



# LEBANON THIS WEEK

## In This Issue

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

Greenfield FDI projects down 49% to \$104m in 2013

Airport activity flat in first seven months of 2014

Lebanon's external debt posts 20th lowest return in emerging markets, sixth lowest in the Middle East & Africa

Net public debt at \$54.9bn at end-June 2014

Repeated delays in auctioning oil and gas exploration licenses to hurt Lebanon's prospects

Constitutional Council's decision stalls new rental law

Balance of payments posts surplus of \$216m in first half of 2014

Trade deficit widens by 2% to \$8.6bn in first half of 2014, exports down by 28%

Value of cleared checks up 5%, returned checks down 3% in first half of 2014

Surface area of new construction permits up 15% in first half of 2014

Number of real estate transactions up 7% in first half of 2014

Industrial exports down 17% to \$739m in first quarter of 2014

Treasury transfers to Electricité du Liban up 28% in January 2014

## Corporate Highlights .....7

Commercial banks' assets reach \$171bn at end-June 2014

Kafalat loan guarantees down 4% to \$65m in first seven months of 2014

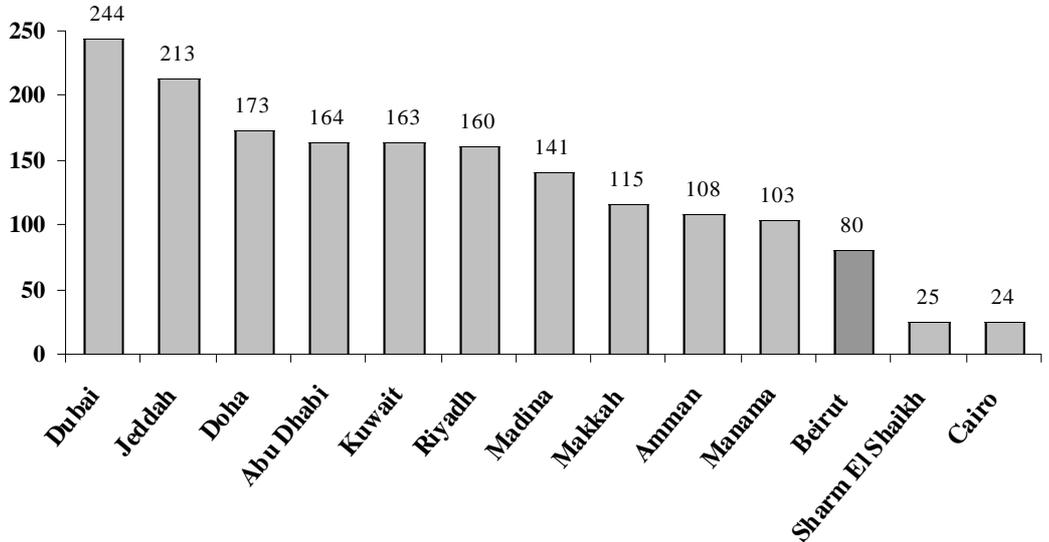
## Ratio Highlights.....8

## Risk Outlook .....8

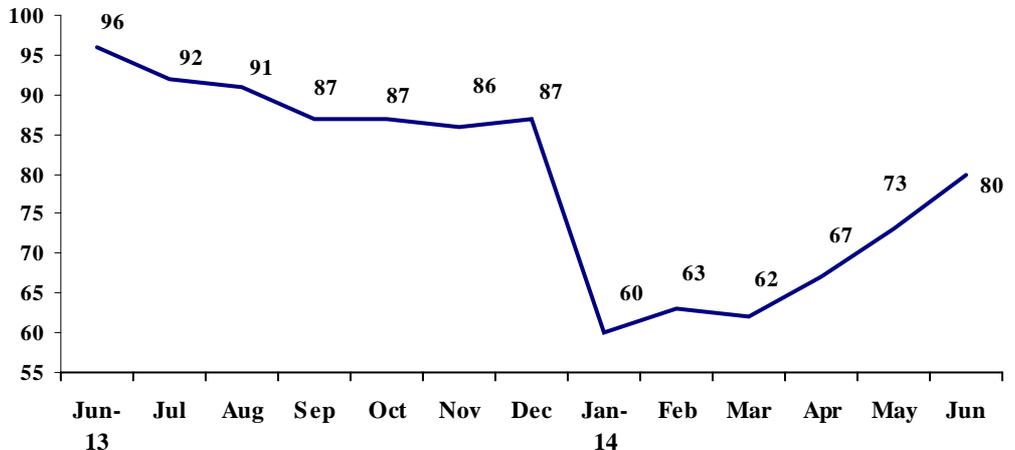
## Ratings & Outlook.....8

## Charts of the Week

Revenues Per Available Room at Hotels in Arab Cities in First Half of 2014 (US\$)



Revenues Per Available Room at Hotels in Beirut (US\$)



Source: EY, Byblos Bank

## Quote to Note

"The ongoing Iraqi crisis has blocked Lebanese exporters' access to Gulf markets."

*The World Bank, on the impact of unfolding developments in Iraq, which is a transit route to the Gulf for Lebanese exports*

## Number of the Week

**\$6.6bn:** The government's foreign-currency borrowing from the Central Bank as at the end of April 2014, equivalent to 14% of GDP, according to the International Monetary Fund

## Economic Indicators

<b>\$m (unless otherwise mentioned)</b>	<b>2013</b>	<b>Feb 13</b>	<b>Nov 13</b>	<b>Dec 13</b>	<b>Jan 14</b>	<b>Feb 14</b>	<b>% Change*</b>
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)

<b>\$bn (unless otherwise mentioned)</b>	<b>Dec 2013</b>	<b>Feb 13</b>	<b>Nov 13</b>	<b>Dec 13</b>	<b>Jan 14</b>	<b>Feb 14</b>	<b>% Change*</b>
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

<b>Most Traded Stocks on BSE</b>	<b>Last Price (\$)</b>	<b>% Change*</b>	<b>Total Volume</b>	<b>Weight in Market Capitalization</b>
Solidere "A"	13.02	1.24	112,111	11.92%
Solidere "B"	13.03	3.25	29,661	7.75%
Byblos Common	1.60	(1.23)	14,667	5.27%
Byblos Pref. 08	100.60	0.10	1,076	1.84%
Byblos Pref. 09	100.50	0.50	104	1.84%
BLOM GDR	9.35	0.00	7,000	6.33%
BLOM Listed	8.75	0.00	6,965	17.22%
Audi GDR	6.25	0.64	600	5.87%
Audi Listed	6.01	(4.60)	29,206	19.25%
HOLCIM	13.76	0.00	0	2.46%

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

<b>Sovereign Eurobonds</b>	<b>Coupon %</b>	<b>Mid Price \$</b>	<b>Mid Yield %</b>
Jan 2015	5.875	101.24	2.90
Apr 2015	10.000	104.81	2.99
Jan 2016	8.500	107.25	3.28
Mar 2017	9.000	112.38	3.95
Nov 2018	5.150	101.00	4.89
May 2019	6.000	103.90	5.07
Mar 2020	6.375	105.25	5.27
Apr 2021	8.250	115.13	5.51
Oct 2022	6.100	102.00	5.79
Nov 2026	6.600	102.25	6.33

Source: Byblos Bank Capital Markets

	<b>Aug 4-8</b>	<b>July 31-Aug 1</b>	<b>% Change</b>	<b>July 2014</b>	<b>July 2013</b>	<b>% Change</b>
<b>Total Shares Traded</b>	289,156	57,187	405.63	3,616,820	7,014,320	(48.44)
<b>Total Value Traded</b>	\$3,445,240	\$688,052	400.72	\$19,622,207	\$30,195,961	(35.02)
<b>Market Capitalization</b>	\$10.92bn	\$10.98bn	(0.56)	\$10.94bn	\$10.56bn	3.57

Source: Beirut Stock Exchange (BSE)



### Greenfield FDI projects down 49% to \$104m in 2013

Figures compiled by fDi Markets and released by the United Nations Conference on Trade and Development (UNCTAD) show that the value of inward Greenfield foreign direct investment (FDI) projects in Lebanon totaled \$103.7m in 2013, constituting a decrease of 48.5% from \$201.4m in 2012. Greenfield foreign FDI projects in Lebanon totaled \$531.3m in 2011, \$1.3bn in 2010 and \$1.8bn in 2009. Lebanon was the fourth smallest recipient of Greenfield FDI in nominal terms among 19 Arab countries, while it was the 30th smallest recipient among 178 countries in 2013 and the 52nd smallest recipient in 2012.

The FDI figures cover cross-border Greenfield projects that lead to the direct creation of jobs and capital investment. They include joint ventures when these transactions lead to a new physical Greenfield operation. The figures exclude mergers and acquisitions and other equity investments. fDi Markets is a database that tracks cross-border Greenfield investments across the world, and is owned by the Financial Times Group.

Lebanon posted the sixth steepest drop in inward Greenfield FDI among Arab countries last year, with Mauritania (-93.6%), Egypt (-70.3%), Tunisia (-69.7%), Bahrain (-67.4%) and Yemen (-51.4%) posting steeper declines. Lebanon was one of 11 Arab economies that saw a fall in inward Greenfield FDI in 2013. Also, Lebanon posted the 31st steepest drop in inward Greenfield FDI worldwide last year. In comparison, the value of inward Greenfield FDI projects to Arab economies increased by 12.8% year-on-year, while inward Greenfield FDI to emerging economies increased by 17.4% and global Greenfield FDI rose by 9.5%.

The value of Greenfield foreign FDI projects in Lebanon accounted for 0.2% of total Greenfield foreign FDI projects in Arab countries last year, down from 0.4% in 2012. It also represented 0.02% of total flows to emerging economies as well as of global FDI in 2013. Further, the value of Greenfield FDI projects in Lebanon was equivalent to 0.2% of GDP in 2013, the fourth lowest ratio in the Arab world, compared to 5% of GDP in 2009. Lebanon attracted 16 Greenfield FDI projects in 2013 compared to 19 projects in 2012, 26 projects in 2011, 30 projects in 2010 and 28 projects in 2009. As such, it attracted the seventh smallest number of FDI projects among Arab countries last year.

In parallel, aggregate Arab Greenfield FDI in Lebanon totaled \$10.7bn between January 2003 and April 2014, making Lebanon the eighth smallest recipient of such investments among 21 Arab countries. Lebanon accounted for 2.9% of inter-Arab investments during the covered period, higher than Yemen (1%), Djibouti and Kuwait (0.9% each), Sudan (0.7%), Palestine (0.3%), Somalia (0.1%) and Mauritania (0.02%). The UAE was the main source of Arab Greenfield FDI projects in Lebanon with \$6.7bn or 62.5% of the total during the covered period. It was followed by Kuwait with \$2bn (19%), Saudi Arabia with \$1.7bn (16.4%), Qatar with \$104m (1%), Bahrain with \$94m (0.9%) and Iraq and Oman with \$15m and \$13m, respectively. Further, Lebanon attracted 86 Greenfield FDI projects from Arab countries between January 2003 and April 2014.

### Airport activity flat in first seven months of 2014

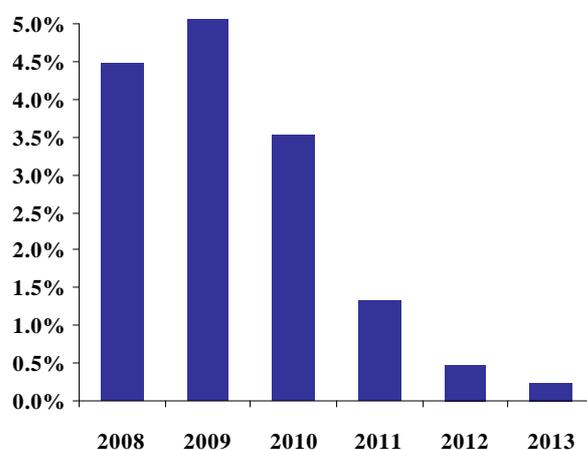
Figures released by the Hariri International Airport (HIA) show that the number of airport passengers (arrivals, departures, transit) totaled 3,564,202 in the first seven months of 2014, constituting a marginal increase of 0.2% from the same period last year. The total number of arriving passengers rose by 5.2% year-on-year to 1,823,556 in the first seven months of the year compared to an increase of 1.2% in the same period of 2013. Also, the number of departing passengers dropped by 4.5% year-on-year to 1,731,743 in the first seven months of 2014 relative to an annual increase of 9.4% in the same period of 2013. In parallel, the airport's aircraft movement grew by 0.7% year-on-year to 35,845 take-offs and landings in the first seven months of the year, compared to an annual drop of 2.9% in the same period of 2013. The HIA processed 57,133 metric tons of cargo in the first seven months of 2014 that consisted of 56,659 tons of freight and 474 tons of mail.

### Greenfield FDI in Arab Countries (\$m)

	2013	2012	Change (%)
Iraq	14,998	976	1436.5%
Jordan	10,946	1,401	681.5%
UAE	6,821	12,053	-43.4%
Saudi Arabia	6,430	8,393	-23.4%
Algeria	4,286	2,370	80.8%
Egypt	3,035	10,205	-70.3%
Oman	2,641	4,970	-46.9%
Morocco	2,461	1,398	76.0%
Kuwait	2,183	1,051	107.7%
Qatar	1,573	2,172	-27.6%
Bahrain	1,154	3,535	-67.4%
Tunisia	432.0	1,426	-69.7%
Djibouti	180.2	24.6	632.5%
Yemen	178.2	366.3	-51.4%
Libya	120.8	97.8	23.5%
<b>Lebanon</b>	<b>103.7</b>	<b>201.4</b>	<b>-48.5%</b>
Sudan	54.9	66.1	-16.9%
Mauritania	23.2	361.0	-93.6%
Palestine	7.8	-	-
<b>Total</b>	<b>57,628</b>	<b>51,067</b>	<b>12.8%</b>

Source: fDi Markets, UNCTAD, Byblos Research

### Greenfield FDI in Lebanon (% of GDP)



Source: fDi Markets, UNCTAD, IMF, Byblos Research

### Lebanon's external debt posts 20th 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 6.64% in the first seven months of 2014, constituting the 15th lowest return among 37 markets in the Eastern Europe, the Middle East & Africa (EMEA) region as well as the 20th lowest return among the 66 emerging markets included in Merrill Lynch's Sovereign Plus Debt Index. Lebanon underperformed the EMEA region's returns of 7.97%, the overall emerging markets returns of 9.42% and the 11.31% 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 (+2.88%), Angola (+4.02%), Ghana (+5.99%), Mozambique (+6.07%) and Nigeria (+6.46%). It was outperformed by Egypt (+15.81%), Zambia (+15.01%), Tunisia (+14.13%), Rwanda (+14.1%), Turkey (+13.98%), the Ivory Coast (+12.3%), Gabon (+12.17%), Morocco (+10.44%), Bahrain (+9.59%), Senegal (+9.1%), Iraq (+8.73%), Namibia (+8.2%) and South Africa (+6.71%). In US dollar terms, Lebanon's external debt posted returns of 6.64% in the first seven months of 2014, constituting the 12th lowest in the EMEA region and the 17th lowest among emerging markets.

In parallel, Lebanon's external debt posted returns of 0.71% in July 2014, and constituted the 13th highest return in the EMEA region and the 25th highest return in emerging markets during the covered month. Lebanon outperformed the EMEA returns of 0.07%, those of emerging markets of 0.21% and those of sovereigns rated 'BB' and lower of 0.44% for the same month.

Further, Lebanon's external debt posted the eighth highest return in the Middle East & Africa region in July 2014 and was outperformed by Zambia (+2.63%), the Ivory Coast (+1.98%), Senegal (+1.49%), Rwanda (+1.03%), Turkey (+0.98%), Nigeria (+0.87%) and Ghana (+0.78%). It outperformed Namibia (+0.54%), Jordan (+0.44%), Egypt (+0.26%), Mozambique (+0.24%), Morocco (+0.12%), Gabon and Tunisia (+0.06% each), Bahrain (+0.04%), Angola and South Africa (-0.06% each) and Iraq (-0.56%).

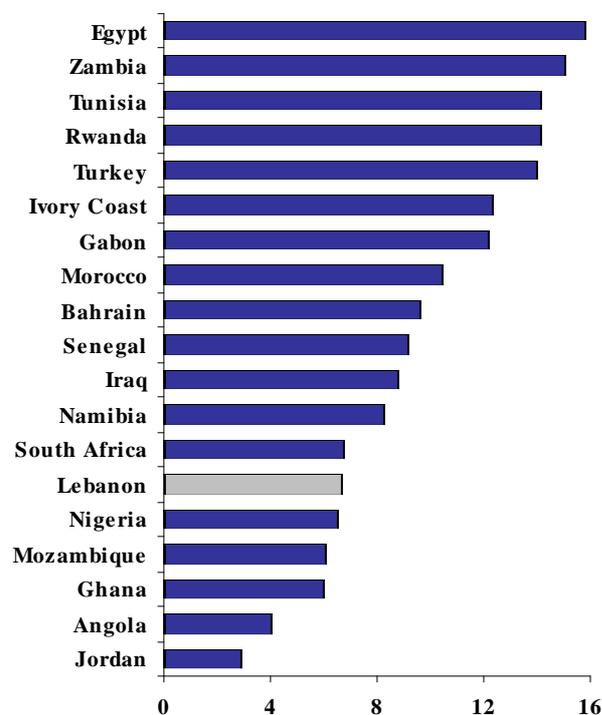
Merrill Lynch indicated that the spread on Lebanese Eurobonds ended July 2014 at 350 basis points, constituting the 12th widest spread in the EMEA region and the 23rd widest among emerging markets. It was wider than the EMEA spread of 258 basis points as well as the emerging markets' overall spread of 281 basis points at end-July 2014. Lebanon has a weight of 3.86% 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 7.6% of allocations in the EMEA region.

### Net public debt at \$54.9bn at end-June 2014

Lebanon's gross public debt reached \$65.7bn at the end of June 2014, constituting a rise of 3.5% from the end of 2013 and an increase of 9.5% from end-June 2013. Domestic debt totaled \$39.6bn at end-June, rising by 6.1% from end-2013 and increasing by 17% annually; while external debt stood at \$26.1bn, constituting a marginal drop of 0.2% from the end of 2013 and a marginal decrease of 0.3% from a year earlier. Local currency debt accounted for 60.3% of gross public debt at the end of June 2014 compared to 56.4% a year earlier, while foreign currency-denominated debt represented 39.7% of the total at end-June relative to 43.6% a year earlier. The weighted interest rate on outstanding Treasury bills was 6.89%, and that on Eurobonds was 6.38% at the end of June 2014. Further, the weighted life on Eurobonds was 5.81 years, while that on Treasury bills was 1,207 days.

Commercial banks accounted for 52.8% of the local public debt at the end of June 2014 compared to 50.5% a year earlier. They were followed by the Central Bank with 29.9%, down from 32% at end-June 2013; while public agencies, financial institutions and the general public accounted for 17.4% of local debt compared to 17.5% at end-June 2013. Eurobond holders, foreign private sector loans and special T-bills in foreign currencies accounted for 90.3% of the external debt, followed by foreign governments with 4.9%, multilateral institutions with 4.4%, and Paris II loans with 0.4%. The net public debt, which excludes the public sector's deposits at the Central Bank and at commercial banks from overall debt figures, increased annually by 7.9% to \$54.9bn. In parallel, the gross market debt accounted for about 65% of total public debt. Gross market debt is the total public debt less the portfolios of the Central Bank, the National Social Security Fund, bilateral and multilateral loans, as well as Paris II and Paris III related debt.

### External Debt Performance in Middle East & Africa in First Seven Months of 2014 (%)



Source: Merrill Lynch, Byblos Research

### Repeated delays in auctioning oil and gas exploration licenses to hurt Lebanon's prospects

The Ministry of Energy & Water announced that it has extended from August 14, 2014 to February 14, 2015 the deadline for pre-qualified firms to submit their offers for Lebanon's first licensing round for offshore oil and gas exploration and production. Lebanon extended five times the deadline for pre-qualified firms to submit their offers for the licensing round for offshore oil and gas exploration and production. It first postponed the deadline from November 4, 2013 to December 10 of the same year, then extended it to January 10, 2014, then to April 10 of this year, then to August 14, 2014 and more recently to February 14, 2015. The ministry started accepting bids on May 2, 2013.

The Economist Intelligence Unit said that the delays reflect the government's failure to ratify two decrees that would outline the terms of exploration and production agreements and that would specify the number of blocks to be auctioned. It noted that the ministerial committee in charge of reviewing the draft decrees is not meeting on a regular basis and is struggling to find any kind of consensus.

The EIU cautioned that extended delays would erode confidence in the government's ability to maintain international oil companies' interest in the hydrocarbons offering. It considered that Lebanon would not be able to dictate strong commercial terms to international oil companies if the process is further delayed. It pointed out that major international oil companies have little clarity on contractual terms for exploring and developing the country's offshore reserves, as well as on the number of blocks that will be auctioned. It said that the authorities' initial plan was to auction the 10 blocks together, but it noted that there is an ongoing debate among the country's political class as to whether to auction the 10 blocks at once or to offer them gradually. The size of the blocks ranges from 1,259 square kilometers to 2,374 square kilometers each.

The EIU pointed out that Lebanon is lagging other neighboring countries in the Levant Basin in this process, with Israel already reaching the phase of monetizing its gas reserves. It considered that Lebanon could have started the drilling work by late next year if the government had approved the decrees and if authorities had completed the auction by mid-August of this year. It noted that many Lebanese politicians are already promoting a scenario under which oil and gas proceeds would allow a major transformation in the country's economic outlook. However, it cautioned that successive delays mean that the economy would not benefit from hydrocarbon proceeds anytime soon, especially that there is no certainty that the country sits on commercially viable oil and gas deposits.

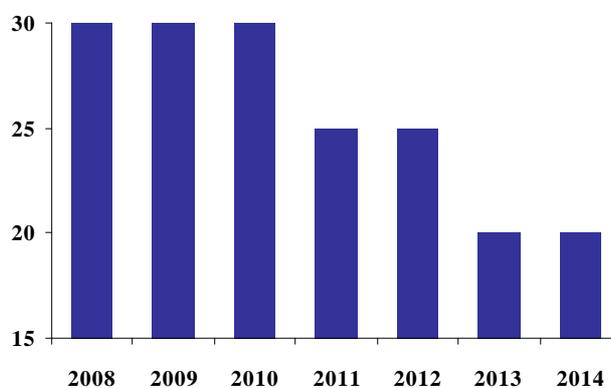
### Constitutional Council's decision stalls new rental law

The Constitutional Council rejected Articles 7 and 13 as well as Clause B-4 in Article 18 of the draft rental law that was ratified by the Lebanese Parliament in April 2014. The Constitutional Council's review was triggered by a challenge submitted by several Members of Parliament. The rejected articles cover the formation of a committee that would oversee disputes between tenants and landlords on the value of the rent under the new rental law. The Constitutional Council attributed its decision to the fact that the committee would lack the required qualifications that would give it judicial authorities and that would make its decisions binding. Following the Constitutional Council's decision to revoke several articles of the new rental law, the Parliament should redraft these articles or the Cabinet should send a revised version to Parliament for ratification.

In April 2014, the Lebanese Parliament ratified the draft rental law that would liberalize old rent contracts in Lebanon. According to the law, all contracts signed prior to July 23, 1992 would be automatically renewed for nine years and would include a gradual increase in rent. The value of the new rent would be equivalent to 5% of the apartment's present market value and can be determined by mutual agreement between the property owner and the tenant, or through legal experts. The law stipulates that annual rent will rise by 15% of the difference between the old and new rents during each of the first four years, and by 20% during each of the fifth and sixth years. As such, rent paid by the sixth year would be equivalent to the full value of the new adjusted rent. Tenants would continue to pay the full value of the new adjusted rent during the seventh, eighth and ninth year.

Further, the law stipulates the formation of a fund that will cover in part or in full the difference between the old rent and the adjusted rent of tenants whose monthly income is less than three-times the minimum wage. In parallel, the law indicates that if the property owner wishes to reclaim the apartment for family reasons during the first year of the contract's period, the owner should pay the tenant an indemnity equivalent to four-times the annual new rent. It added that if the property owner wishes to reclaim the apartment in order to demolish the building during the first year of the contract's period, the owner should pay the tenant an indemnity equivalent to six-times the annual new rent. It pointed out that if the property owner wishes to reclaim the apartment for other than family purposes or demolition, the owner should inform the tenants during the first three months of each year. It noted that both parties should agree on the value of the indemnity that would be paid to the tenant.

Property Rights Index for Lebanon

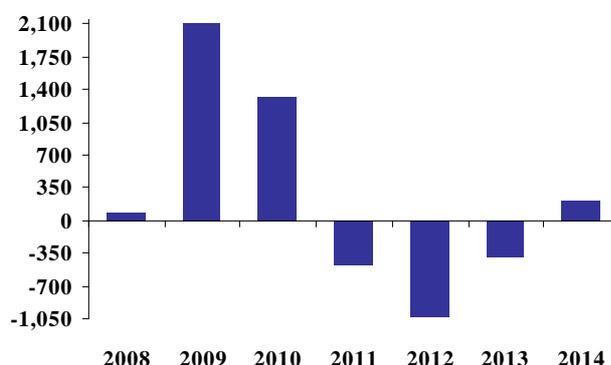


Source: Heritage Foundation/Wall Street Journal, Byblos Research

### Balance of payments posts surplus of \$216m in first half of 2014

Central Bank figures show that Lebanon's balance of payments posted a surplus of \$215.7m in the first half of 2014 compared to a deficit of \$382.1m in the same period last year. The balance of payments posted a deficit of \$560.7m in June 2014 compared to a surplus of \$520.4m in May 2014 and a deficit of \$233.4m in June 2013. The June 2014 deficit was caused by a deficit of \$1.5bn in the net foreign assets of banks and financial institutions, and was partly offset by a surplus of \$969.7m in those of the Central Bank. The cumulative surplus over the first half of 2014 was caused by a surplus of \$3.1bn in the Central Bank's net foreign assets, and was partly offset by a deficit of \$2.8bn 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.

Balance of Payments\* (US\$m)



\*in the first half of each year

Source: Central Bank of Lebanon

### Trade deficit widens by 2% to \$8.6bn in first half of 2014, exports down by 28%

Total imports reached \$10.3bn in the first half of 2014, constituting a decrease of 4.7% from the same period last year; while aggregate exports declined by 28.2% to \$1.7bn, leading to a trade deficit of \$8.6bn, up by 1.7% year-on-year. The widening of the deficit was caused by a decrease of \$652.5m in exports from the same period of 2013, given that imports fell by \$512.5m. The coverage ratio reached 16.1% in the first half of 2014 compared to 21.4% in the same period last year; while it reached 17.7% in June 2014 relative to 21.2% in June 2013. The value of imported oil & mineral fuels fell by 11.9% year-on-year to \$2.4bn, and that of non-hydrocarbon imports dropped by 2.3% to \$7.9bn. Imported oil & mineral fuels accounted for 23.3% of total imports in the covered period compared to a share of 25.2% in the same period last year.

In volume terms, imports reached 7.5 million tons in the first half of 2014, constituting an increase of 1.3% from the same period last year; while exports posted a 39% decline to one million tons, leading to a trade deficit of 6.6 million tons in the first half of 2014, up by 12% year-on-year. Imports of oil & mineral fuels decreased by 4.8% year-on-year to 3.4 million tons, while non-hydrocarbon imports increased by 6.9% annually to 4.1 million tons. Imported oil & mineral fuels accounted for 45.5% of total imports in the covered period compared to a share of 48.4% in the same period last year.

China was the main source of imports with \$1.3bn or 12.3% of the total in the first half of 2014, followed by Italy with \$932.1m (9.1%), the United States with \$711.1m (6.9%), France with \$689.3m (6.7%), Germany with \$625.2m (6.1%), Russia with \$366.6m (3.6%) and Greece with \$345.4m (3.4%). Imports from China increased by 33.1% annually and those from Italy grew by 11.8%; while imports from Russia dropped by 44%, those from the United States fell by 20%, those from France regressed by 9.1%, those from Greece decreased by 8% and those from Germany declined by 3.1%.

South Africa was the main export destination with \$187.2m or 11.3% of the total, followed by Saudi Arabia with \$185.2m (11.2%), the UAE with \$152.5m (9.2%), Iraq with \$126.6m (7.6%), Syria with \$118.8m (7.2%), Turkey with \$74.6m (4.5%) and Jordan with \$65m (3.9%). Exports to Syria dropped by 69.6% year-on-year in the first half of 2014, those to South Africa declined by 37.7%, exports to Turkey dropped by 27.1%, those to the UAE fell by 10%, exports to Saudi Arabia decreased by 7.5% and those to Jordan regressed by 2.3%; while exports to Iraq rose by 3.8% annually.

Lebanon's main export product was jewelry at \$302m or 18.3% of the total, followed by prepared foodstuff with \$265.8m (16%), machinery & mechanical appliances with \$226m (13.6%), base metals with \$192.6m (11.6%), chemical products with \$173.2m (10.4%) and paper & paperboard with \$103.3m (6.2%). Re-exports totaled \$194.4m in the first half of 2014 compared to \$123m in the same period last year.

### Value of cleared checks up 5%, returned checks down 3% in first half of 2014

The value of cleared checks reached \$37.1bn in the first half of 2014, constituting an increase of 4.5% from the same period last year, and compared to a rise of 2.1% in the first half of 2013 and to an increase of 2% in the same period of 2012. The value of cleared checks in Lebanese pounds rose by 10.1% annually to the equivalent of \$9bn in the first half of 2014, while the value of cleared checks in US dollars increased by 2.8% to \$28.1bn. The dollarization rate of cleared checks decreased to 75.8% from 77% in the first half of 2013. Also, the value of returned checks in domestic and foreign currencies decreased by 2.7% year-on-year to \$715m in the first half of 2014, compared to an annual drop of 4% in the same period of 2013 and an annual increase of 8% in the first half of 2012. In parallel, the number of cleared checks totaled 6.4 million checks in the first half of 2014, down 1.6% from the same period last year. Also, the number of returned checks totaled 121,500 checks, down 6.3% from the first half of 2013.

### Surface area of new construction permits up 15% in first half of 2014

Figures released by the order of Engineers of Beirut & Tripoli show that the number of construction permits reached 8,780 in the first half of 2014, constituting an increase of 2.7% from 8,548 in the same period last year and compared to a 5.1% decline in the first half of 2013. Mount Lebanon accounted for 43.2% of the number of construction permits in the covered period, followed by South Lebanon with 16.8%, Nabatieh with 12.6%, the North with 12.4%, the Bekaa with 9.9% and Beirut with 5%. Further, the surface area of construction permits issued in the first half reached 7.3 million square meters (sqm), constituting an increase of 15.4% from the same period last year and compared to decreases of 16.6% in the first half of 2013 and 14.2% in the same period of 2012. Mount Lebanon accounted for 3.3 million sqm or 45.6% of total construction permits in the covered period. It was followed by the North with 1.3 million sqm (17.4%), the South with 850,485 sqm (11.6%), Beirut with 707,938 sqm (9.7%), the Bekaa with 592,615 sqm (8.1%) and Nabatieh with 548,895 sqm (7.5%). In parallel, cement deliveries totaled 2.3 million tons in the first five months of 2014 and rose by 7.3% annually, relative to an increase of 1.6% in the same period last year and a marginal drop of 0.1% year-on-year in the first five months of 2012.

### Number of real estate transactions up 7% in first half of 2014

Figures released by the Ministry of Finance indicate that the total number of real estate transactions reached 34,109 in the first half of 2014, constituting an increase of 6.8% from 31,943 deals in the same period last year. In comparison, the number of real estate transactions dropped by 7.1% in the first half of 2013 and declined by 8% in the same period of 2012. Also, the aggregate value of real estate transactions totaled \$4.5bn in the first half of 2014, constituting a rise of 17.7% from \$3.8bn in the same period last year. The value of real estate deals was \$4.1bn in the first half of 2012 and \$3.8bn in the same period of 2011. In parallel, the average value per real estate transaction increased by 10.3% year-on-year to \$131,468 in the first half of 2014 relative to average values of \$119,231 in the same period of 2013 and \$120,666 in the first half of 2012.

There were 510 real estate transactions executed by foreigners in the first half of 2014, down 14.1% from 594 deals in the same period last year, and compared to an annual decrease of 8.6% in the first half of 2013 and an increase of 8.9% in the same period of 2012. In parallel, the number of real estate transactions by foreigners accounted for 1.5% of total real estate deals in the first half of 2014 relative to 1.9% in the same periods of 2012 and 2013.

### Industrial exports down 17% to \$739m in first quarter of 2014

Figures released by the Ministry of Industry show that industrial exports totaled \$738.9m in the first quarter of 2014, constituting a decrease of 17% from \$890.5m in the same quarter of last year. Industrial exports reached \$258.7m in March 2014, up by 6.6% from \$242.6m in February 2014 but down by 24% from \$340.5m in March 2013. Machinery and mechanical appliances accounted for \$179m, or 24.2% of total industrial exports in the first quarter of the year, followed by prepared foodstuffs with \$130.9m (17.7%), and chemical products with \$98m (13.3%). Arab countries accounted for 58.1% of total industrial exports in the first quarter of 2014, followed by European countries with 15%, African countries with 14.5% and Asian countries with 7.9%. On a country basis, Saudi Arabia was the main destination of such exports and accounted for 13% of the total in the first quarter of the year. It was followed by the UAE with 10.9%, Iraq with 10.7%, Syria with 7% and Turkey with 3.9%. Further, 17 African countries, 16 Arab countries, 14 European countries, eight Asian countries, three countries in the Americas and one country in Oceania received each one million dollars or more in industrial exports from Lebanon. Overall, Lebanon exported to 38 African countries, 38 European countries, 21 Asian countries, 19 Arab countries, 17 countries in the Americas and three countries in Oceania in the covered quarter of 2014.

In parallel, industrial imports reached \$70.2m in the first quarter of the year, down 6.8% from the same quarter of 2013. Germany was the main source of such imports and accounted for 23.9% of the total. It was followed by Italy with 17.3% and China with 15.7%. Further, imports of industrial equipment and machinery reached \$28.5m in March 2014, increasing by 22.4% year-on-year. Germany was the main source of imports of industrial equipments, accounting for 32.6% of the total, followed by Italy with 19.9% and China with 13.3%.

### Treasury transfers to Electricité du Liban up 28% in January 2014

Figures released by the Finance Ministry show that Treasury transfers to Electricité du Liban totaled \$174.4m in January 2014, constituting an increase of 28.3% from \$136m in the same month last year. The ministry said that reimbursements to the Kuwait Petroleum Corporation (KPC) and to Algerian energy conglomerate Sonatrach totaled \$173.3m, or 99.4% of transfers in January, while EdL's debt servicing represented \$1.1m or 0.6% of the total. It attributed the increase to a rise of \$43.4m, or 33.4%, in payments to KPC and Sonatrach, which was partly offset by a decrease of \$4.9m or 81.7% in debt servicing year-on-year. In parallel, the ministry said that the increase in payments to KPC and Sonatrach reflects a significant expansion in the average crude oil prices according to which the payments were made, as well as a rise in the quantities of imported fuel and gas oil. Also, it pointed out that EdL contributed just 1.4% of repayments to the two oil suppliers in January 2014 compared to 3.3% in the same month last year. EdL transfers accounted for 18.8% of primary expenditures during the covered month, up from 16.5% in January 2013. They constitute the third largest expenditures item after debt servicing and salaries & wages in overall fiscal spending. EdL transfers were equivalent to 4.6% of GDP in 2013 and to 5.3% of GDP in 2012.



### Commercial banks' assets reach \$171bn at end-June 2014

The consolidated balance sheet of commercial banks operating in Lebanon shows that total assets reached \$170.5bn at the end of June 2014, constituting an increase of 3.4% from the end of 2013 and a rise of 7.9% from end-June 2013. Private sector deposits totaled \$140.3bn, increasing by 3% from the end of 2013 and by 6.9% from a year earlier. Deposits in Lebanese pounds reached \$47.7bn and rose by 3.4% from end-2013 and by 6.1% from end-June 2013; while deposits in foreign currencies totaled \$92.7bn, constituting a rise of 2.9% from end-2013 and an increase of 7.4% from a year earlier. Non-resident foreign currency deposits totaled \$25.1bn at the end of June 2014, almost unchanged from the end of 2013 and growing by 5.2% year-on-year. Total non-resident deposits reached \$28.6bn at the end of June and rose by 0.5% from end-2013 and by 5.2% from a year earlier. Total private sector deposits decreased by \$1.3bn in January but increased by \$848.4m in February, by \$843.8m in March, by \$1.6bn in April, by \$650.7m in May and by \$1.5bn in June 2014. They rose by \$558m in January, by \$744.9m in February, by \$1.8bn in March, by \$2bn in May and by \$1.2bn in June, and declined by \$11.3m in April 2013. In parallel, deposits of non-resident banks reached \$5.5bn at the end of June 2014 and increased by 10% from end-2013 and by 11% from a year earlier. The dollarization rate of deposits reached 66% at the end of June relative to 66.1% at end-2013 and 65.7% a year earlier. Further, the average deposit rate in Lebanese pounds was 5.49% at the end of June 2014 relative to 5.39% a year earlier, while the same rate in US dollars was 2.98% compared to 2.86% in June 2013.

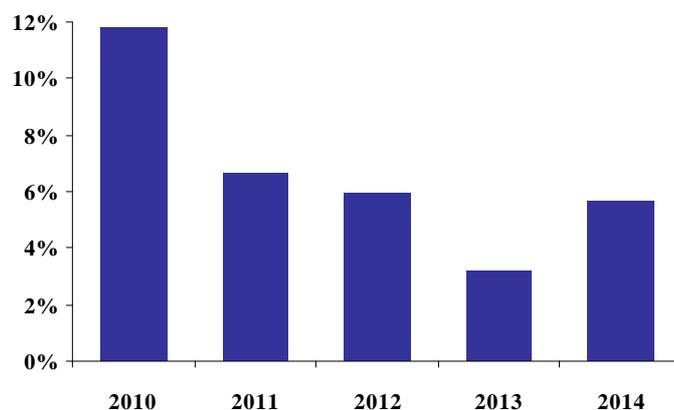
Loans to the private sector totaled \$50.1bn, constituting an increase of 5.7% from the end of 2013 and a rise of 11.6% from a year earlier. In nominal terms, credit to the private sector rose by \$2.7bn in the first half of 2014 relative to an increase of \$1.4bn in the same period last year. Lending to the resident private sector totaled \$44.6bn, growing by 7.4% from end-2013 and by 13.2% year-on-year; while credit to the non-resident private sector reached \$5.5bn, decreasing by 6.6% from end-2013 and rising by 0.7% from end-June 2013. The dollarization rate in private sector lending regressed to 76.5% at the end of June 2014 from 77.1% a year earlier. The average lending rate in Lebanese pounds was 7.45% in June 2014 compared to 7.87% in the same month last year, while the same average in US dollars was 6.97% and was unchanged from June 2013. In addition, claims on non-resident banks reached \$12.4bn at end-June 2014, posting decreases of 11.4% from end-2013 and of 10.4% from a year earlier. Claims on the public sector stood at \$38bn, constituting an increase of 0.8% from end-2013 and a rise of 15.9% year-on-year. The ratio of private sector loans-to-deposits in foreign currencies stood at 41.3%, well below the Central Bank's limit of 70%, and compared to 40.1% a year earlier. In parallel, the same ratio in Lebanese pounds was 24.7%, up from 22.8% at the end of June 2013. The ratio of total private sector loans-to-deposits was 35.7% compared to 34.2% a year earlier. The banks' aggregate capital base stood at \$15.2bn, up by 0.6% from the previous month and by 12.3% from \$13.5bn in June 2013.

Kafalat loan guarantees down 4% to \$65m in first seven months of 2014

### Kafalat loan guarantees down 4% to \$65m in first seven months of 2014

Figures released by the Kafalat Corporation show that loans extended to small- and medium-size companies under the guarantee of Kafalat reached \$65m in the first seven months of 2014, down 3.9% from \$67.7m in the same period last year. The number of loan guarantees totaled 506 year-to-July compared to 481 in the first seven months of 2013. The average loan size reached \$128,534 compared to \$140,764 in the same period of 2013. Mount Lebanon accounted for 44.3% of guarantees, followed by the Bekaa with 19.8%, the North with 10.9%, the South with 10.7%, Nabatieh with 10.3% and Beirut with 4.2%. The agricultural sector accounted for 49.4% of total guarantees, followed by industry with 33.8%, tourism with 10.9%, handicraft with 3.2% and specialized technologies with 2.8%. Kafalat is a state-sponsored organization that provides financial guarantees for loans up to \$400,000 earmarked for the setup and expansion of small- and medium-size companies in productive sectors. It guarantees up to 75% of the loan amount and a similar percentage of the interest that accrues during the grace period. It also guarantees up to 90% of the loan amount for innovative start-ups and a similar percentage of the interest that accrues during the grace period.

### Private Sector Lending Growth\* (% Change)



\*in the first half of each year

Source: Association of Banks in Lebanon, Byblos Research

## 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	58.9	150
Public Debt in Local Currency / GDP	81.7	78.3	84.3	600
Gross Public Debt / GDP	133.9	135.7	143.2	750
Total Gross External Debt / GDP	169.2	170.0	176.7	670
Trade Balance / GDP	(39.7)	(39.5)	(39.0)	50
Exports / Imports	21.2	21.1	18.6	(250)
Fiscal Revenues / GDP	23.3	22.1	21.3	(80)
Fiscal Expenditures / GDP	29.1	31.3	30.8	(50)
Fiscal Balance / GDP	(5.9)	(9.2)	(9.5)	(30)
Primary Balance / GDP	4.2	(0.3)	(0.5)	(20)
Gross Foreign Currency Reserves / M2	79.2	69.4	69.6	20
M3 / GDP	242.6	244.6	250.8	620
Commercial Banks Assets / GDP	350.7	357.2	371.9	1,470
Private Sector Deposits / GDP	288.7	294.0	307.3	1,330
Private Sector Loans / GDP	98.3	102.2	106.9	470
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](mailto:research@byblosbank.com.lb)**  
**[www.byblosbank.com](http://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