

LEBANON THIS WEEK

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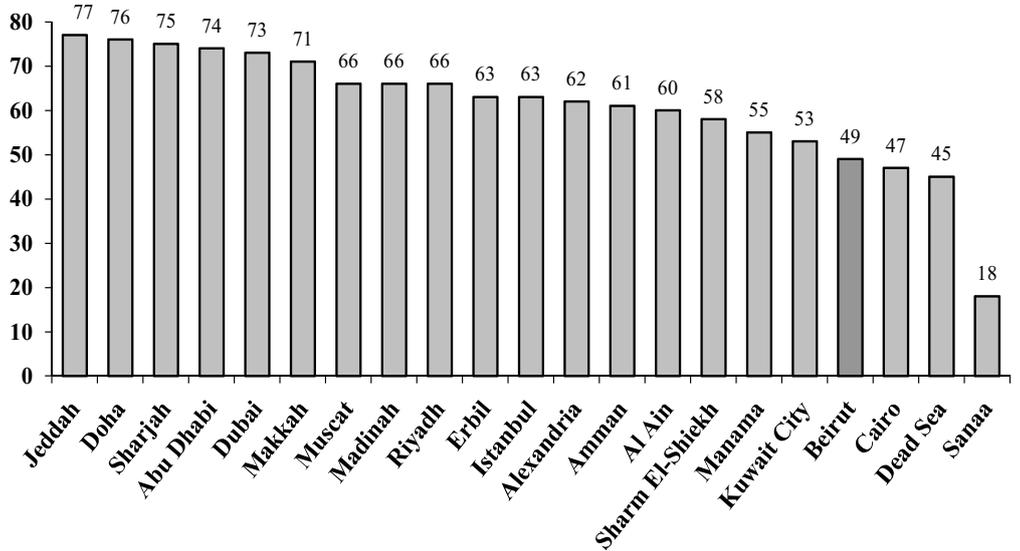
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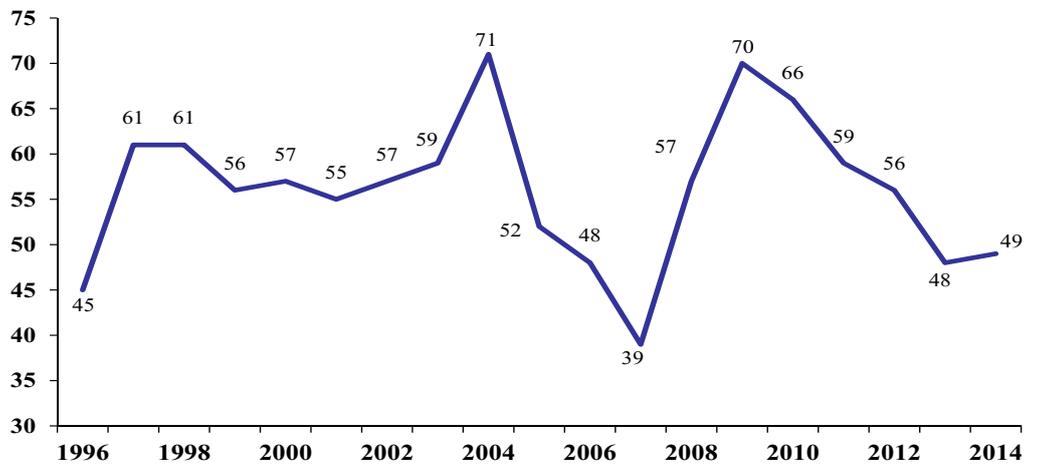
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Charts of the Week

Occupancy Rates at Hotels in Select MENA Cities in 2014 (%)



Occupancy Rates at Hotels in Beirut (%)



Source: HVS, Byblos Bank

Quote to Note

"There has been virtually no progress on structural reforms."

The International Monetary Fund, on the lack of political will to implement much-needed reforms

Number of the Week

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

Lebanon in the News

\$m (unless otherwise mentioned)	2014	Mar 14	Dec 14	Jan 15	Feb 15	Mar 15	% Change*
Exports	3,936	275	268	250	236	257	(6.55)
Imports	21,228	1,791	1,649	1,341	1,320	1,509	(15.75)
Trade Balance	(17,292)	(1,516)	(1,381)	(1,091)	(1,084)	(1,252)	(17.41)
Balance of Payments	(1,128)	139	(116)	(280)	(153)	(417)	-
Checks Cleared in LBP	17,047	1,520	1,599	1,490	1,354	1,579	3.84
Checks Cleared in FC	55,321	4,671	4,692	4,331	3,878	4,322	(7.47)
Total Checks Cleared	72,368	6,191	6,291	5,821	5,232	5,901	(4.69)
Budget Deficit/Surplus	(4,220)	(595.29)	(48.81)	(111.66)	(444.09)	(506.29)	(14.95)
Primary Balance	(239.68)	(128.09)	281.94	157.82	(273.02)	(22.84)	(82.17)
Airport Passengers	6,265,470	430,979	573,229	501,766	394,774	478,284	10.98

\$bn (unless otherwise mentioned)	2014	Mar 14	Dec 14	Jan 15	Feb 15	Mar 15	% Change*
BdL FX Reserves	31.71	33.63	32.40	32.41	34.1	34.53	2.67
<i>In months of Imports</i>	<i>17.65</i>	<i>18.78</i>	<i>19.65</i>	<i>24.17</i>	<i>25.83</i>	<i>22.88</i>	<i>21.86</i>
Public Debt	63.49	65.16	66.58	66.58	69.25	69.43	6.56
Net Public Debt	53.21	54.33	57.30	57.46	58.03	58.51	7.69
Bank Assets	164.82	166.20	175.70	175.74	176.55	176.95	6.47
Bank Deposits (Private Sector)	136.21	136.55	144.43	144.15	144.73	145.46	6.52
Bank Loans to Private Sector	47.38	48.14	50.90	50.56	50.60	51.14	6.25
Money Supply M2	45.60	46.34	48.69	48.67	49.01	49.44	6.71
Money Supply M3	111.16	112.29	117.68	117.14	117.71	118.06	5.13
LBP Lending Rate (%)	7.29	7.26	7.49	7.26	7.18	6.94	(32bps)
LBP Deposit Rate (%)	5.44	5.48	5.56	5.57	5.58	5.57	9bps
USD Lending Rate (%)	6.88	6.87	6.97	6.96	7.05	7.16	29bps
USD Deposit Rate (%)	2.95	2.96	3.07	3.12	3.13	3.12	16bps
Consumer Price Index**	3.89	(0.23)	(1.66)	(2.39)	(0.63)	0.00	23bps

* 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 %
BLOM Listed	9.60	(1.03)	673,517	17.97%	Jan 2016	8.500	102.75	2.76
Byblos Common	1.60	(0.62)	582,720	5.01%	Mar 2017	9.000	108.10	3.90
Solidere "A"	11.40	(4.28)	133,190	9.92%	Nov 2018	5.150	101.38	4.69
BLOM GDR	10.00	0.00	66,960	6.43%	May 2019	6.000	103.50	4.98
Solidere "B"	11.40	(1.81)	45,896	6.45%	Mar 2020	6.375	104.50	5.27
HOLCIM	14.90	(1.97)	30,000	2.53%	Apr 2021	8.250	113.30	5.51
Audi Listed	6.19	3.00	25,920	21.54%	Oct 2022	6.100	102.38	5.69
Audi GDR	6.01	(3.06)	22,916	6.08%	Jun 2025	6.250	101.13	6.10
Byblos Pref. 08	101.50	1.30	880	1.77%	Nov 2026	6.600	103.00	6.23
Byblos Pref. 09	100.70	(0.20)	375	1.75%	Feb 2030	6.650	102.50	6.38

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

Source: Byblos Bank Capital Markets

	July 20-24	July 13-16	% Change	June 2015	June 2014	% Change
Total Shares Traded	1,592,082	802,797	98.32	5,436,086	7,410,380	(26.64)
Total Value Traded	\$11,580,735	\$5,503,644	110.42	\$49,874,049	\$57,889,844	(13.85)
Market Capitalization	\$11.49bn	\$11.53bn	(0.38)	\$11.56bn	\$11.21bn	3.12

Source: Beirut Stock Exchange (BSE)



Lebanon is 74th largest market for U.S. exports, key exports include fuel, vehicles and machinery in 2014

The United States Department of Commerce's 2015 Country Commercial Guide for Lebanon (CCG) indicated that Lebanon has many investment strengths that have encouraged foreign companies to set up offices in the country. It said that Lebanon's key advantages include the absence of controls on the movement of capital and foreign exchange, a well-developed banking system, a stable exchange rate, a multilingual labor force, and limited restrictions on investors. It added that payments for business transactions are often made in US dollars, and major Lebanese banks have American correspondent banking relationships that facilitate financial transactions between U.S. exporters and Lebanese importers. But it noted that some issues continue to cause frustration among local and foreign businessmen. It pointed out that impediments include red tape and corruption, arbitrary licensing decisions, complex customs procedures, archaic legislation, an ineffectual judicial system, high taxes and fees, high telecommunication charges, slow Internet speed, poor electricity provision, flexible interpretation of laws, and weak enforcement of intellectual property rights. Also, it noted that Lebanon faces major financial issues, especially a very high public debt level and large external financing needs. It expected the business climate to remain sensitive to domestic and regional political and security developments. It anticipated that spillovers from the Syrian conflict would continue to negatively impact economic activity, which is expected to remain below potential in the near-term.

The U.S. Department of Commerce said that Lebanon was the 74th largest market for U.S. exports in 2014, while it was the 77th largest market in 2013. It added that the U.S. exported \$1.3bn worth of goods to Lebanon last year, which accounted for 5.9% of total Lebanese imports, compared to U.S. exports of \$1.5bn or 7.1% of total imports in 2013. It noted that the U.S. was the fifth largest source of imports for Lebanon in 2014, behind China, Italy, France and Germany. It said that major U.S. exports to Lebanon in 2014 were mineral fuel & oil (\$306m), vehicles (\$227m), machinery & electrical instruments (\$187m), chemical products (\$171m), prepared food stuff, beverages & tobacco (\$72m), and vegetable products (\$56m). The Guide indicated that leading Lebanese sectors for U.S. exports and investment consist of the automobile, pharmaceuticals & drugs, medical equipment, apparel, safety & security, as well as agricultural sectors.

The CCG estimated U.S. automotive exports to Lebanon at \$219m in 2014, down by 6.4% from \$234m in 2013. It noted that the size of the automotive market in Lebanon fell by 6% to \$1.5bn in 2014, reflecting economic uncertainty resulting from the Syrian conflict. It estimated the U.S. share of the local auto market at 14.9% in 2014. It added that the demand for sport utility vehicles in Lebanon has been growing, while the demand for U.S. automotive products such as brakes, clutches, engine lubricants and safety accessories is increasing because of their quality advantage over foreign competitors. It projected U.S. automotive exports to Lebanon at \$200m in each of 2015 and 2016. In addition, U.S. agricultural exports to Lebanon totaled \$140m in 2014 and accounted for 3.8% of Lebanon's total agricultural imports.

Further, the CCG said that U.S. pharmaceutical exports to Lebanon increased by 5.6% to \$113m in 2014 and accounted for 9.9% of the country's total pharmaceutical imports, while U.S. exports of medical equipment to Lebanon fell by 10.7% to \$67m in 2014 and accounted for 22.9% of the market. It added that U.S. pharmaceutical products have an advantage over their European and Asian counterparts in the biotechnology, high-tech, anti-cancer and cardiovascular fields. It considered that the sustained demand for U.S. medical equipment reflects their high quality and competitive value despite the strength of the US dollar relative to the Euro. It indicated that Lebanon is the leading market for imported pharmaceutical drugs in the Levant, while the Lebanese pharmaceuticals market is valued at over \$1bn, with potential growth of more than 5% annually. But it noted that several challenges face the pharmaceuticals sector in Lebanon, including the high cost of pharmaceuticals and the registration of copycat and counterfeit pharmaceuticals. It added that the legal framework governing pharmaceuticals is weak and constitutes a barrier to foreign investments, mainly for the introduction of new drugs. It projected U.S. pharmaceutical exports to Lebanon to rise to \$120m in each of 2015 and 2016, while it forecast U.S. exports of medical equipment to Lebanon to remain unchanged at \$67m in each of 2015 and 2016.

In addition, U.S. apparel exports to Lebanon remained unchanged at \$9m in 2014 and accounted for 1.8% of the country's total apparel imports last year. The CCG projected such exports to remain at \$9m in each of 2015 and 2016. It noted that political and security uncertainties have negatively impacted the growth of the apparel industry. In parallel, the exports of U.S. safety & security equipment to Lebanon remained unchanged at \$1m in 2014. The CCG expected such exports to remain at \$1m in each of 2015 and 2016, supported by high demand for internal security equipment.

Value of real estate transactions down 20% to \$3.6bn in the first half of 2015

Figures released by the Ministry of Finance indicate that the number of real estate transactions totaled 28,722 in the first half of 2015, constituting a decrease of 15.8% from 34,109 deals in the same period of 2014. In comparison, the number of real estate transactions rose by 6.8% in the first half of 2014 and dropped by 7.1% in the same period of 2013. Also, the aggregate value of real estate transactions reached \$3.6bn in the first half of 2015, constituting a drop of 20% from \$4.5bn in the same period of 2014. The value of real estate deals totaled \$3.8bn in the first half of 2013 and \$3.4bn in the same period of 2012.

In parallel, the average value per real estate transaction reached \$124,905 in the first half of 2015, down by 5% from an average value of \$131,468 in the same period of 2014 and relative to \$119,231 in the first half of 2013. Further, there were 669 real estate transactions executed by foreigners in the first half of 2015, increasing by 31.2% from 510 deals in the same period of 2014, compared to an annual drop of 14.1% in the first half of 2014 and a decline of 8.6% in the same period of 2013. The number of real estate transactions by foreigners accounted for 2.3% of total real estate deals in the first half of 2015, up from 1.5% of total deals in the same period last year and from 1.9% of total deals in the first half of 2013.

Lebanon has 19th highest level of gold reserves globally, second highest among Arab countries

Figures released by the World Gold Council ranked Lebanon in 19th place in terms of gold holdings among 96 countries worldwide, and for entities that are the International Monetary Fund, the West African Economic Monetary Union, the European Central Bank and the Bank for International Settlements. Also, Lebanon ranked in seventh place among 67 non-OECD countries, while it came in second place among 14 Arab countries included in the survey. Lebanon held 286.8 tons in gold reserves at the end of May 2015. Globally, Lebanon had more gold reserves than Spain with 281.6 tons, Austria (280 tons) and Belgium (227.4 tons); while it held lower reserves than Venezuela (361 tons), Saudi Arabia (322.9 tons) and the United Kingdom (310.3 tons). It ranked immediately ahead of Kazakhstan (203.4 tons) and behind Saudi Arabia among non-OECD countries.

The value of Lebanon's gold reserves was equivalent to \$11bn at the end of May 2015, based on the gold price of \$1,191.4 per troy ounce that was published by the London Bullion Market Association. Lebanon's gold holdings accounted for 22.9% of the Arab region's aggregate reserves, for 4.3% of the holdings of non-OECD countries and for 0.9% of the world's total gold reserves. The United States was the top holder of gold in the world with 8,133.5 tons, while Mongolia came in last place with 1.5 tons in gold reserves.

Further, Lebanon's gold holdings were equivalent to 21.1% of the country's foreign assets plus gold reserves at the end of May 2015, which ranked Lebanon in 17th place globally, in seventh place among non-OECD countries and in first place among Arab countries. Globally, Lebanon's share of gold holdings out of its foreign assets was higher than that of Lithuania (20.8%), Spain (19.5%) and Finland (18.3%); while it was smaller than that of Laos (28%), Kazakhstan (27.1%) and the European Central Bank (26.5%). Also, Lebanon ranked ahead of Lithuania and behind Kazakhstan among non-OECD countries. Greece's gold reserves were equivalent to 74.9% of its total foreign exchange reserves, the highest in the world, while Hong Kong's gold holdings accounted for an insignificant share of its total foreign currency reserves, the lowest such share globally.

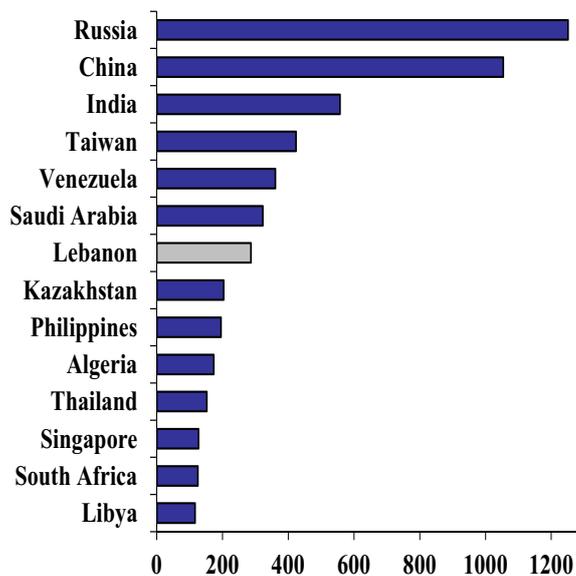
Consumer Price Index down 3.4% year-on-year in June 2015

The Central Administration of Statistics' Consumer Price Index declined by 2.1% in the first half of 2015 from the same period last year. Also, the CPI decreased by 3.4% in June 2015 from June 2014. Prices of alcoholic beverages & tobacco increased by 5% in June year-on-year, followed by the cost of education (+4.5%), clothing & footwear (+4.1%), prices at restaurants & hotels (+2.5%), imputed rents (+1.5%), miscellaneous goods & services (+1.4%), actual rent (+1.2%) and the cost of furnishings & household equipment (+0.8%). The distribution of actual rent shows that new rents increased by 1.6% year-on-year in June 2015, while old rents rose by 0.7% annually during the covered month. In contrast, the prices of water, electricity, gas & other fuels fell by 17.3% in June 2015, followed by transportation costs (-9.3%), healthcare costs (-4.8%), communication costs (-3.5%), prices of food & non-alcoholic beverages (-1.7%) and the cost of recreation & entertainment (-0.3%).

Further, the CPI decreased by 0.8% in June 2015 from the preceding month, relative to a month-on-month increase of 0.2% in May 2015. Healthcare and transportation costs increased by 1% each month-on-month, followed by costs of recreation & entertainment (+0.3%), alcoholic beverages & tobacco (+0.1%), education (+0.02%) and prices at restaurants & hotels (+0.01%). In contrast, the prices of water, electricity, gas & other fuels decreased by 4.1% month-on-month, followed by prices of clothing & footwear (-2.8%), food & non-alcoholic beverages (-2%), furnishings & household equipment (-0.2%), miscellaneous goods & services and imputed rent (-0.1% each) and actual rent (-0.02%). The cost of communication was unchanged month-on-month. Also, the Fuel Price Index rose by 1.3% month-on-month in June 2015, while the Education Price Index increased by 0.02% from May 2015.

In parallel, the CPI decreased by 1.3% month-on-month in the Bekaa region, by 1% in Mount Lebanon, by 0.9% in the North, by 0.5% in the South, and by 0.3% in each of Beirut and Nabatieh. In addition, the prices of clothing & footwear decreased by 5.5% in Beirut, followed by Mount Lebanon (-4.9%), Nabatieh (-1.6%) and the North (-0.7%); while they increased by 6.7% in the South and by 0.1% in the Bekaa region. The prices of food & non-alcoholic beverages regressed by 2.5% in the Bekaa region, by 2.4% in each of the South and Beirut, by 1.8% in Mount Lebanon, by 1.6% in Nabatieh and by 1.5% in the North. The cost of housing, water, electricity, gas & other fuels rose by 0.2% in Beirut and regressed across the remaining regions. In contrast, healthcare costs and transportation costs increased across all regions, while communication costs were unchanged in June 2015.

Gold Reserves in Non-OECD Countries (in tons)*

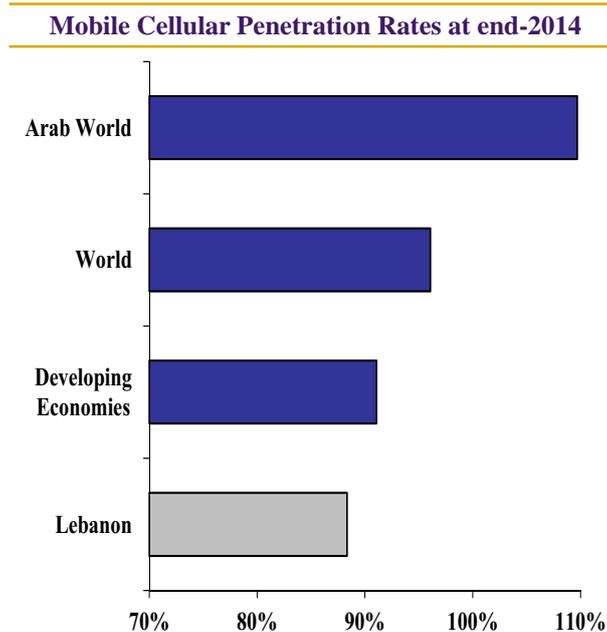


* As of May 2015

Source : World Gold Council, Byblos Research

Mobile cellular penetration trails global and Arab rates

Figures released by the International Telecommunication Union indicate that Lebanon ranked in 140th place among 208 countries at the end of 2014 in terms of mobile cellular penetration, which is the number of subscriptions to the service per 100 inhabitants. Lebanon's rank rose by nine spots from its rank in 2013 based on the same number of countries year-on-year. Lebanon also came in 15th place among 20 Arab countries and ranked in 45th place among 54 upper middle income countries (UMICs) included in the survey. Lebanon's rank was unchanged among Arab countries, while it improved by three spots among UMICs from the previous year. On a global basis, Lebanon had a higher penetration rate than Iran, Puerto Rico and Canada, and a lower rate than Algeria, China and Bosnia & Herzegovina among economies with a GDP of \$10bn or more. Also, it ranked ahead of Iran, and came behind Bosnia & Herzegovina among UMICs that have a GDP of \$10bn or more. Lebanon had 88.4 mobile subscriptions per 100 inhabitants in 2014, constituting an increase of 9.7% from 80.6 subscriptions per 100 inhabitants in 2013. Lebanon's mobile penetration rate was lower than the global average of 96.1 subscriptions per 100 inhabitants, the developing economies' average of 91.1 subscriptions per 100 inhabitants and the Arab average of 109.7 subscriptions per 100 inhabitants last year. The mobile cellular penetration rate in Lebanon grew by a compound annual growth rate (CAGR) of 9.44% during the 2009-14 period compared to a CAGR of 9.36% for developing economies and of 7.48% for Arab countries.



Source : ITU, Byblos Research

In parallel, Lebanon ranked in 89th place among 215 countries in terms of fixed telephone lines penetration last year, which represents the number of subscriptions to fixed telephone lines per 100 inhabitants. Lebanon's rank rose by 12 spots from its rank in 2013 based on the same number of countries year-on-year, constituting the fifth highest increase globally. Lebanon also ranked in third place among 20 Arab countries and in 19th position among 55 UMICs. Also, Lebanon's rank grew by two spots among Arab countries and by seven spots among UMICs year-on-year. On a global basis, Lebanon had a higher penetration rate than Chile, Latvia and Armenia, and a lower rate than Romania, Bahrain and Lithuania among economies with a GDP of \$10bn or more. Also, it ranked ahead of Azerbaijan, Macedonia and China, and came behind Bosnia & Herzegovina, Brazil and Romania among UMICs that have a GDP of \$10bn or more. Lebanon had 19.45 fixed telephone lines subscriptions per 100 inhabitants in 2014, up by 7.8% from 18.04 subscriptions per 100 inhabitants in 2013. Lebanon's penetration rate was higher than the global average of 15.2 subscriptions, the developing countries' average of 10 subscriptions per 100 inhabitants and the Arab average of 8.1 subscriptions per 100 inhabitants. The penetration rate of fixed telephone lines in Lebanon grew by a CAGR of 0.55% during the 2009-14 period compared to a CAGR of -4.13% for developing economies and of -4.1% for Arab countries.

Airport passengers up 6.5% in first half of 2015

Figures released by the Hariri International Airport (HIA) show that the number of airport passengers (arrivals, departures, transit) totaled 3,111,952 in the first half of 2015, constituting a rise of 6.5% from the same period last year. The total number of arriving passengers rose by 7% year-on-year to 1,548,109 in the first half of 2015, compared to increases of 1.3% in the same period of 2014 and of 2.3% in the first half of 2013. Also, the number of departing passengers rose by 6.2% year-on-year to 1,556,776 in the first half of 2015, relative to a decline of 4.7% in the same period of 2014 and an increase of 15.4% in the first half of 2013. In parallel, the airport's aircraft activity rose by 3.9% year-on-year to 30,836 take-offs and landings in the first half of 2015, compared to decreases of 0.3% in the first half of last year and 2.7% in the same period of 2014. The HIA processed 45,686 metric tons of cargo in the first half of 2015 that consisted of 45,439 tons of freight and 247 tons of mail. In parallel, Middle East Airlines had 11,145 flights in the first half of 2015, accounting for 36.1% of total aircraft movement at the HIA. It was distantly followed by Egyptian Airlines with 1,288 flights, or 4.2% of the total, Qatar Airways with 1,202 flights (3.9%), Turkish Airlines with 1,168 flights (3.8%), Fly Dubai with 1,082 flights (3.5%) and Iraqi Airways with 1,063 flights (3.4%). In addition, the UAE was the main source of flights to Lebanon and the primary aircraft destination from the HIA in the first half of 2015.

Coincident Indicator down 0.5% year-on-year in first five months of 2015

The Central Bank's Coincident Indicator, an index of economic activity in Lebanon, reached 285 points in May 2015 compared to 288.2 in April 2015 and 283.6 in May 2014. The Coincident Indicator, an average of 8 weighted economic indicators, decreased by 1.1% month-on-month and increased by 0.5% year-on-year in May 2015. The indicator averaged 277.2 in the first five months of 2015, down 0.5% from 278.7 in the same period of 2014. Also, the indicator averaged 272.6 in the 12 months ending May 2015, compared to 272.5 in the 12 months ending April 2015 and 268.1 in the 12 months ending May 2014. As a result, the average coincident indicator remained relatively unchanged month-on-month, while it grew by 1.7% year-on-year. In parallel, the indicator regressed 15 times and improved eight times on a monthly basis in the month of May since 1993. It averaged 249.5 points in 2010, 255.7 points in 2011, 256.6 points in 2012, 264.7 points in 2013 and 273.2 points in 2014.

Number of new construction permits down 16% in first half of 2015, surface area down 19%

The Orders of Engineers & Architects of Beirut and of Tripoli issued 7,391 new construction permits in the first half of 2015, constituting a decrease of 15.8% from 8,780 permits in the same period of 2014 and relative to a 2.7% rise in the first half last year. Mount Lebanon accounted for 42.3% of newly issued construction permits in the first half of 2015, followed by South Lebanon with 16.5%, Nabatieh with 13.2%, the North with 10.2%, the Bekaa with 9.9% and Beirut with 6%. The remaining 1.9% represent permits issued by the Order of Engineers & Architects of Tripoli for regions located outside northern Lebanon.

Further, the surface area of construction permits granted in the first half of 2015 reached 5,946,566 square meters (sqm), constituting a drop of 19% from the same period of 2014 and compared to a rise of 16% in the first half of 2014. Mount Lebanon accounted for 2,808,277 sqm or 47.2% of total construction permits in the covered half. It was followed by the North with 784,169 sqm (13.2%), the South with 691,966 sqm (11.6%), Nabatieh with 520,153 sqm (8.7%), the Bekaa with 502,249 sqm (8.4%) and Beirut with 304,900 sqm (5.1%). The remaining 334,852 sqm, or 5.6% of total construction permits, reflect the surface area of permits that were issued by the Order of Engineers & Architects of Tripoli for regions located outside northern Lebanon. In parallel, cement deliveries totaled 1.3 million tons in the first four months of 2015 and dropped by 23% annually, relative to increases of 9.3% in the same period of last year and 3.5% in the first four months of 2013.

Commercial activity regresses in first quarter of 2015

The Central Bank's quarterly business survey of opinions shows that the volume of commercial sales decreased quarter-on-quarter during the first quarter of 2015, with the balance of opinions standing at -20 compared to -3 during the preceding quarter and to -11 during the first quarter of 2014. The business survey reflects the opinions of enterprise managers about their business activity in order to depict the evolution of a number of key economic variables. The balance of opinions was the lowest in the Bekaa at -36, followed by the North (-26), Beirut & Mount Lebanon (-23) and the South (+34). The survey shows that the balance of opinions for the sales volume of food items was -7 in the first quarter of 2015 relative to +10 in the preceding quarter and to +12 in the same quarter of 2014. The balance of opinions about the sales of inter-industrial goods was -25 in the first quarter compared to -12 in the preceding quarter and to -13 in the first quarter of 2014; while it was -25 for non-food products, relative to -7 in the fourth quarter of 2014 and to -23 in the first quarter of 2014. Also, the balance of opinions for inventory levels in all commercial sub-sectors was -12 in the first quarter of 2015 compared to -3 in the preceding quarter and to -5 in the first quarter of 2014. Opinions about the level of inventories were the highest in the Bekaa where they reached zero, followed by Beirut & Mount Lebanon (-1), the North (-36) and the South (-38). The balance of opinions is the difference between the proportion of surveyed managers who consider that there was an improvement in an indicator and the proportion of those who reported a decline in the same indicator.

Commercial Activity: year-on-year evolution of opinions				
Aggregate results	Q1-12	Q1-13	Q1-14	Q1-15
Sales volume	-12	-17	-11	-20
Number of employees	1	-4	-4	-1
Inventories of finished goods	3	-3	-5	-12
Q1-15 Regional results	Beirut / Mount Lebanon	North	South	Bekaa
Sales volume	-23	-26	34	-36
Inventories of finished goods	-1	-36	-38	0

Source: Central Bank business survey for first quarter of 2015

World Bank extends deadline for the approval of a \$474m soft loan to finance water infrastructure

The World Bank extended the deadline from July 20, 2015 until the end of 2015 for Lebanese authorities to approve a \$474m concessional loan to finance the Water Supply Augmentation (WSA) project. The World Bank approved the WSA project in September 2014, but the Lebanese Cabinet and Parliament failed to ratify it by the July 20 deadline. The project aims to support the development of the water sector in the Greater Beirut & Mount Lebanon area and the management of sustainable water resources. It also aims to reduce water consumption from illegal wells, as well as from expensive tanker trucks and bottled water.

The \$617m WSA project consists of the construction of the Bisri Dam in the South with a storage capacity of 125 million cubic meters of water and its related 26 kilometer underground pipeline. The Bisri Dam would secure potable water to over 1.6 million persons. Also, the World Bank would provide technical assistance to public agencies to implement international best practices for dam safety, to manage sustainable water resources and to mitigate the environmental and social impacts of the project's implementation. The project has a nine years lifespan, which consist of two years of preparation, five years for construction activities and another two years for monitoring operations.

The World Bank warned that it would reallocate to other countries the funds currently earmarked for the Bisri Dam if the Lebanese authorities fail to ratify the loan before the end of 2015. The soft loan is for 20 years and has a five-year grace period. Further, the project would be co-financed by a \$128m loan from the Islamic Development Bank and by \$15m from the Lebanese government.



Subsidized interest loans at \$146m in the first quarter of 2015

Figures released by the Central Bank show that the amount of subsidized interest loans to productive sectors in Lebanon totaled \$146.4m in the first quarter of 2015, down by 25.4% from \$196.2m in the same quarter of 2014. The industrial sector was the beneficiary of \$87.9m in subsidized interest loans, equivalent to 60% of the total, followed by tourism with \$45.4m (31%) and agriculture with \$13.1m (8.9%). The cumulative amount of subsidized interest loans to productive sectors in Lebanon amounted to \$6.2bn between 1997 and March 2015.

Subsidized medium & long-term loans amounted to \$130.2m in the first quarter of 2015, equivalent to 88.9% of the total. The industrial sector accounted for 61% of subsidized medium & long-term loans, followed by tourism with 33.3% and agriculture with 5.8%. The program was established in the first quarter of 1997 and consists of a 5% to 7% subsidy on the interest charged on loans extended in foreign currency to productive sectors.

Also, subsidized interest loans guaranteed by the Kafalat Corporation totaled \$14.7m, or 10% of the total, in the first quarter of 2015. The industrial sector received 47.5% of Kafalat-backed subsidies, followed by agriculture with 38% and tourism with 14.5%. Kafalat provides financial guarantees for loans of up to \$400,000 for small and medium-sized enterprises in productive sectors. In parallel, subsidized interest loans granted by leasing companies totaled \$1.5m in the first quarter of 2015, or 1% of the total, and were extended in full to the industrial sector.

Utilized credits by private sector at \$58bn at end-March 2015, advances against real estate account for 35% of total

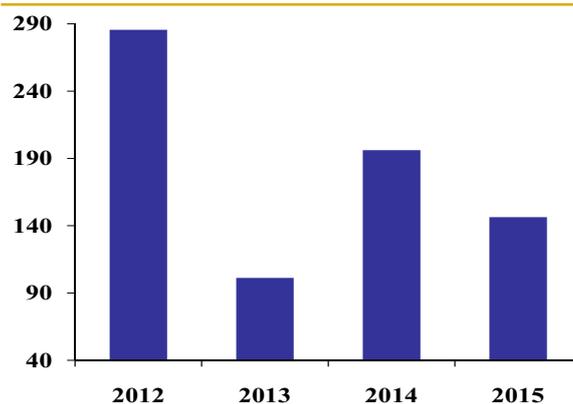
Figures issued by the Central Bank show that utilized credits by the private sector from commercial banks and financial institutions totaled \$57.8bn at the end of March 2015, constituting an increase of 8% from \$53.5bn at the end of March 2014. The distribution of credits by type shows that advances against real estate totaled \$20.2bn and accounted for 34.9% of total private sector utilized credits at the end of March 2015. They were followed by overdrafts with \$15.9bn (27.5%), advances against personal guarantees with \$10.6bn (18.3%), advances against cash collateral or bank guarantees with \$7bn (12.2%), advances against other real guarantees with \$2.8bn (4.8%), and advances against financial values with \$1.3bn (2.2%). Trade & services accounted for \$19.5bn or 33.8% of utilized credits at the end of March 2015, followed by personal credits with \$16.5bn (28.6%), construction with \$9.8bn (16.9%), industry with \$6.3bn (10.9%), financial intermediaries with \$3.6bn (6.2%) and agriculture with \$687.8m (1.2%), while other sectors accounted for the remaining \$1.4bn (2.4%).

Also, the distribution of utilized credits in trade & services shows that wholesale trade accounted for 42.3% of overall trade & services credits, followed by real estate services with 21.1%, retail with 16.2%, hotels & restaurants with 8.8%, transport & storage with 7.8% and educational services with 3.8%. Personal credits attracted 84.8% of loan beneficiaries, followed by trade & services with 10.7% of beneficiaries, industry with 2.8%, construction with 1.4%, agriculture with 1% and financial intermediaries with 0.6%, while other sectors attracted the remaining 3.5%. The aggregate number of loan beneficiaries grew by 10.8% year-on-year to 526,088, while 74.1% of beneficiaries had loans ranging from LBP5m to LBP100m by the end of March 2015. Beirut and its suburbs accounted for 76.6% of bank credits and for 54.7% of beneficiaries. It was followed by Mount Lebanon with 11.6% of credits and 17.6% of beneficiaries; South Lebanon with 4.6% of credits and 9.9% of beneficiaries; North Lebanon with 4.1% of credits and 10.7% of beneficiaries; and the Bekaa with 3.1% of credits and 7.2% of beneficiaries. In parallel, the off-balance sheet liabilities of banks and financial institutions totaled \$98.4bn at the end of March 2015, reflecting a rise of 7.7% from \$91.3bn at the end of March 2014. They included endorsement & guarantees at \$90bn, or 91.5% of the total, followed by letters of undertaking at \$2.8bn (2.8%) and commitment on notes at \$2.5bn (2.6%).

French Development Agency cancels EUR45m loan and EUR1.5m grant to Lebanon

The French Development Agency (FDA) indicated that it rescinded on July 1, 2015 a EUR45m concessional loan to the Council for Development & Reconstruction (CDR) and a EUR1.5m grant to the Ministry of Education & Higher Education that aimed to finance a project for the development of the educational system in Lebanon. The FDA canceled the loan and grant because the Lebanese authorities failed to approve the funds prior to the June 30, 2015 deadline. The project had three components that were going to be implemented simultaneously. The first segment stipulated that the CDR would build and equip 18 primary and secondary public schools in the deprived areas of the Bekaa, Mount Lebanon and the North for a total cost of about EUR40m. The second component, which costs about EUR5m, consisted of training 7,500 instructors to teach school subjects in French, among other measures. Finally, the EUR1.5m grant aimed to support the ministry with the implementation of the project by providing technical assistance where needed, among other supportive measures.

Subsidized Interest Loans (US\$m)



*in the first quarter of each year

Source: Central Bank, Byblos Research

Solidere to pay dividends in cash and shares for 2014, payout ratio at 46.5%

Solidere, The Lebanese Company for the Development and Reconstruction of Beirut Central District sal, announced that its Ordinary General Assembly held on July 13, 2015 approved the distribution of dividends for 2014. The firm will allocate a gross dividend payment of \$52.88m to the holders of common shares, which is equivalent to a 46.5% payout ratio. Solidere will pay \$0.1 per share to the holders of Class A and Class B shares; and will distribute one share for every 50 shares held by shareholders. As such, the total value of the distribution will be equivalent to \$0.31 per share net of a 5% withholding tax and will be distributed starting on October 12, 2015. Established in 1995, Solidere has distributed dividends in 12 out of its 20 years of operations for a total value of \$1.17bn, out of an aggregate net income of \$1.65bn. It currently has 165,000,000 common shares listed on the Beirut Stock Exchange, of which 100,000,000 are Class A and 65,000,000 are Class B stocks. Solidere is Lebanon's third largest listed firm in terms of market capitalization as at the end of June 2015. The prices of Solidere A and Solidere B shares closed at \$11.4 per share each on July 24, 2015, reflecting marginal increases of 0.7% and 0.5%, respectively, from the end of 2014.

In parallel, the General Assembly re-elected nine members of the Board of Directors and elected two new members, who are Mr. Pierre Kamel and Mr. Makram Abboud, for a three-year term. In turn, the Board members re-elected Dr. Nasser Chammaa as Chairman and General Manager, Mr. Fadi Al Boustany and Mr. Maher Beydoun as Vice Chairmen, and Mr. Raphael Sabbagha as General Secretary.

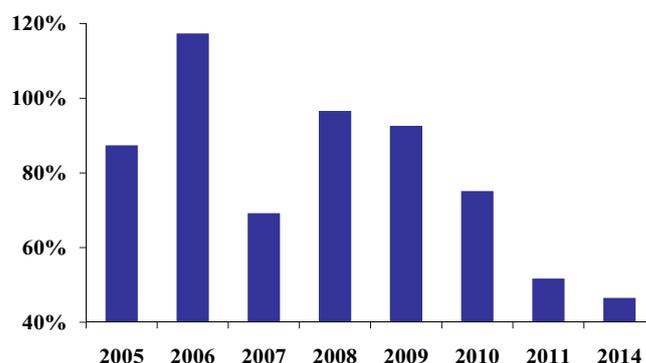
Solidere announced consolidated audited net profits of \$113.7m in 2014, up 2.7 times from \$42.6m in 2013. The consolidated results reflect Solidere's stand-alone financials and those of its subsidiaries, which include Solidere International Limited, Solidere Management Services sal, BCD Cinemas sal, Beirut Waterfront Development sal and Beirut Hospitality Company Holding sal. Its consolidated assets reached \$2.96bn at the end of 2014 and increased by 3.2% from \$2.87bn at end-2013, with the inventory of land and projects in progress totaling \$1.13bn relative to \$1.14bn a year earlier. The firm noted that it still owns a land bank of 1.8 million square meters that is valued at about \$7bn, as well as built properties valued at about \$1.4bn based on the prevailing market prices at the end of 2014. The firm's consolidated shareholders' equity totaled \$2.06bn at the end of 2014, up 5.8% from \$1.95bn at end-2013.

Fransabank exercises call option on preferred shares

Fransabank sal redeemed and cancelled 500,000 Series A Preferred Shares on July 15, 2015 at a premium price of \$207 per share, equivalent to 103.5% of the \$200 per share issue price. The shares were issued in 2008, carried an annual dividend rate of 8.5% per share of the issue price, and were convertible, non-cumulative and redeemable. In parallel, the bank plans to issue between \$85m and \$115m worth of Preferred Shares Series E by the end of 2015 at an issue price of \$200 per share. The Series E shares are non-convertible, redeemable, non-cumulative and perpetual, and each will carry an annual dividend rate of between 6.5% and 6.8% of the issue price. The bank has the option to call the shares within 90 days after the Ordinary General Assembly meets in 2021 to approve the financials for fiscal year 2020, and annually thereafter, at a premium callable price of \$207 per share. The bank currently has 21,000,000 common shares, 425,000 Preferred Shares Series B, 375,000 Preferred Shares Series C and 425,000 Preferred Shares Series D outstanding.

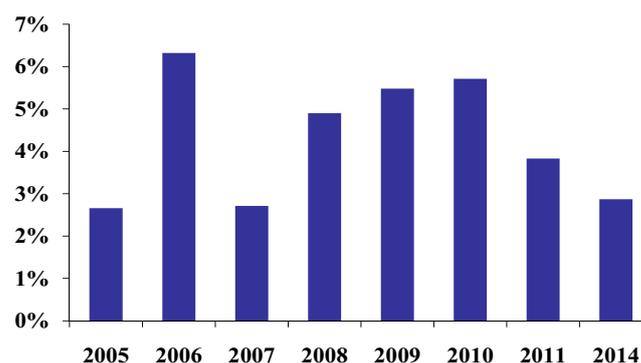
Fransabank posted unaudited consolidated net profits of \$39.47m in the first quarter of 2015, compared to net earnings of \$31.6 in the same quarter last year. Its assets reached \$18.6bn at end-March 2015; while loans & advances to customers, excluding loans & advances to related parties, dropped by 3.1% from end-2014 to \$5.7bn at the end of March 2015. Also, customer deposits, excluding deposits from related parties, totaled \$13.8bn at end-March 2015, down by 6.7% year-to-date.

Solidere's Dividend Payout Ratio (%)



Source: Solidere Financials, Byblos Research

Solidere's Dividend Yield (%)



*Based on the closing market price on declaration date
Source: Solidere Financials, Byblos Research

Top five freight forwarders' import activity down 5% in first five months of 2015

Figures released by the Port of Beirut Authority show that overall import shipping operations by the top five freight forwarders through the port reached 137,392 20-foot equivalent units (TEUs) in the first five months of 2015, constituting a decline of 4.5% from 143,828 TEUs in the same period last year. They accounted for 60.4% of the total import freight forwarding market and for 92.2% of imports to the Lebanese market during the covered period.

Mediterranean Shipping Company (MSC) handled 47,507 TEUs in imports in the five months of 2015, equivalent to a 27% share of the total freight forwarding import market. It was followed by Sealine Group with 31,237 TEUs (17.7%), Merit Shipping with 24,094 TEUs (13.7%), Metz Group with 22,774 TEUs (12.9%) and Gezairy Transport with 11,780 TEUs (6.7%). Further, Metz Group registered the highest growth in import shipping among the top five freight forwarders at 15.8% year-on-year, while Gezairy Transport posted the steepest decline at 23.6%.

In parallel, export shipping operations by the top five freight forwarders through the Port of Beirut reached 28,728 TEUs in the first five months of 2015, constituting an increase of 11.5% from 25,769 TEUs in the same period last year. They accounted for 13.3% of the total export freight forwarding market and for 98.1% of exported Lebanese cargo during the first five months of 2015. Merit Shipping handled 9,373 TEUs of freight in the first five months of this year, equivalent to 32% of the Lebanese cargo export market. It was followed by Sealine Group with 8,322 TEUs (28.4%), Metz Group with 7,122 TEUs (24.3%), MSC with 2,220 TEUs (7.6%) and Gezairy Transport with 1,691 TEUs (5.8%). Further, Metz Group registered the highest growth in export shipping among the top five freight forwarders at 64.3% year-on-year, while Sealine Group posted the steepest drop of 12.4%.

Fitch affirms Holcim's ratings at 'BBB', 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's affirmation follows the completion of the merger between Holcim and the French industrial company Lafarge SA (Lafarge Holcim) and reflects the combined group's improved scale, diversification, market positions and synergy potentials. It said that the firm's IDR reflects Lafarge Holcim's position as the world's largest building materials company, with combined net sales of EUR27bn in 2014. It added that the group holds the biggest market positions in cement, aggregates and ready-mix products and benefit from the individual companies' complementary assets base in Latin America, Africa and the Middle East. Fitch pointed out that the group plans to implement measures that would support its credit profile in the long term. It expected a recovery in global end-markets, mainly in developed markets, as well as a sustained healthy growth in emerging markets to support the firm's internally generated cash flow.

Holcim Liban sal posted audited consolidated net profits of \$31.6m in 2014, constituting an increase of 44.9% from \$21.8m in 2013. The firm's sales totaled \$182.1m in 2014, down by 4.2% from \$190m in 2013. Holcim's gross profits margin reached 34.2% last year relative to 30.3% in 2013. The firm's total assets reached \$283.7m at end-2014, constituting a decrease of 2.9% from \$292.1m at end-2013; while its shareholders' equity was \$225.2m at end-2014 relative to \$212.3m at the end of 2013. Holcim's share price closed at \$15.2 on July 24, 2015, constituting a decrease of 0.3% from \$15.25 at end-2014.



Ratio Highlights

(in % unless specified)	2012	2013	2014	Change*
Nominal GDP (\$bn)	41.0	44.2	48.4	
Public Debt in Foreign Currency / GDP	59.4	59.1	52.9	(620)
Public Debt in Local Currency / GDP	81.2	84.6	84.7	13
Gross Public Debt / GDP	140.6	143.7	137.7	(607)
Total Gross External Debt / GDP**	163.9	163.8	165.4	160
Trade Balance / GDP	(40.9)	(38.9)	(35.6)	333
Exports / Imports	21.1	19.1	16.1	(295)
Fiscal Revenues / GDP	22.9	21.3	22.5	116
Fiscal Expenditures / GDP	32.5	30.9	28.9	(204)
Fiscal Balance / GDP	(9.6)	(9.6)	(6.4)	320
Primary Balance / GDP	(0.3)	(0.5)	2.7	325
Gross Foreign Currency Reserves / M2	69.4	69.5	66.5	(299)
M3 / GDP	253.5	251.7	243.4	(838)
Commercial Banks Assets / GDP	370.2	373.3	363.4	(992)
Private Sector Deposits / GDP	304.7	308.5	298.7	(979)
Private Sector Loans / GDP	105.9	107.3	105.3	(204)
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 Metrics

Lebanon	July 2013	June 2014	July 2014	Change*	Risk Level
Political Risk Rating	53.0	52.0	52.0	▲	High
Financial Risk Rating	33.5	38.0	38.0	▼	Low
Economic Risk Rating	28.5	27.0	27.0	▲	High
Composite Risk Rating	57.5	58.5	58.5	▼	High

Regional Average	July 2013	June 2014	July 2014	Change*	Risk Level
Political Risk Rating	58.3	58.0	57.9	▲	High
Financial Risk Rating	41.3	40.6	41.0	▲	Very Low
Economic Risk Rating	36.6	36.1	36.2	▲	Low
Composite Risk Rating	68.1	67.4	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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