



LEBANON THIS WEEK

In This Issue

Economic Indicators.....1
Capital Markets.....1
Lebanon in the News.....2

Increase in public sector wages to widen primary deficit to 2.5% of GDP and fiscal deficit to 12% of GDP

Airport passengers down 2% in first half of 2014

Pharmaceuticals market to reach \$1.5bn in 2014

Balance of payments posts surplus of \$776m in first five months of 2014

Lebanon's external debt posts 19th lowest return in emerging markets, sixth lowest in the Middle East & Africa

Customs receipts down 13% to \$545m in first five months of 2014

Salary scale adjustment raises concerns about fiscal and economic outlook, reflects lack of policy direction

Industrial activity regresses in fourth quarter of 2013

Trade deficit widens by 2% to \$7bn in first five months of 2014

Central Bank's foreign assets up 5% to \$37bn in first half of 2014

Value of cleared checks up 4%, returned checks down 2% in first five months of 2014

Corporate Highlights7

FATCA enters into effect, 122 Lebanese institutions already registered with the IRS in compliance with deadline

Stock market activity up 47% to \$227m in first half of 2014

NECB and Banque de L'Industrie et du Travail announce merger

IPS acquires 52% stake in Egyptian pharmaceutical company

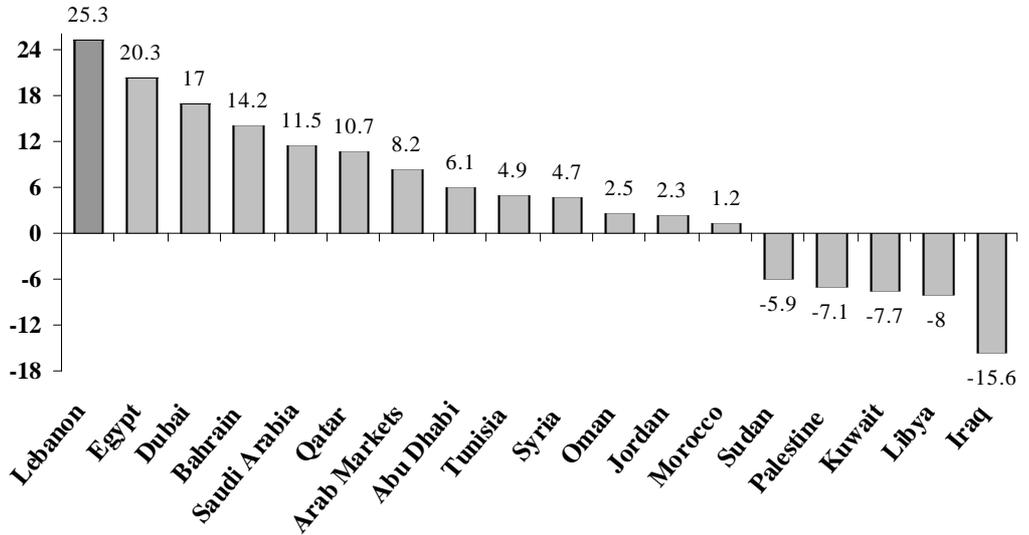
Lebanese contractor awarded oil pipeline project in Kenya

Sogecap's net income at \$8m in 2013

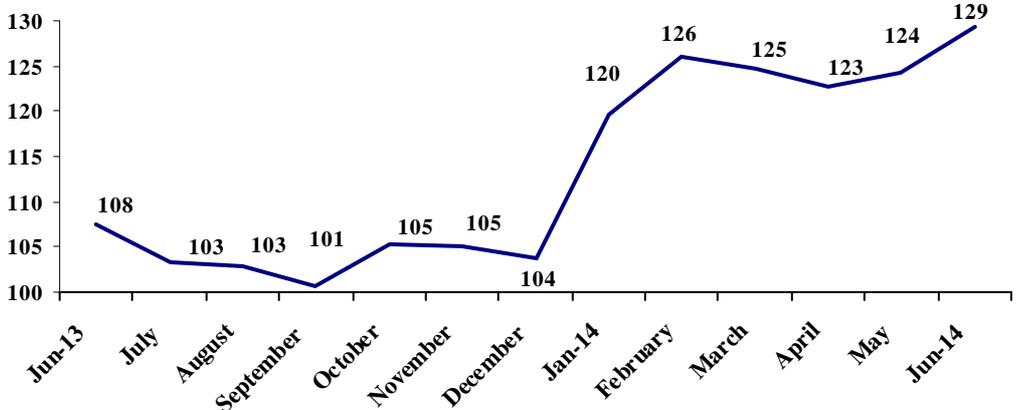
Ratio Highlights.....9
Risk Outlook9
Ratings & Outlook.....9

Charts of the Week

Performance of Arab Stock Markets in the First Half of 2014 (% change)



Performance of the Beirut Stock Exchange*



* Banque du Liban Market Value Weighted Index

Source: Local Stock Markets, Dow Jones Indices, Banque du Liban, Byblos Bank

Quote to Note

"The negative impact on confidence and security outweighs the positive impact of higher consumption spending."

Merrill Lynch, on the net impact of the Syrian conflict and of Syrian refugees on the Lebanese economy

Number of the Week

\$23.3m: Asking price for the most expensive apartment under construction in Beirut, according to real estate consultant RAMCO

Economic Indicators

\$m (unless otherwise mentioned)	2013	Feb 13	Nov 13	Dec 13	Jan 14	Feb 14	% Change*
Exports	3,936	381	263	243	244	253	(33.60)
Imports	21,228	1,791	1,772	1,797	1,873	1,732	(3.29)
Trade Balance	(17,292)	(1,410)	(1,509)	(1,554)	(1,629)	(1,479)	(4.89)
Balance of Payments	(1,128)	(92)	(192)	534	(31)	194	-
Checks Cleared in LBP	17,047	1,213	1,451	1,562	1,502	1,410	16.24
Checks Cleared in FC	55,321	4,353	4,584	4,728	4,783	4,369	0.37
Total Checks Cleared	72,368	5,566	6,035	6,290	6,285	5,779	3.82
Budget Deficit/Surplus	(4,220)	(279.91)	(463.41)	(238.09)	(119.34)	(125.38)	55.21
Primary Balance	(239.68)	(130.13)	2.97	70.72	142.38	23.91	-
Airport Passengers	6,265,470	403,968	407,869	510,367	450,476	376,106	(6.90)

\$bn (unless otherwise mentioned)	Dec 2013	Feb 13	Nov 13	Dec 13	Jan 14	Feb 14	% Change*
BdL FX Reserves	31.71	30.34	31.78	31.71	32.25	33.40	10.08
<i>In months of Imports</i>	<i>17.64</i>	<i>16.94</i>	<i>17.94</i>	<i>17.64</i>	<i>17.22</i>	<i>19.29</i>	<i>13.87</i>
Public Debt	63.46	58.08	63.26	63.46	63.94	64.99	11.90
Net Public Debt	53.18	49.95	52.75	53.18	53.47	53.91	7.92
Bank Assets	164.82	153.97	161.92	164.82	164.43	166.01	7.82
Bank Deposits (Private Sector)	136.21	126.30	133.15	136.21	134.86	135.71	7.45
Bank Loans to Private Sector	47.38	43.95	46.81	47.38	47.04	47.39	7.83
Money Supply M2	45.60	43.62	45.05	45.60	45.74	46.05	5.57
Money Supply M3	111.16	104.71	109.34	111.16	110.93	111.67	6.65
LBP Lending Rate (%)	7.29	7.47	7.01	7.29	7.39	7.14	(4bps)
LBP Deposit Rate (%)	5.44	5.46	5.47	5.44	5.48	5.51	1bps
USD Lending Rate (%)	6.88	7.05	6.88	6.88	6.82	6.96	(1bps)
USD Deposit Rate (%)	2.95	2.94	2.97	2.95	2.95	2.96	1bps
%* Change in CPI**	3.89	4.42	4.96	3.89	2.52	0.86	(81bps)

* Year-on-Year; ** Consumer Price Index

Note: b.p. i.e. basis point

Sources: ABL, BdL

Capital Markets

Most Traded Stocks on BSE	Last Price (\$)	% Change*	Total Volume	Weight in Market Capitalization	Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
Solidere "A"	13.00	(2.48)	63,371	11.70%	Jan 2015	5.875	101.00	3.96
Solidere "B"	13.01	(2.11)	21,213	7.61%	Apr 2015	10.000	105.25	3.37
Byblos Common	1.62	2.53	64,762	5.24%	Jan 2016	8.500	107.50	3.47
Byblos Pref. 08	100.20	(0.50)	4,873	1.80%	Mar 2017	9.000	112.00	4.27
Byblos Pref. 09	100.00	(0.99)	10,622	1.80%	Nov 2018	5.150	100.50	5.02
BLOM GDR	9.35	(0.32)	6,220	6.22%	May 2019	6.000	103.75	5.26
BLOM Listed	8.80	0.00	84,585	17.03%	Mar 2020	6.375	105.25	5.29
Audi GDR	6.90	5.18	11,285	6.37%	Apr 2021	8.250	115.13	5.54
Audi Listed	6.30	(1.56)	36,480	19.83%	Oct 2022	6.100	102.13	5.77
HOLCIM	13.97	(7.67)	2,274	2.45%	Nov 2026	6.600	102.13	6.35

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

Source: Byblos Bank Capital Markets

	June 30-July 4	June 23-27	% Change	June 2014	June 2013	% Change
Total Shares Traded	310,571	2,638,295	(88.23)	7,410,380	3,583,569	106.79
Total Value Traded	\$4,367,705	\$21,505,215	(79.69)	\$57,889,844	\$35,442,685	63.33
Market Capitalization	\$11.11bn	\$11.17bn	(0.51)	\$11.21bn	\$10.24bn	9.53

Source: Beirut Stock Exchange (BSE)



Increase in public sector wages to widen primary deficit to 2.5% of GDP and fiscal deficit to 12% of GDP

Barclays Capital projected real GDP growth at 1.5% in 2014, unchanged from the preceding year. It indicated that economic activity was mixed in the first five months of the year, and that the drop in imports and exports reflects the persistent weakening in domestic demand. But it pointed out that lending to the resident private sector rose by about \$1.3bn, or 3% of GDP, in the first four months of 2014, which has offset in part the weak demand. It attributed the growth in lending to the Central Bank's stimulus package, and expected the package to drive economic activity this year in the context of renewed rounds of volatile security conditions and political uncertainty.

It considered that the recent security incidents in Lebanon have reversed the improvement in consumer and business sentiment that took place during April and May. It expressed concerns that the recent deterioration in security conditions and the resulting security warnings could severely affect the expectations of improved tourism activity during the summer. It cautioned that the deepening of divisions within the country's political class would weaken the government's ability to govern properly, which would raise security and economic risks.

In parallel, Barclays considered that the 2014 draft budget, which forecasts a primary deficit of 1.3% of GDP and a fiscal deficit of 10.7% of GDP, has no significant value, given the institutional vacuum and the stalled policy and budgetary process. It added that Parliament is not likely to ratify the budget anytime soon, given the latter's inability to legislate before electing a president. It noted that Lebanon continues to face worsening structural challenges that include the energy sector crisis, a highly politicized bureaucracy, and failure to reach consensus on reforms. It noted that civil service reforms, one of the key pillars of the fiscal consolidation plans that donors supported, have not yielded any results in the past decade. Further, it cautioned that public expenditures on wages would increase significantly if Parliament ratifies the draft law to raise the public-sector salary scale and wages. It said that the proposed measures to finance the increase in public-sector wages would barely cover the cost, which would risk widening the primary budget deficit to 2.5% of GDP and the fiscal deficit to 12% of GDP. It noted that, under such scenario, the public debt dynamics would significantly worsen in the absence of a medium-term fiscal framework that aims to reduce debt to sustainable levels.

In parallel, Barclays estimated Lebanon's external financing needs at about \$11bn for the next 12 months, which include \$7bn in the projected current account deficit and \$3bn in maturing Eurobonds. It considered that the Parliament has to raise the ceiling on foreign currency borrowing in order for the government to be able to borrow externally. But it considered that it would be difficult for Parliament to endorse the required amendment, given the prevailing institutional paralysis. As such, it expected the Central Bank to resume the issuance of foreign currency-denominated Certificates of Deposits to commercial banks in order meet the government's borrowing needs in foreign currencies.

Key Macroeconomic Indicators				
	2011	2012e	2013F	2014F
Activity				
Real GDP (% yoy)	1.5	1.5	1.5	1.5
CPI (% average)	5.0	6.6	5.6	4.5
External Sector				
Current account balance (\$bn)	(4.8)	(6.7)	(6.9)	(7.0)
Current account balance (% of GDP)	(12.4)	(16.2)	(15.8)	(15.5)
Net FDI (\$bn)	3.4	1.1	0.5	0.4
Gross external debt (% of GDP)	173.8	174.8	175.9	174.7
Foreign reserves (\$bn)	33.7	37.2	36.7	35.3
Public Sector				
Fiscal balance (% of GDP)	(6.1)	(8.9)	(9.3)	(10.5)
Primary balance (including grants) (% of GDP)	4.3	(0.2)	(0.4)	(1.0)
Gross public debt (% of GDP)	137.5	139.5	145.9	153.9

Source: Barclays Capital, June 2014

Airport passengers down 2% in first half of 2014

Figures released by the Hariri International Airport (HIA) show that the number of airport passengers (arrivals, departures, transit) totaled 2,921,831 in the first half of 2014, constituting a decrease of 1.8% from the same period last year. The total number of arriving passengers rose by 1.3% year-on-year to 1,447,279 in the first half of the year compared to an increase of 2.3% in the same period of 2013. Also, the number of departing passengers dropped by 4.7% year-on-year to 1,466,477 in the first half of 2014 relative to an annual increase of 15.4% in the same period of 2013. In parallel, the airport's aircraft movement decreased marginally by 0.3% year-on-year to 29,689 take-offs and landings in the first half of the year, compared to an annual drop of 2.7% year-on-year in the same period of 2013. The HIA processed 48,825 metric tons of cargo in the first half of 2014 that consisted of 48,416 tons of freight and 408 tons of mail.

Pharmaceuticals market to reach \$1.5bn in 2014

Business Monitor International projected the size of the pharmaceuticals market in Lebanon at \$1.45bn in 2014, constituting an increase of 6.5% from \$1.36bn in 2013 and compared to an annual average growth rate of 11.7% between 2003 and 2010. It attributed the relatively slow market growth to ongoing political and economic instability. It expected the market to grow at a compound annual growth rate (CAGR) of 6.2% during the 2013-18 period compared to a CAGR of 13.2% between 2003 and 2010, and to reach \$1.8bn by 2018. Further, it expected per-capita spending on pharmaceutical products in Lebanon to rise by 3.4% to \$292.6 in 2014. It also forecast per-capita spending on pharmaceuticals to reach \$305.6 in 2015 and to grow to \$370.9 in 2018, constituting a CAGR of 5.6% during the 2013-18 period.

Further, it estimated that spending on pharmaceuticals would be equivalent to 3% of GDP in 2014 compared to 3.1% of GDP in each of 2012 and 2013. It forecast such spending to be equivalent to 3% of GDP in 2015 and to regress to 2.9% of GDP in 2016, 2.8% of GDP in 2017 and 2.7% of GDP in 2018. But it noted that this spending level would remain among the highest in the world despite its steady decline. It attributed the elevated spending on pharmaceuticals in Lebanon to the market's high reliance on imported pharmaceuticals and on over-prescribing medicine in the country. It considered that the lack of consolidation among pharmaceutical importers has maintained medicine prices at high levels and has reduced the competitiveness of distributors. Further, BMI expected spending on medicines to represent around 41.7% of healthcare expenditures in Lebanon in 2014, down from 44.8% in 2012 and 43% in 2013, and to reach 35.7% in 2018.

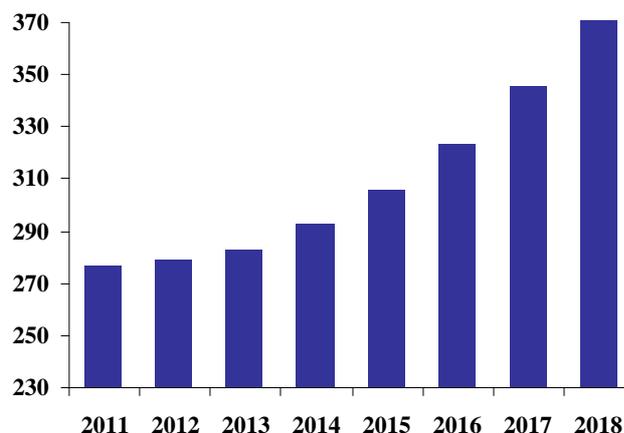
In parallel, BMI projected prescription medicines to represent around 73.8% of the market this year and forecast Over-the-Counter medicine sales to account for the balance of 26.2%. It attributed the high share of prescription medicines to the widespread use of patented drugs and to the under promotion of generic drugs to both consumers and physicians. It noted that patented drugs account for 62.6% of total spending on prescription drugs and for 46.2% of expenditures on pharmaceutical products. But it expected the usage of non-patented medicines to increase in coming years, mainly due to rising awareness about generic medicines. It projected expenditures on generic drugs to increase by a CAGR of 9.4% compared to a CAGR of 5% for patented drugs during the 2013-18 period. As such, it said the share of spending on patented drugs would decline to 58.4% of total spending on prescription drugs and to 43.8% of overall expenditures on pharmaceutical products by 2018, while the share of generic drugs would rise to 41.6% and 31.2%, respectively.

BMI considered that the sector's weaknesses include weak protection of intellectual property rights, counterfeiting, government drug pricing regulations that are hampering foreign direct investment, as well as an over-dependence on imports, which are leading to little reinvestment in the sector's development. However, it pointed out that the sector presents significant opportunities due to the government's desire to encourage local production, continuing elevated demand for pharmaceutical products, and the potential of a decline in prices. In contrast, it said that the government's resistance to reforming the domestic patent law, continued concerns over counterfeiting, parallel imports that are undercutting locally manufactured products, price cuts on selected products, and domestic and regional unrest constitute the main threats to the sector's development.

Balance of payments posts surplus of \$776m in first five months of 2014

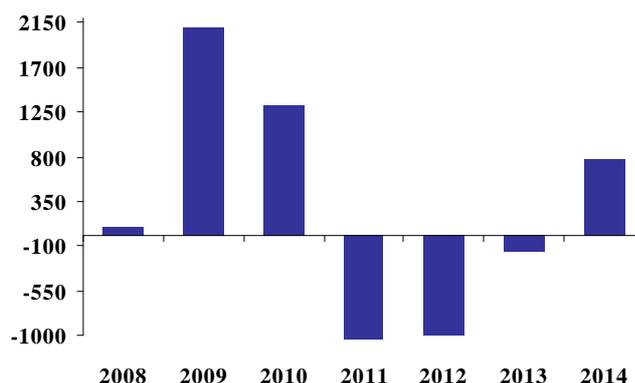
Central Bank figures show that Lebanon's balance of payments posted a surplus of \$776.4m in the first five months of 2014 compared to a deficit of \$148.7m in the same period last year. The balance of payments posted a surplus of \$520.4m in May 2014 compared to deficits of \$45.4m in April 2014 and \$130.8m in May 2013. The May 2014 surplus was caused by a surplus of \$836.2m in the net foreign assets of the Central Bank, and was partly offset by a deficit of \$315.8m in those of banks and financial institutions. The cumulative surplus over the first five months of 2014 was caused by a surplus of \$2.1bn in the Central Bank's net foreign assets, and was partly offset by a deficit of \$1.3bn in those of banks and financial institutions. The balance of payments posted surpluses of \$7.9bn in 2009 and \$3.3bn in 2010 and deficits of \$2bn in 2011, \$1.5bn in 2012 and \$1.1bn in 2013.

Pharmaceutical Sales Per Capita (US\$)



Sources: Business Monitor International

Balance of Payments* (US\$m)



*in the first five months of each year

Source: Central Bank of Lebanon

Lebanon's external debt posts 19th lowest return in emerging markets, sixth lowest in the Middle East & Africa

Figures issued by Merrill Lynch indicate that Lebanon's external debt posted returns of 5.9% in the first half of 2014, constituting the 14th lowest return among 36 markets in the Eastern Europe, the Middle East & Africa (EMEA) region as well as the 19th lowest return among the 66 emerging markets included in Merrill Lynch's Sovereign Plus Debt Index. Lebanon underperformed the EMEA region's returns of 7.9%, the overall emerging markets returns of 9.19% and the 10.82% returns posted by sovereigns rated 'BB' and lower during the covered period.

Further, Lebanon's external debt posted the sixth lowest return among 19 countries in the Middle East & Africa region in the covered period, ahead of Jordan (+2.43%), Angola (+4.07%), Ghana (+5.16%), Nigeria (+5.54%) and Morocco (+5.81%). It was outperformed by Egypt (+15.51%), Tunisia (+14.06%), Rwanda (+12.95%), Turkey (+12.88%), Gabon (+12.1%), Zambia (+12.07%), Mozambique (+10.31%), the Ivory Coast (+10.12%), Bahrain (+9.55%), Iraq (+9.34%), Namibia (+7.62%), Senegal (+7.5%) and South Africa (+6.77%). In US dollar terms, Lebanon's external debt posted returns of 5.88% in the first half of 2014, constituting the 11th lowest in the EMEA region and the 16th lowest among emerging markets.

In parallel, Lebanon's external debt posted returns of 0.87% in June 2014, and constituted the 12th highest return in the EMEA region and the 17th highest return in emerging markets during the covered month. Lebanon outperformed the EMEA returns of 0.67%, those of emerging markets of 0.83%, but it underperformed the 2.36% returns of sovereigns rated 'BB' and lower for the same month.

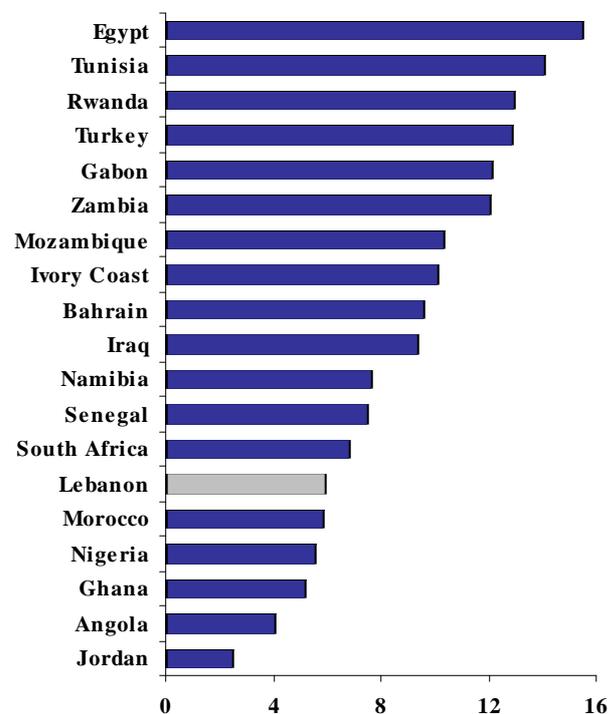
Further, Lebanon's external debt posted the sixth highest return in the Middle East & Africa region in June 2014 and was outperformed by Zambia (+2.82%), Rwanda (+2.48%), Senegal (+1.49%), Tunisia (+1.12%) and Morocco (+1.01%). It outperformed Nigeria (+0.43%), Turkey (+0.28%), Jordan (+0.2%), the Ivory Coast (+0.02%), Egypt (-0.07%), Ghana (-0.09%), Gabon (-0.1%), Mozambique (-0.27%), Angola (-0.59%), South Africa (-0.69%), Bahrain (-0.74%), Namibia (-1.3%) and Iraq (-4.89%).

Merrill Lynch indicated that the spread on Lebanese Eurobonds ended June 2014 at 366 basis points, constituting the 12th widest spread in the EMEA region and the 23rd widest among emerging markets. It was wider than the EMEA spread of 253 basis points as well as the emerging markets' overall spread of 278 basis points at end-June 2014. Lebanon has a weight of 3.79% on Merrill Lynch's Sovereign Plus Debt Index, the fourth highest in the EMEA universe and the ninth highest among emerging economies. Lebanon accounted for 7.5% of allocations in the EMEA region.

Customs receipts down 13% to \$545m in first five months of 2014

Figures released by the Customs Directorate indicate that customs revenues reached \$544.7m in the first five months of 2014, constituting a decrease of 13% from \$626.3m in the same period last year. The Port of Beirut continues to be the main point of customs receipts, as it accounted for 87.6% of the total in the first five months of the year. It was followed by the Hariri International Airport with 8%, the Port of Tripoli with 3.1%, the Port of Saida with 0.7%, the Masnaa crossing point with 0.5% and the Port of Tyre with 0.1%. Customs receipts from the value added tax totaled \$560.6m in the first five months of 2014, reflecting a decrease of 1.4% from \$568.4m in the same period of 2013. The Port of Beirut accounted for 81.6% of such receipts, and was followed by the Hariri International Airport with 11.2%, the Port of Tripoli with 4.2%, the Masnaa crossing point with 1.9%, the Port of Saida with 0.9% and the Port of Tyre and the crossing points of both Abboudieh and Arida with 0.1% each. As such, overall customs receipts reached \$1.1bn in the first five months of 2014, with the Port of Beirut accounting for 84.6% of the total, followed by the Hariri International Airport with 9.6%, the Port of Tripoli with 3.7%, the Masnaa crossing point with 1.2% and the Port of Saida with 0.8%; while other entry points represented the balance.

External Debt Performance in Middle East & Africa in First Half of 2014 (%)



Source: Merrill Lynch, Byblos Research

Salary scale adjustment raises concerns about fiscal and economic outlook, reflects lack of policy direction

Citigroup anticipated the crisis of governance in Lebanon to continue in the foreseeable future, given the current polarized political environment. It noted that the presidential vacuum could drag well beyond the parliamentary elections that are due to take place in November. It considered that there is a high likelihood that the elections would not be held on time, and that it would be necessary to extend the term of the current Parliament once again. It noted that a new government would have to be formed following the election of a new Parliament, which means that Lebanon could be years away from a government with a proper electoral mandate. It added that any eventual government is likely to continue to be paralyzed by the internal bickering and weaknesses that have characterized recent governments, which makes for an uncertain outlook for policy-making in Lebanon.

In parallel, Citigroup considered that the ongoing debate about the public sector's salary scale adjustment reflects the lack of policy direction in the country. It expressed concerns about Lebanon's fiscal and economic outlook in light of the possible increase in public sector wages. First, it said that the timing of the raise sends a negative message about the authorities' lack of efforts to maintain fiscal discipline, given that the fiscal deficit has exceeded 10% of GDP and the public debt dynamics have deteriorated. Second, it pointed out that the proposed tax increases to finance the wage bill risks to further slow down an economy that has been suffering from various internal and external shocks. Third, it said that the government lacks the will to simultaneously implement structural reforms along with the salary pay increase, which reflects the weak policy-making environment. It noted that public sector reforms, which include civil service electricity sector reforms among others, are not likely to take place in the current political environment. As such, it pointed out that Lebanon's structural weaknesses are unlikely to be resolved in the foreseeable future. Further, it considered that improvements in Lebanon's fiscal dynamics are contingent on economic growth prospects, given the lack of structural reforms. It said that the widening of the fiscal deficit since 2012 would only reverse if real GDP growth recovers to its pre-2011 levels. But it noted that a recovery in economic activity to pre-crisis levels is not likely in the context of a challenging regional and domestic political and security environment.

It noted that the public debt-to-GDP ratio had been on the decline until 2011, as the economy grew at a faster rate than the increase in the government's borrowing. It said that real GDP grew by an annual average of 9% between 2007 and 2010, but it slowed to an average of 3% in the past three years. It added that the fiscal slippage that began in 2012, along with the economic slowdown, have led to a steady rise in the debt-to-GDP ratio. As such, it said that, in the absence of structural reforms, real GDP growth has to revert to pre-2011 levels in order to reverse the debt dynamics. But it noted that it would appear very difficult to reach this growth level in the current political and security environments facing the country and the region.

Industrial activity regresses in fourth quarter of 2013

The Central Bank's quarterly business survey indicated that industrial production deteriorated in relative terms during the fourth quarter of 2013, with a balance of opinion standing at -4 compared to +5 in the preceding quarter but improved relative to -8 during the same quarter of 2012. The balance of opinions was the lowest in the North and Beirut & Mount Lebanon at -13 each, followed by the Bekaa (+1), and the South (+51). 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 -5 in the fourth quarter of 2013 compared to +2 in the preceding quarter and -8 during the same quarter of 2012. The balance of opinions about overall demand for industrial goods was the lowest in the North where it reached -18, followed by Beirut & Mount Lebanon (-13), the Bekaa (+2) and the South (+46). Further, the balance of opinions for the volume of investments in industrial goods stood at -4 in the fourth quarter of 2013 compared to -2 in the preceding quarter and to -8 during the same quarter of 2012. The balance of opinion about the volume of investments was the lowest in the North at -29, followed by the South (-8), the Bekaa (-1) and Beirut & Mount Lebanon (+4). Also, the balance of opinion for foreign demand stood at -16 during the fourth quarter of 2013 compared to -13 in the preceding quarter and relative to -22 in the same quarter of 2012. 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.

Industrial Activity: Evolution of opinions				
Aggregate results	Q4-10	Q4-11	Q4-12	Q4-13
Production	18	-11	-8	-4
Total demand	4	-14	-8	-5
Foreign demand	9	-12	-22	-16
Volume of investments	18	2	-8	-4
Inventories of finished goods	1	-11	-14	-14
Inventories of raw material	0	-3	-4	-7
Registered orders	-8	-15	-19	-14

Source: Central Bank Business Survey for Fourth Quarter 2013

Trade deficit widens by 2% to \$7bn in first five months of 2014

Total imports reached \$8.7bn in the first five months of 2014, constituting a decrease of 4.9% from the same period last year; while aggregate exports declined by 29.4% to \$1.4bn, leading to a trade deficit of \$7.3bn, up by 1.8% year-on-year. The widening of the deficit was caused by a decrease of \$577.4m in exports from the same period of 2013, given that imports fell by \$446m. The coverage ratio reached 15.9% in the first five months of 2014 compared to 21.4% in the same period last year; while it reached 18.8% in May 2014 relative to 20.2% in May 2013. The value of imported oil & mineral fuels fell by 10.3% year-on-year to \$2.1bn, and that of non-hydrocarbon imports dropped by 3% to \$6.6bn. Imported oil & mineral fuels accounted for 24% of total imports in the covered period compared to a share of 25.4% in the same period last year.

In volume terms, imports reached 6.4 million tons in the first five months of 2014, constituting an increase of 2.7% from the same period last year; while exports posted a 40.8% decline to 0.8 million tons, leading to a trade deficit of 5.6 million tons in the first five months of 2014, up by 14.1% year-on-year. Imports of oil & mineral fuels decreased by 2.1% year-on-year to 2.9 million tons, while non-hydrocarbon imports increased by 7.2% annually to 3.4 million tons. Imported oil & mineral fuels accounted for 45.9% of total imports in the covered period compared to a share of 48.2% in the same period last year.

China was the main source of imports with \$1.1bn or 12.4% of the total in the first five months of 2014, followed by Italy with \$767.7m (8.8%), the United States with \$637.1m (7.3%), France with \$569.7m (6.5%), Germany with \$527.4m (6.1%), Russia with \$326.4m (3.7%) and Greece with \$307m (3.5%). Imports from China increased by 37.3% annually, those from Italy grew by 8.3% and those from Greece surged by 5%; while imports from Russia dropped by 44.7%, those from the United States fell by 21.6%, those from France regressed by 9.7% and those from Germany declined by 3%.

South Africa was the main export destination with \$162.6m or 11.7% of the total, followed by Saudi Arabia with \$150m (10.8%), the UAE with \$126.4m (9.1%), Iraq with \$110.1m (7.9%), Syria with \$100.3m (7.2%), Turkey with \$60.8m (4.4%) and Jordan with \$54.3m (3.9%). Exports to Syria dropped by 70.8% year-on-year in the first five months of 2014, those to South Africa declined by 43%, those to Turkey dropped by 32.1%, those to the UAE fell by 9.2%, those to Saudi Arabia decreased by 9% and those to Jordan regressed by 3.1%; while exports to Iraq rose by 9.5% annually.

Lebanon's main export product was jewelry at \$260m or 18.7% of the total, followed by prepared foodstuff with \$220.3m (15.9%), machinery & mechanical appliances with \$188.7m (13.6%), base metals with \$162.6m (11.7%), chemical products with \$142.7m (10.3%) and paper & paperboard with \$87.7m (6.3%). Re-exports totaled \$167.8m in the first five months of 2014 compared to \$104.1m in the same period last year.

Central Bank's foreign assets up 5% to \$37bn in first half of 2014

The Central Bank's interim balance sheet reached \$82.7bn at the end of June 2014 compared to \$77bn at the end of 2013 and to \$76.9bn at the end of June 2013. Assets in foreign currencies reached \$37.1bn at the end of June 2014, constituting an increase of 5% from \$35.3bn at the end of 2013 and decreased by a marginal decrease of 0.3% from \$37.17bn at the end of June 2013. Assets in foreign currencies increased by \$329m in January, by \$595.7m in February, \$81.6m in March, \$254m in May and \$697.3m in June, while they decreased by \$181.6m in April 2014. This resulted in an aggregate increase of \$1.78bn in the first half of 2014. Further, assets in foreign currencies regressed by \$101.4m, or 0.3%, year-on-year.

The value of the Central Bank's gold reserves improved by 9.1% in the first half of 2014 and by 9.2% year-on-year to \$12.1bn, compared to the peak of \$16.7bn reached at end-August 2011. Its securities portfolio increased by 3.5% in the first half to \$12.65bn. Further, deposits of the financial sector rose by \$4.3bn, or 7.5%, in the first six months of the year and by \$3.8bn or 6.6% annually to \$61.66bn; while deposits of the public sector increased by 5.9% year-to-June and rose by 22.6% year-on-year to \$7.75bn. Assets in foreign currencies decreased by \$445.1m in 2013 and increased by \$3.5bn in 2012, \$1.63bn in 2011, \$2.3bn in 2010, \$8.3bn in 2009 and \$7.34bn in 2008.

Value of cleared checks up 4%, returned checks down 2% in first five months of 2014

The value of cleared checks reached \$30.8bn in the first five months of 2014, constituting an increase of 4.2% from the same period last year, and compared to a rise of 2.9% in the first five months of 2013 and an increase of 1.7% in the same period of 2012. The value of cleared checks in Lebanese pounds rose by 11.1% annually to the equivalent of \$7.5bn in the first five months of 2014, while the value of cleared checks in US dollars increased by 2.2% to \$23.3bn. The dollarization rate of cleared checks decreased to 75.7% from 77.2% in the first five months of 2013. Also, the value of returned checks in domestic and foreign currencies decreased by 2.1% year-on-year to \$600m in the first five months of 2014, relative to an annual drop of 3.9% in the same period of 2013 and an annual increase of 4.4% in the first five months of 2012. In parallel, the number of cleared checks totaled 5.3 million checks in the first five months of 2014, down 1.5% from the same period last year. Also, the number of returned checks totaled 102,100 checks, down 4.9% from the first five months of 2013.



FATCA enters into effect, 122 Lebanese institutions already registered with the IRS in compliance with deadline

Figures issued by the United States Department of the Treasury show that 122 commercial banks, investment banks, insurance companies and financial institutions operating in Lebanon have registered with the U.S. Internal Revenue Service (IRS) as of July 1st, in compliance with the Foreign Account Tax Compliance Act (FATCA). The FATCA, which came into effect on July 1, 2014, requires foreign financial institutions to identify and report the accounts of U.S. citizens, U.S. permanent residents, the accounts of foreign entities where U.S. taxpayers hold a substantial ownership interest, and/or other persons and entities specified by the Act. The law imposes penalties on non-compliant institutions, as it authorizes the U.S. Treasury to impose a 30% withholding tax on the income generated in the United States by the institutions that are found to be non-compliant with FATCA.

The Central Bank of Lebanon indicated that the implementation of FATCA would not compromise the banking secrecy laws in Lebanon. It added that Lebanon may not be a priority at the start of FATCA's implementation due to the relatively limited number of U.S. nationals who have accounts at Lebanese banks compared to other countries such as Switzerland, Luxembourg and Austria.

In 2012, the Central Bank considered the option of playing the role of agent on behalf of the Lebanese banking sector, rather than having each bank reach a separate agreement with the U.S. Internal Revenue Service. But in November 2013, the Central Bank indicated that the Lebanese government and the Central Bank would not join the Inter-governmental Agreement on the compliance with the FATCA. As such, in December 2013, it officially asked banks, financial institutions, financial intermediaries and collective investment schemes operating in Lebanon to take all necessary measures to comply with the FATCA. It stated that it would be in the interest of the Lebanese financial sector to comply with the FATCA within the pre-set timetable in order to protect the sector from the repercussions with correspondent banks in the United States and/or in countries compliant with the FATCA. It added that the compliance with the FATCA would protect the Lebanese financial sector from reputational risks.

Stock market activity up 47% to \$227m in first half of 2014

Figures released by the Beirut Stock Exchange indicate that total trading volume reached 29.8 million shares in the first half of 2014, constituting an increase of 42.1% from the same period of 2013, while aggregate turnover amounted to \$227.4m, up 47.2% from a turnover of \$154.5m in the first half of 2013. Market capitalization increased by 9.5% from end-June 2013 to \$11.2bn, of which 77% was in banking stocks, followed by real estate stocks with 19.8%, industrial stocks with 3% and trading stocks with 0.3%. The market liquidity ratio was 2% compared to 1.5% in the first half of 2013. Banking stocks accounted for 86.9% of aggregate trading volume in the first half of the year, followed by real estate stocks with 13%, and industrial and trading stocks with 0.1% each. Also, banking stocks accounted for 67.4% of the aggregate value of traded shares, followed by real estate stocks with 22.4% and industrial stocks with 0.1%. The average daily traded volume for the period was 248,682 shares for an average daily value of \$1.9m. The figures reflect increases of 41% in volume and 45.9% in value year-on-year.

NECB and Banque de L'Industrie et du Travail announce merger

The Near East Commercial Bank sal (NECB) and Banque de L'Industrie et du Travail sal announced their merger to form a new entity named BIT Bank sal. The shareholders of NECB will hold 51% of the new bank's capital, while the shareholders of Banque de L'Industrie et du Travail will hold the remaining 49%. BIT Bank's total capital will stand at \$200m. BIT Bank will have a total of 19 branches across the country that consist of Banque de L'Industrie et du Travail's 13 branches and NECB's six branches. BIT Bank intends to open three new branches in the near term and to join the Alpha group of banks, which consists of the banks that have deposits in excess of \$2bn. NECB's shareholders are Saradar Holding sal with a 51% stake, followed by the Swiss-based Wiederkehr Group with a 39% share and Mr. Carlos Ghosn with a 9% stake. Banque de L'Industrie et du Travail's main shareholders are Société Al Bustaniya sal with a 40.17% share, followed by the Shammass Economic Institute sal with a 24.54% stake, Saifi Invest Holding sal (23.07%), Ms. Myrna E. Bustani (4.14%), and Ms. Laura El Khazen Lahoud and Mr. Jamil F. El-Khazen (3.99% each).

Mr. Fouad El Khazen, chairman & general manager of Banque de L'Industrie et du Travail, will become the honorary chairman of the new bank, while NECB's chairman Mr. Mario Saradar will be BIT Bank's chairman and chief executive officer. The latest available consolidated figures of the merged banks show total assets of \$1.1bn, loans to customers of \$264m and customer deposits of \$821.1m at the end of 2012. The deal is subject to the approval of the Central Bank of Lebanon. The latter will withdraw NECB's license following the completion of the merger.

IPS acquires 52% stake in Egyptian pharmaceutical company

Integrated Pharma Solutions sal (IPS) announced that it successfully acquired a 52.48% stake in Egypt-based MEIVO pharmaceuticals through a Lebanon-based subsidiary. The acquisition fulfills in part IPS's objective of creating a regional network of pharmaceutical manufacturing facilities in the Middle East and Africa region. IPS specializes in a range of pharmaceutical and diagnostic solutions in the Middle East and Africa region. It manufactures generic pharmaceutical products, while it also handles the sale, marketing and distribution of medical equipments, among others. Established in 2005, MEIVO Pharmaceuticals manufactures and distributes generic medical and pharmaceutical products.

Lebanese contractor awarded oil pipeline project in Kenya

The state-owned Kenya Pipeline Company (KPC) awarded a KES43bn or \$490m contract to the Lebanon-based firm Zakhem International Construction Limited to build a multi-product oil pipeline. KPC expects the project to be completed in 18 months. The pipeline would link Kenya's second-largest city, Mombasa, to the country's capital Nairobi. Zakhem International will also build a fiber optic cable along the route, install four pumping stations for the pipeline and upgrade existing KPC's firefighting equipment in Nairobi. The KPC indicated that the project would be mainly financed through internally generated company funds.

Established in 1963, Zakhem International is a family-owned business that deals with various contracting activities that include civil contracting for infrastructure, buildings, marine and heavy projects and pipeline installations. It also provides engineering consultancy services, as well as electro-mechanical and instrumentation engineering services. The company has subsidiaries in Algeria, Ghana, Tanzania and the United Kingdom. It previously carried out pipeline, refinery and fuel storage projects in Libya, Iraq, Nigeria, Qatar, Italy and Tanzania.

Sogecap's net income at \$8m in 2013

Sogecap Liban sal, the insurance affiliate of Société Générale de Banque au Liban sal, announced audited net profits of \$7.8m in 2013, constituting an increase of 27.7% from net earnings of \$6.1m in 2012. Its audited balance sheet shows total assets of \$104.8m at the end of 2013, constituting an increase of 11.8% from end-2012. On the assets side, general company investments totaled \$80.8m and increased by 9.4% from \$73.9m at end-2012. They included \$50.3m in cash & cash equivalents, \$28.2m in fixed income investments, \$0.8m in blocked bank deposits in favor of the Economy Ministry as guarantees, and \$0.6m in land and real estate.

Also, unit-linked contracts investments totaled \$21.8m at end-2013, constituting a rise of 19.2% from \$18.3m a year earlier. They included \$10.6m in variable income investments and \$11.2m in cash & similar investments. Unit-linked investment in variable income investments increased by 18.9%, and cash & similar investments rose by 19.6% year-on-year. Reinsurance share in technical reserves for the life category amounted to \$1.3m, constituting an increase of 51.5% from \$0.8m at end-2012.

On the liabilities side, unit-linked technical reserves reached \$21.8m at the end of 2013 and rose by 19.2% from \$18.3m at end-2012. Also, technical reserves for the life segment grew by 12.6% year-on-year to \$56m. Provisions for risks and charges reached \$0.4m and dropped by 11.1% from the previous year. Also, the firm's shareholders' equity totaled \$24m at end-2013 and rose by 2.9% from \$23.3m a year earlier.

Al-Bayan magazine's annual survey of the life insurance sector in Lebanon ranked Sogecap Liban in seventh place in 2013 in terms of premiums. The firm's life premiums reached \$26.5m, constituting a rise of 8.3% from \$24.5m in 2012. It had a 6.4% share of the life market.

Ratio Highlights

(in % unless specified)	2011	2012	2013	Change*
Nominal GDP (\$bn)	40.1	42.5	44.3	
Public Debt in Foreign Currency / GDP	52.2	57.4	59.0	160
Public Debt in Local Currency / GDP	81.6	78.4	84.4	600
Gross Public Debt / GDP	133.9	135.7	143.4	770
Total Gross External Debt / GDP	169.0	169.9	172.7	280
Trade Balance / GDP	(34.7)	(34.6)	(32.8)	180
Exports / Imports	27.9	27.6	27.0	(60)
Fiscal Revenues / GDP	23.3	22.1	20.9	(120)
Fiscal Expenditures / GDP	29.1	31.4	32.1	70
Fiscal Balance / GDP	(5.9)	(9.3)	(11.2)	(190)
Primary Balance / GDP	4.1	(0.3)	(2.5)	(220)
Gross Foreign Currency Reserves / M2	79.2	69.4	70.6	120
M3 / GDP	242.5	244.7	248.9	420
Commercial Banks Assets / GDP	350.6	357.4	372.4	1,500
Private Sector Deposits / GDP	288.6	294.1	307.7	1,360
Private Sector Loans / GDP	98.2	102.2	107.0	480
Private Sector Deposits Dollarization Rate	65.9	64.8	66.1	130
Private Sector Lending Dollarization Rate	78.4	77.6	76.5	(110)

* Change in basis points 12/13

Source: Institute of International Finance, Association of Banks in Lebanon, International Monetary Fund, Byblos Research Estimates & Calculations

Note: M2 includes money in circulation and deposits in LBP, M3 includes M2 plus Deposits in FC and bonds

Risk Outlook

Lebanon	Aug 2012	July 2013	Aug 2013	Change*	Risk Level
Political Risk Rating	53.5	53.0	52.5	▼	High
Financial Risk Rating	35.0	33.5	33.5	▼	Moderate
Economic Risk Rating	34.0	28.5	28.5	▼	High
Composite Risk Rating	61.2	57.5	57.2	▼	High

Regional Average	Aug 2012	July 2013	Aug 2013	Change*	Risk Level
Political Risk Rating	59.7	58.3	58.2	▼	High
Financial Risk Rating	41.2	41.3	41.3	▼	Very Low
Economic Risk Rating	36.3	36.6	36.2	▼	Low
Composite Risk Rating	68.6	68.1	67.8	▼	Moderate

*year-on-year

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	B1	NP	Negative	B1		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



Economic Research & Analysis Department
Byblos Bank Group
P.O. Box 11-5605
Beirut – Lebanon
Tel: (961) 1 338 100
Fax: (961) 1 217 774
E-mail: research@byblosbank.com.lb
www.byblosbank.com

Lebanon This Week is a research document that is owned and published by Byblos Bank sal. The contents of this publication, including all intellectual property, trademarks, logos, design and text, are the exclusive property of Byblos Bank sal, and are protected pursuant to copyright and trademark laws. No material from Lebanon This Week may be modified, copied, reproduced, repackaged, republished, circulated, transmitted, redistributed or resold directly or indirectly, in whole or in any part, without the prior written authorization of Byblos Bank sal.

The information and opinions contained in this document have been compiled from or arrived at in good faith from sources deemed reliable. Neither Byblos Bank sal, nor any of its subsidiaries or affiliates or parent company will make any representation or warranty to the accuracy or completeness of the information contained herein.

Neither the information nor any opinion expressed in this publication constitutes an offer or a recommendation to buy or sell any assets or securities, or to provide investment advice. This research report is prepared for general circulation and is circulated for general information only. Byblos Bank sal accepts no liability of any kind for any loss resulting from the use of this publication or any materials contained herein.

The consequences of any action taken on the basis of information contained herein are solely the responsibility of the person or organization that may receive this report. Investors should seek financial advice regarding the appropriateness of investing in any securities or investment strategies that may be discussed in this report and should understand that statements regarding future prospects may not be realized.

BYBLOS BANK GROUP

LEBANON

Byblos Bank S.A.L
Achrafieh - Beirut
Elias Sarkis Avenue - Byblos Bank Tower
P.O.Box: 11-5605 Riad El Solh - Beirut 1107 2811- Lebanon
Phone: (+ 961) 1 335200
Fax: (+ 961) 1 339436

SYRIA

Byblos Bank Syria S.A.
Damascus Head Office
Al Chaalan - Amine Loutfi Hafez Street
P.O.Box: 5424 Damascus - Syria
Phone: (+ 963) 11 9292 - 3348240/1/2/3/4
Fax: (+ 963) 11 3348205
E-mail: byblosbanksyria@byblosbank.com

IRAQ

Erbil Branch, Kurdistan, Iraq
Street 60, Near Sports Stadium
P.O.Box: 34 - 0383 Erbil - Iraq
Phone: (+ 964) 66 2233457/8/9 - 2560017/9
E-mail: erbilbranch@byblosbank.com.lb

Baghdad Branch, Iraq
Al Karrada - Salman Faeq Street
Al Wahda District, No. 904/14, Facing Al Shuruk Building
P.O.Box: 3085 Badalat Al Olwiya - Iraq
Phone: (+ 964) 770 6527807 / (+ 964) 780 9133031/2
E-mail: baghdadbranch@byblosbank.com.lb

Basra Branch, Iraq
Intersection of July 14th, Manawi Basha Street, Al Basra - Iraq
Phone: (+ 964) 770 4931900 / (+ 964) 770 4931919
E-mail: basrabranch@byblosbank.com.lb

UNITED ARAB EMIRATES

Byblos Bank Abu Dhabi Representative Office
Intersection of Muroor and Electra Streets
P.O.Box: 73893 Abu Dhabi - UAE
Phone: (+ 971) 2 6336050 - 2 6336400
Fax: (+ 971) 2 6338400
E-mail: abudhabirepoffice@byblosbank.com.lb

ARMENIA

Byblos Bank Armenia CJSC
18/3 Amiryan Street - Area 0002
Yerevan - Republic of Armenia
Phone: (+ 374) 10 530362
Fax: (+ 374) 10 535296
E-mail: infoarm@byblosbank.com

CYPRUS

Limassol Branch
1, Archbishop Kyprianou Street, Loucaides Building
P.O.Box 50218
3602 Limassol - Cyprus
Phone: (+ 357) 25 341433/4/5
Fax: (+ 357) 25 367139
E-mail: byblosbankcyprus@byblosbank.com.lb

BELGIUM

Byblos Bank Europe S.A.
Brussels Head Office
Rue Montoyer 10
Bte. 3, 1000 Brussels - Belgium
Phone: (+ 32) 2 551 00 20
Fax: (+ 32) 2 513 05 26
E-mail: byblos.europe@byblosbankeur.com

UNITED KINGDOM

Byblos Bank Europe S.A., London Branch
Berkeley Square House
Berkeley Square
GB - London W1J 6BS - United Kingdom
Phone: (+ 44) 20 8518 8100
Fax: (+ 44) 20 8518 8129
E-mail: byblos.london@byblosbankeur.com

FRANCE

Byblos Bank Europe S.A., Paris Branch
15 Rue Lord Byron
F- 75008 Paris - France
Phone: (+33) 1 45 63 10 01
Fax: (+33) 1 45 61 15 77
E-mail: byblos.europe@byblosbankeur.com

SUDAN

Byblos Bank Africa
Khartoum Head Office
Intersection of Mac Nimer and Baladiyya Streets
P.O.Box: 8121 - Khartoum - Sudan
Phone: (+ 249) 1 56 552 222
Fax: (+ 249) 1 56 552 220
E-mail: byblosbankafrica@byblosbank.com

NIGERIA

Byblos Bank Nigeria Representative Office
161C Rafu Taylor Close - Off Idejo Street
Victoria Island, Lagos - Nigeria
Phone: (+ 234) 706 112 5800
(+ 234) 808 839 9122
E-mail: nigeriarepresentativeoffice@byblosbank.com.lb

DEMOCRATIC REPUBLIC OF CONGO

Byblos Bank RDC S.A.R.L
Avenue du Marché No. 4
Kinshasa-Gombe, Democratic Republic of Congo
Phone: (+ 243) 81 7070701
(+ 243) 99 1009001
E-mail: byblosbankrdc@byblosbank.com

ADIR INSURANCE

Dora Highway - Aya Commercial Center
P.O.Box: 90-1446
Jdeidet El Metn - 1202 2119 Lebanon
Phone: (+ 961) 1 256290
Fax: (+ 961) 1 256293