first two months of 2015, followed by visitors from Africa (+20.5%), Asia (+17%), Europe (+16.7%), Oceania (+16%) and the Americas (+14.4%). In parallel, the number of tourists from the UAE surged by 104.5% year-on-year in the first two months of 2015, followed by visitors from Saudi Arabia with a 104.3% rise, Kuwait (+64.6%), Turkey (+52.6%), Brazil (+31.6%), Iraq (+26.6%), Egypt (+17.2%), Canada (+16.8%), England (+16.2%), France (+16.1%), Sweden (+13.6%), the United States (+13.2%), Italy (+8.7%) and Germany (+7.5%). In contrast, the number of visitors from Venezuela declined by 17% annually, while visitors from Jordan decreased by 1% year-on-year in the first two months of 2015.

Change in the Number of Tourist Arrivals from Main Sources in the first two months of 2015*



* from first two months of 2010

Source: Ministry of Tourism, Byblos Research

Two thirds of Internet users in Lebanon access social networking sites

A survey conducted by the U.S.-based opinion polling think tank Pew Research Center indicated that 85% of Lebanese own a mobile phone, the 15th highest share among 32 emerging countries covered in the survey. The share of participants who own a mobile phone in Lebanon is higher than the median of 84% in emerging countries, and is lower than that in Jordan (97%), Egypt (91%) and Tunisia (86%) among Arab countries. Further, 48% of mobile phone owners in Lebanon have a smartphone, the third highest share among emerging countries behind Chile (58%) and China (55%), and compared to a median of 24% for the 32 countries covered in the survey. The survey noted that 82% of mobile phone owners in Lebanon use them to send text messages compared to a median of 76% in developing economies; while 34% of Lebanese use cell phones to take pictures and videos, the second lowest rate in emerging economies.

Further, the results show that 62% of Lebanese participants in the survey access the Internet occasionally or own a smartphone, the seventh highest share among emerging economies, compared to a median of 44% for the 32 countries in the survey. The survey showed that 94% of Lebanese between 18 and 34 years old access the Internet occasionally or own a smartphone, while only 41% of those older than 35 years do so. The most common Internet-related activities in Lebanon include staying in touch with friends and family (89% of Internet users), getting political news (70%), accessing social networking sites (68%), looking/applying for a job (18%), acquiring government information (8%), getting health information (4%), making or receiving payments (3%), and taking online classes and buying products (2% each).

In comparison, 86% of Internet users or smartphone owners in emerging economies use the Internet to stay in touch with friends and family, followed by accessing social networking sites (82%), getting political news (54%), acquiring health information (46%), getting government information (42%), looking/applying for a job (35%), making or receiving payments (22%), buying products online (16%) and taking online classes (13%). The share of mobile phone owners in Lebanon who said that they make or receive payments, get health information, get government services information or look/apply for a job through the Internet is the lowest among emerging markets. In addition, the survey showed that 83% of Internet users or smartphone owners in Lebanon access the Internet on a daily basis, constituting along with Chile, the highest percentage among emerging economies.

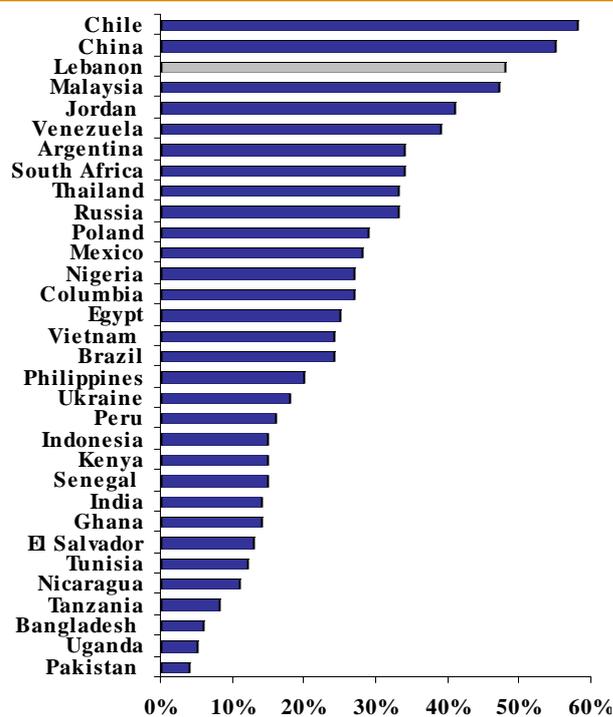
In parallel, the survey indicated that 68% of Internet users or smartphone owners in Lebanon access social networking sites, the fourth lowest rate among emerging markets. Also, 75% of Internet users or smartphone owners who access social networking sites in Lebanon use them to share political views, 50% use them to share views about music and movies, 27% access them to talk about sports, 20% use them to share views about products and 17% access them to share religious beliefs. Further, 80% of Lebanese aged between 18 and 34 years use social networking sites, while 50% of those older than 35 years access them. The survey was conducted between March and June 2014 as part of the Pew Research Center's Global Attitudes Project. The survey's results are based on face-to-face interviews with 1,000 Lebanese adults.

Telecom Ministry to issue one million new mobile phone numbers

The Ministry of Telecommunications (MoT) announced plans to issue one million new mobile phone numbers. The MoT indicated that it would initially disburse 100,000 lines to each of Alfa and Touch, the two operators of the state-owned mobile phone networks, in coming weeks. It noted that the newly lines would be activated as soon as the technical phase is completed. The ministry added that it will gradually disburse the remaining 0.8 million numbers in coming years in accordance with market needs.

Figures released by Alfa and Touch show that there were four million mobile phone subscriptions in Lebanon at the end of June 2014. Touch has 2.1 million mobile phone subscriptions, representing a 53% market share; while Alfa has 1.9 million subscriptions and a 47% share. In parallel, there were 2.8 million subscriptions to data services at the end of June 2014, equivalent to 70% of mobile phone subscriptions. Touch has 1.3 million subscriptions to its data services, equivalent to about 62% of its total mobile phone subscriptions; while Alfa has 1.5 million subscribers to its data services, or about 79% of its total mobile subscription base. The MoT extended until the end of May 2015 the management contracts of Global Telecom Holding and Zain, which operate the state-owned mobile phone networks Mobile Interim Company 1 (MIC 1) and Mobile Interim Company 1 (MIC 2), respectively. The ministry has been renewing the management contracts of both companies on a monthly basis since the end of June 2014.

Smartphone Penetration Rates in Emerging Economies (% of mobile phone owners)



Source: Pew Research Center, Byblos Research

Central Bank to issue long-term Certificates of Deposits to absorb excess liquidity

In the monthly meeting between the Central Bank and the Association of Banks in Lebanon (ABL), Governor Riad Salamé informed the ABL that the Bank plans to issue Certificates of Deposits (CDs) in local and foreign currencies with maturities of 30 years. First, he said that the issuance would allow the Bank to better manage liquidity in the market and that it is the banks' responsibility to manage the mismatching issue on its balance sheet. Second, he pointed out that the issuance would limit currency speculation, as it would provide an outlet for investing the excess liquidity in the market. He stressed that central banks around the world are no longer relying on traditional interest rate policies, but are instead focusing on liquidity-driven policies to stimulate investment and economic growth, and to reduce unemployment. Third, he indicated that the issuance of 30-year CDs would complement the concept of the yield curve. Governor Salamé noted that the issuance of the long-term CDs would also help preserve national savings. He urged banks to be strict in requesting margins from traders who are active in the foreign exchange market, as currency trading is highly volatile and some currencies could fluctuate by more than 10% in a short period of time.

In parallel, the ABL asked the Central Bank to amend Basic Circular 134 dated January 12, 2015 that sets guidelines about how banks and financial institutions communicate the specifics of products and services to their clients. The ABL noted that amending the circular would facilitate its implementation and would better serve its purpose, which is to communicate information to clients in a transparent way and to make sure that each financial product is suitable with the customers' needs and risk profile, while taking into account the clients' level of financial literacy. The ABL affirmed that there was no need for banks to establish a specialized unit to implement Circular 134, given that existing departments could assume this responsibility. It asked the Central Bank to modify several clauses of the circular in order to make them more compatible with actual banking operations. The ABL also requested an amendment that would distinguish between the various types of clients and categories of products. Governor Salamé stated that the legal department at the Central Bank would take into consideration the requested amendments. He reiterated that consumer protection guidelines are part of the Basel Committee's requirements and that correspondent banks are starting to take them into account when dealing with other banks.

In parallel, Governor Salamé indicated that it is very difficult for terrorist organizations like the Islamic State to hold accounts at banks or money dealers operating in Lebanon. But he noted that individual donations to terrorist organizations cannot be fully controlled. He agreed with the ABL that Parliament should ratify several draft laws related to anti-money laundering and terrorist financing that the Cabinet approved three years ago. The ABL considered that the ratification of the draft laws would strengthen the country's anti-money laundering framework.

Construction and public work activity improves in third quarter of 2014

The Central Bank's quarterly business survey shows that construction activity improved in relative terms during the third quarter of 2014, as the balance of opinions stood at -5, compared to -22 in the preceding quarter and to -8 in the same quarter of 2013. The balance of opinions indicates that construction activity was the lowest in Beirut & Mount Lebanon at -37, followed by the Bekaa (-13), the South (+44) and the North (+52). The business survey reflects the opinions of enterprise managers about the evolution of their businesses, in order to depict the evolution of a number of key economic variables. The balance of opinions for public works stood at -9 in the third quarter of 2014 compared to -24 in the preceding quarter and to -8 in the same quarter of 2013. Opinions about the level of public works were the lowest in Beirut & Mount Lebanon at -35, followed by the Bekaa (zero), the South (+40) and the North (+42).

In parallel, the balance of opinions for the portfolio of projects was -22 in the third quarter of 2014 relative to -24 in the preceding quarter and to -12 in the same quarter of 2013. The balance of opinions on the portfolio of projects was the lowest in Beirut & Mount Lebanon at -48, followed by the Bekaa (-23), the South (zero) and the North (+21). Also, the balance of opinions for general construction activity was -7 in the third quarter of 2014, compared to -18 in the preceding quarter and to -6 in the third quarter of 2013. Further, the balance of opinions for construction costs reached +31 in the covered quarter compared to +29 in the preceding quarter and to +30 in the same 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.

Construction and Public Work Activity: evolution of opinions				
Aggregate results	Q3-11	Q3-12	Q3-13	Q3-14
General activity	-3	-3	-8	-5
Construction	2	-10	-6	-7
Public work	-12	6	-8	-9
Portfolio of projects	-6	-14	-12	-22
Construction costs	44	38	30	31
Investments (% of yes)	32%	36%	36%	42%

Source: Central Bank Business Survey for Third Quarter 2014

Emergence of disinflation trend

The Institute of International Finance indicated that a deflationary trend, or negative inflation, has emerged in Lebanon in the past few months due to subdued domestic demand, the sharp fall in global oil prices, the appreciation of the US dollar, as well as because of one-off factors. It said that the Ministry of Telecommunications reduced tariffs on mobile phone and Internet services by 30% in 2014, while the drop in oil prices has lowered transportation costs. It noted that the Central Administration of Statistics' (CAS) Consumer Price Index regressed by 3.7% in January 2015 from January 2014, but was still at -0.3% when excluding telecommunications and transportation. It pointed out that this reflects weak domestic demand as well as the strengthening of the US dollar that lowered the import bill from the Eurozone and from other trading partners whose currencies also depreciated against the dollar.

The IIF considered that the official CPI figures underestimate the inflation rates for the 2009-11 period and overestimate them for 2012-2013. It said that rent increases were not included in the CPI from 2009 to June 2012 due to the absence of an updated household budget survey. As such, the CPI jumped by 44.1% year-on-year in July 2012 following the production of a household survey and the subsequent inclusion of rent in the CPI. The IIF adjusted the CPI by distributing equally the reported rental inflation of July 2012 across the previous 42 months.

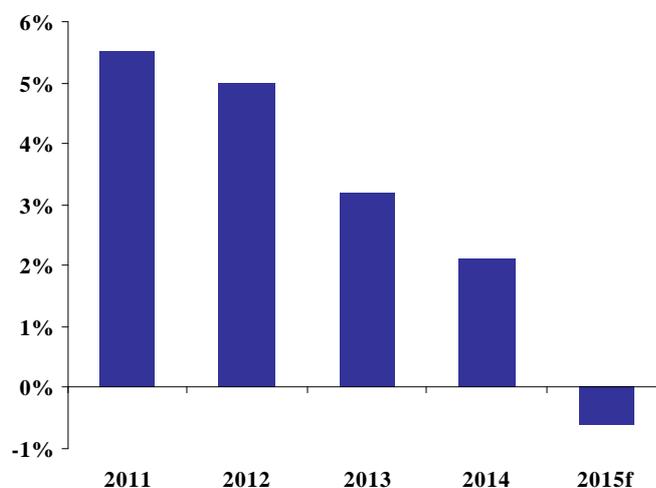
The IIF forecast the inflation rate to average -0.6% in 2015 compared to an average rate of 2.1% in 2014, reflecting weak economic activity and lower import prices. It cautioned that deflation could become more pronounced if the economy does not start to recover. It said that a more prolonged deflation could be problematic, as it would increase real interest rates, which would complicate debt dynamics. It added that this would affect the real burden of debt and the real interest rate that borrowers pay. It forecast real lending rates in Lebanese pounds to increase from 5.4% in 2014 to 7.8% in 2015, and for real rates in US dollar to rise from 5.1% in 2014 to 7.4% in 2015.

In parallel, the IIF noted that the Central Bank has encouraged growth in credit to the private sector by lowering the cost of borrowing to specific sectors through stimulus packages of \$1.46bn and \$0.8bn in 2013 and 2014, respectively. It added that the Bank has allocated a third stimulus package of \$1bn for 2015 to support economic activity, which will help contain deflationary pressures. It also considered that interest rate policy in Lebanon could respond flexibly to the deflationary trend. It indicated that capital inflows to Lebanon in excess of the country's needs for external financing and foreign currency reserves, along with the Central Bank's stimulus package for 2015, could trigger an easing in interest rates if disinflation lasts over a long period of time. It did not anticipate a rise in interest rates in Lebanon even if interest rates in the United States rise by 0.5 percentage points in the second half of the year.

Industrial exports down 7% to \$243m in January 2015

Figures released by the Ministry of Industry show that industrial exports totaled \$243.2m in January 2015, constituting a decrease of 6.5% from \$260.1m in December 2014 and an increase of 2.4% from \$237.5m in January 2014. Machinery & mechanical appliances accounted for \$58.1m or 23.9% of total industrial exports in January 2015, followed by chemical products with \$46.7m (19.2%), prepared foodstuffs with \$35.7m (14.7%), base metals with \$27.7m (11.4%), and pearls, precious or semi-precious stones with \$17.2m (7.1%). Arab countries were the destination of 56.5% of Lebanese industrial exports in January 2015, followed by European economies with 19.3%, African countries with 13%, Asian economies with 8.4%, countries in the Americas with 2% and countries in Oceania with 0.4%. On a country basis, Saudi Arabia was the main destination of such exports and accounted for 13.8% of the total in the covered month, followed by Iraq with 12.6%, the UAE with 10%, Syria with 5.2% and Turkey with 5%. In January 2015, 13 Arab countries, nine European states, nine African economies, two Asian countries and two economies in the Americas imported \$1m or more each in industrial products from Lebanon. Overall, Lebanon exported its industrial products to 36 African countries, 30 European economies, 20 Arab countries, 20 Asian states, 11 countries in the Americas and two markets in Oceania in January 2015.

Consumer Price Index (average, % change)



Source: Institute of International Finance

Insurance premiums up 4% to \$1.48bn in 2014, claims and benefits rise by 3% to \$754m

Figures released by the Association of Insurance Companies in Lebanon (ACAL) indicated that insurance premiums in Lebanon totaled \$1.48bn in 2014, constituting an increase of 4.5% from \$1.42bn in 2013. Premiums reached \$393.3m in the first quarter, \$409.1m in the second quarter, \$331.3m in the third quarter and \$344.9m in the fourth quarter of 2014.

Medical insurance premiums totaled \$439m in 2014 and accounted for 29.7% of the sector's aggregate premiums. They were followed by life premiums with \$433.4m (29%), motor premiums with \$349m (23.6%), fire premiums with \$110.4m (7.5%), workmen compensation with \$40.8m (2.8%), cargo premiums with \$35.8m (2.4%), public liability premiums with \$17.7m (1.2%) and engineering premiums with \$7.7m (0.5%), while premiums from other categories reached \$45m or 3% of the total. Fire premiums grew by 8% in 2014, followed by medical and life premiums with a 6% increase each, motor premiums (+3%), workmen compensation (+2%), and cargo premiums and those from other categories (+1% each). In contrast, engineering premiums fell by 26% year-on-year and public liability premiums decreased by 8%.

In parallel, ACAL indicated that total benefits and claims paid by insurance companies stood at \$754.4m in 2014, constituting an increase of 3.3% from 2013. Medical claims reached \$306.3m in 2014 and accounted for 40.6% of total payments. They were followed by motor policy claims at \$186m (24.6%), life claims at \$183.3m (24%), workmen's claims at \$26m (3.5%), fire disbursements at \$25.7m (3.4%), cargo claims at \$9.4m (1.2%), public liability payments at \$6.7m (0.9%) and engineering claims at \$2.2m (0.3%), while claims for other categories reached \$8.9m (1.2%). Public liability claims surged by 69% in 2014, followed by life claims with a 17% increase, cargo claims (+16%), workmen claims (+13%) and medical claims (+4%). In contrast, fire claims dropped by 40% last year, followed by engineering claims with a 27% contraction, claims from other categories with a 5% decrease and motor claims with a 1% drop.

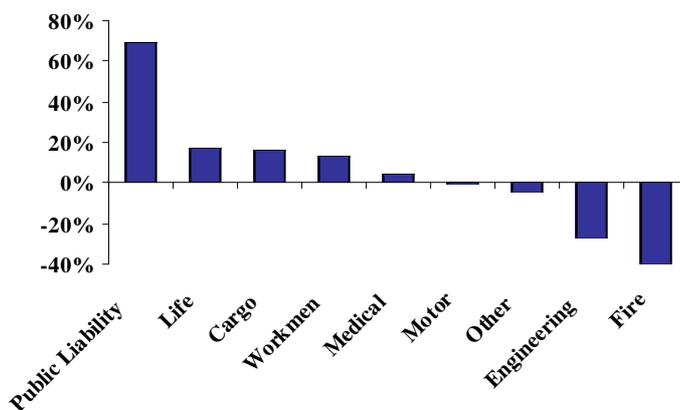
Further, unit-linked policies accounted for 57% of total life premiums and for 14.2% of the total number of life subject matters in 2014, while life protection plans represented 43% of total life premiums and 85.8% of the total number of life subject matters last year. ACAL noted that medical insurance premiums covering Lebanese citizens rose by 6% to \$426.2m in 2014, while medical insurance premiums covering expatriates grew by 3% year-on-year to \$12.7m. Finally, it indicated that non-compulsory motor insurance premiums increased by 2% year-on-year to \$287.7m, while compulsory motor insurance premiums grew by 9% to \$61.1m in 2014.

Rafic Hariri International Airport is 10th best in the Middle East

The Skytrax World Airport Awards for 2014 ranked the Rafic Hariri International Airport in 10th place on its list of the top 10 airports in the Middle East, down by one spot from ninth place in 2013 and by two spots from eighth place in 2012. The results are based on the answers of 13.02 million travelers from 112 different nationalities, and cover more than 550 airports worldwide. The survey was conducted between May 2014 and January 2015. Skytrax is a consultancy firm based in the United Kingdom. The Doha Hamad International Airport was voted the best airport in the Middle East, followed by the Abu Dhabi International Airport, the Dubai International Airport, Bahrain International Airport, Muscat International Airport, King Khalid International Airport in Riyadh, the Ben Gurion Airport in Tel Aviv, the Al Maktoum Airport in Dubai and Kuwait International Airport. The Changi Airport in Singapore was chosen as the best airport in the world.

In parallel, O. R. Tambo International Airport in Johannesburg was voted as the best airport in Africa; Changi Airport in Singapore was the best in Asia; Auckland International Airport was found to be the best in Australia & the Pacific region; and Munich Airport was considered to be the best in Europe. Also, Delhi's Indira Gandhi International Airport was considered the best airport in India & Central Asia; Mauritius International Airport was voted the best airport in the Indian Ocean; and Moscow's Domodedovo International Airport was the best in Russia & the Commonwealth of Independent States. Further, Panama's Tocumen International Airport received the largest number of votes in Central America & the Caribbean; Vancouver International Airport was selected as the best airport in North America; and Jorge Chavez International Airport in Lima was considered the best in South America.

Change in Claims Paid in 2014



*Percentage change from 2013
Source: ACAL, Byblos Research

First National Bank's net income up 16% to \$30m in 2014

First National Bank, one of Lebanon's top 14 banks, announced unaudited consolidated net profits of \$29.6m in 2014, up by 16% from \$25.5m in 2013. Net operating income rose by 9.6% year-on-year to \$84.4m, with net interest income decreasing by 18.4% to \$44.4m and net fees & commissions receipts growing by 44% to \$12m. Non-interest income accounted for 29.8% of total income, up from 16.3% in 2013, with net fees & commissions representing 44.8% of non-interest earnings, down from 64.6% in 2013. Further, the bank's interest margin was 1.8% in 2014 relative to 2% last year; while the spread fell to 1.7% from 1.9% in 2013. Total operating expenditures increased by 8.6% to \$50.5m, with staff expenses rising by 6.4% to \$30.5m. Also, the bank's return on average assets was 0.79% in 2014 relative to 0.74% in the preceding year; while its return on average equity increased to 10.92% last year from 10.59% in 2013. The cost-to-income ratio fell to 56% in 2014 from 58.7% in the preceding year.

In parallel, total assets reached \$3.9bn at the end of 2014, constituting an increase of 10.6% from end-2013; while loans & advances to customers, excluding loans & advances to related parties, grew by 1% year-on-year to \$893.6m. Also, customer deposits, excluding deposits from related parties, totaled \$3.1bn at end-2014 and rose by 10.2% from end-2013. The loans-to-deposits ratio decreased to 28.1% at the end of 2014 from 30.2% a year earlier. Further, shareholders' equity grew by 16.8% from end-2013 to \$291.7m at the end of 2014.

Lebanon & Gulf's bank net profits at \$27m in 2014

Lebanon & Gulf Bank, one of Lebanon's top 14 banks, announced unaudited consolidated net profits of \$27.1m in 2014, constituting an increase of 19.7% from \$22.6m in 2013. Net operating income rose by 17.2% year-on-year to \$63.2m, with net interest income increasing by 5.7% to \$44.7m and net fees & commissions receipts rising by 37.6% to \$12.6m. Non-interest income accounted for 33% of total income, up from 32.8% in 2013, with net fees & commissions representing 57.5% of non-interest earnings, up from 44.4% in 2013. Further, the bank's interest margin was 1.56% in 2014 relative to 1.71% in 2013; while its spread fell to 1.52% from 1.65% in 2013. Total operating expenditures increased by 13.4% to \$30.9m, with staff expenses rising by 11% to \$16.7m. Also, the bank's return on average assets was 0.92% in 2014 relative to 0.88% in the previous year; while its return on average equity increased to 10.46% in 2014 from 10.42% in 2013. The cost-to-income ratio rose to 46.3% in 2014 from 43.2% in 2013.

In parallel, total assets reached \$3.2bn at the end of 2014 and increased by 17.1% from end-2013; while loans & advances to customers, excluding loans & advances to related parties, rose by 20.7% year-on-year to \$1.3bn. Also, customer deposits, excluding deposits from related parties, totaled \$2.8bn at the end of 2014 and grew by 18.7% from end-2013. The loans-to-deposits ratio increased to 45.5% at end-2014 from 44.8% a year earlier. Shareholders' equity rose by 11.8% from end-2013 to \$273.4m at the end of 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

**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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