BLOMINVEST BANK SAL

Your Investment Reference

THE LEBANON BRIEF

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FINANCIAL MARKETS

Equity Market

Stock Market

	04/04/2014	28/03/2014	% Change
BLOM Stock Index*	1,218.85	1,218.69	0.01%
Average Traded Volume	83,500	371,321	-77.51%
Average Traded Value	885,358	1,228,351	-27.92%

*22 January 1996 = 1000

Activity on the Beirut Stock Exchange (BSE) remained subdued over the week with the BLOM Stock Index (BSI) barely adding a 0.01% to 1,218.85 points. The week's 3 consecutive legislative parliamentary sessions couldn't boost trading activity over the week and seemed to only have a marginal impact on the real estate sector.

Accordingly, daily average volume and value of trades revealed respective declines from 371,321 shares and $1.23M last week to 83,500 shares and $885,358 this week. The market capitalization during this week slightly broadened $1.29M to $9.79B.

On a comparative scale, the BSI was outpaced this week by some of its regional peers. The Morgan Stanley (MSCI) emerging index gained a weekly 2.55%, following a previous 3.68%, to close on Friday at 1,000.17 points. Meanwhile, the S&P AFE40 increased 1.29% to 71.64 points and the S&P Pan Arab Composite LargeMidCap Index rose by 1.39% to 149.43 points.

Arab bourses showed diverse performances over the week. Dubai maintained its leading rank with a 5.42% weekly gain. Qatar and Bahrain followed with respective weekly rises of 4.37% and 1.97%. In contrast, Egypt was the week's biggest loser posting a 6.67% weekly drop and trailed by Muscat stock exchange that revealed a 2.11% weekly slip.

Financial stocks led the BSE this week as well, grasping 64.76% of total traded value. The real estate sector contributed for the remaining 34.59% meanwhile the industrial sector took the remaining 0.65%.

In the banking sector, the common shares of Bank Audi edged up by 1.40% to end the week at $6.50, while those of BLOM Bank slipped by a weekly 0.44% to $9.01. As for BLOM GDRs, they managed to post a 1.63% weekly progress to close at $9.35.

BLOM Preferred Shares Index (BPSI) recovered some of its pervious weekly losses and added 0.02% to reach 106.20 points. This was mainly due to the weekly increase in BLC preferred shares class C that edged up by 0.50% to $100.50. However, Audi preferred G shares lost 0.30% to $99.00.

Banking Sector

	Mkt	04/04/2014	28/03/2014	%Change
BLOM (GDR)	BSE	$9.35	$9.20	1.63%
BLOM Listed	BSE	$9.01	$9.05	-0.44%
BLOM (GDR)	LSE	$9.30	$9.20	1.09%
Audi (GDR)	BSE	$6.45	$6.45	0.00%
Audi Listed	BSE	$6.50	$6.41	1.40%
Audi (GDR)	LSE	$6.50	$6.50	0.00%
Byblos (C)	BSE	$1.67	$1.70	-1.76%
Byblos (GDR)	LSE	$73.00	$73.00	0.00%
Bank of Beirut (C)	BSE	$19.00	$19.00	0.00%
BLC (C)	BSE	$1.85	$1.85	0.00%
Fransabank (B)	OTC	$28.00	$28.00	0.00%
BEMO (C)	BSE	$1.82	$1.82	0.00%

	Mkt	04/04/2014	28/03/2014	% Change
Banks' Preferred Shares Index *		106.20	106.18	0.02%
BEMO Preferred 2006	BSE	$100.00	$100.00	0.00%
Audi Pref. E	BSE	$102.50	$102.50	0.00%
Audi Pref. F	BSE	$102.50	$102.50	0.00%
Audi Pref. G	BSE	$99.00	$99.30	-0.30%
Audi Pref. H	BSE	$100.00	$100.00	0.00%
Byblos Preferred 08	BSE	$101.50	$101.50	0.00%
Byblos Preferred 09	BSE	$103.10	$103.10	0.00%
Bank of Beirut Pref. E	BSE	$27.00	$27.00	0.00%
Bank of Beirut Pref. I	BSE	$26.40	$26.40	0.00%
Bank of Beirut Pref. H	BSE	$26.84	$26.84	0.00%
BLOM Preferred 2011	BSE	$10.19	$10.19	0.00%
BLC Pref C	BSE	$100.50	$100.00	0.50%
Bemo Preferred 2013	BSE	$101.50	$100.00	1.50%

* 25 August 2006 = 100

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Real Estate

	Mkt	04/04/2014	28/03/2014	%Change
Solidere (A)	BSE	$12.92	$12.89	0.23%
Solidere (B)	BSE	$12.85	$12.76	0.71%
Solidere (GDR)	LSE	$12.50	$12.50	0.00%

Real estate sector enjoyed the week's improving political scene which was directly reflected on its stocks' weekly performance. In details, Solidere "A" and "B" shares rose by 0.23% and 0.71% to close at $12.92 and $12.85, respectively.

On the London Stock Exchange (LSE), the Global Depositary Receipts (GDR) of BLOM bank added 1.09% to $9.30.

Manufacturing Sector

	Mkt	04/04/2014	28/03/2014	%Change
HOLCIM Liban	BSE	$13.55	$14.50	-6.55%
Ciments Blancs (B)	BSE	$3.50	$3.50	0.00%
Ciments Blancs (N)	BSE	$2.75	$2.75	0.00%

Within the industrial sector, HOLCIM shares witnessed a steep loss this week as they tumbled on Monday by 6.55% following the trade of 2,107 shares priced each at $13.55.

In the coming period, the performance of the Beirut Stock Exchange is expected to improve if the progress on the legislative scene as well as on the security front will bring in tangible results.

Funds

	Mkt	04/04/2014	28/03/2014	% Change
BLOM Cedars Balanced Fund Tranche "A"	-----	$7,101.24	$7,102.15	-0.01%
BLOM Cedars Balanced Fund Tranche "B"	-----	$5,151.83	$5,152.50	-0.01%
BLOM Cedars Balanced Fund Tranche "C"	-----	$5,393.44	$5,394.13	-0.01%
BLOM Bond Fund	-----	$9,568.62	$9,582.58	-0.15%

Retail Sector

	Mkt	04/04/2014	28/03/2014	% Change
RYMCO	BSE	$3.50	$3.50	0.00%
ABC (New)	OTC	$33.00	$33.00	0.00%

Tourism Sector

	Mkt	04/04/2014	28/03/2014	% Change
Casino Du Liban	OTC	$425.00	$425.00	0.00%
SGHL	OTC	$7.00	$7.00	0.00%

Foreign Exchange Market

Lebanese Forex Market

	04/04/2014	28/03/2014	% Change
Dollar / LP	1,507.00	1,504.00	0.20%
Euro / LP	2,065.88	2,068.29	-0.12%
Swiss Franc / LP	1,688.89	1,696.87	-0.47%
Yen / LP	14.51	14.73	-1.49%
Sterling / LP	2,501.55	2,504.56	-0.12%
NEER Index**	129.86	130.03	-0.13%

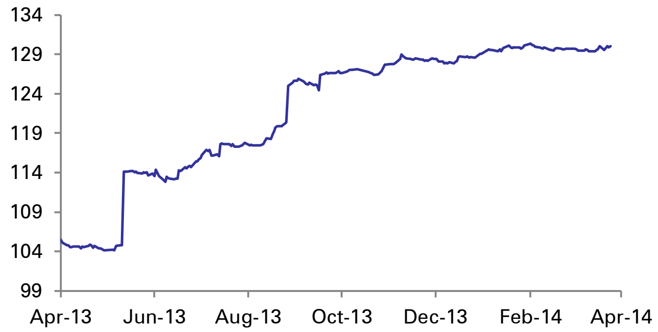
*Close of GMT 09:00+2
**Nominal Effective Exchange Rate; Base Year Jan 2006=100
**The unadjusted weighted average value of a country's currency relative to all major currencies being traded within a pool of currencies.

The Lebanese pound retreated against the dollar this week as its peg against the greenback went from $/LP 1502-1506 with a mid-price of $/LP 1504 to $/LP 1505-1509 with a mid-price of $/LP 1507. Foreign assets (excluding gold) at the Central Bank stood at $36.22B by February compared to $35.62B at end of January. Meanwhile, the dollarization rate of private sector deposits stood at 66.1% in December compared to 65.7% a month earlier.

Upbeat expectations ahead of the US jobs report, took the US dollar to a five week high against the euro. Economists are expecting the report to show that the economy added the most jobs in four months, cementing the case for reduced monetary stimulus.

By Friday April 4, 2014, 12:30 pm Beirut time, the Euro lost 0.12% to reach €/$ 1.3704. As for the dollar-pegged LP, it appreciated to €/LP 2,065.88 from a previous €/LP 2,068.29. The Nominal effective exchange Rate (NEER) slid by 0.13% over the cited period to 129.86 points, while its year-to-date gain stood at 25.09%.

Nominal Effective Exchange Rate (NEER)



Money & Treasury Bills Market

During the week ending March 20, 2014, broad Money M3 declined by LP 12B ($8M), to reach LP 168,728B ($111.93B). M3 growth rate reached 6.15% year-on-year and 0.69% on a year-to-date basis. As for M1, it regressed by LP 72B ($48M) due to the increase of demand deposits by LBP 33B ($22M) and the decrease of LP 105B ($70M) in money in circulation.

Money Market Rates

	04/04/2014	28/03/2014	Change bps
Overnight Interbank	2.75	2.75	0
BDL 45-day CD	3.57	3.57	0
BDL 60-day CD	3.85	3.85	0

Total deposits (excluding demand deposits) advanced by LP 61B ($40M), given the LP 59B rise in term and saving deposits in domestic currency and the $1M increase in deposits denominated in foreign currencies. Over the above mentioned period, the broad money dollarization remained broadly unchanged at 58.86%. According to the Central Bank, the overnight interbank rate stood at 2.75% at the end of January 2014.

Treasury Yields

	04/04/2014	28/03/2014	Change bps
3-M TB yield	4.39%	4.39%	0
6-M TB yield	4.87%	4.87%	0
12-M TB yield	5.08%	5.08%	0
24-M TB coupon	5.84%	5.84%	0
36-M TB coupon	6.50%	6.50%	0
60-M TB coupon	6.74%	6.74%	0

In the TBs auction held on March 27, 2014, the Ministry of Finance raised LP92B ($61M) through the issuance of 3 Months (1Y), 6 Months and 5Y Treasury Bills. The highest demand was witnessed on the 5Y notes, capturing 51% of total subscriptions, while the 3 months and 6 months bills captured respective shares of 31% and 18%. The 3 months and 6 months bills yielded 4.39% and 4.87%, while the average coupon rate for 5Y notes stood at 6.74%, respectively. Maturing T-Bills exceeded new subscriptions by LP 49B ($33M).

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Eurobond Market

Eurobonds Index and Yield

	03/04/2014	27/03/2014	Change	Year to Date
BLOM Bond Index (BBI)*	106.448	106.379	0.06%	0.76%
Weighted Yield**	5.52%	5.54%	-2	50
Weighted Spread***	377	387	-10	-53

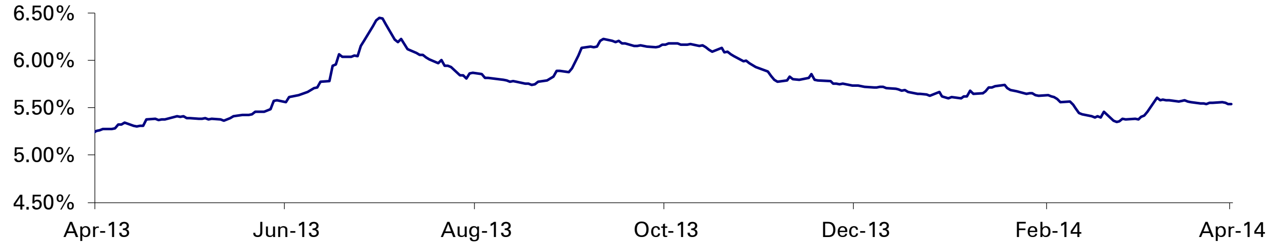
*Base Year 2000 = 100; includes US$ sovereign bonds traded on the OTC market
** The change is in basis points ***Against US Treasuries (in basis points)

Eurobonds Lebanese Government

Maturity - Coupon	03/04/2014 Price*	27/03/2014 Price*	Weekly Change %	03/04/2014 Yield	27/03/2014 Yield	Weekly Change bps
2015, Jan - 5.875%	101.90	101.84	0.06%	3.40%	3.52%	-12
2015, Aug - 8.500%	106.34	106.33	0.01%	3.61%	3.68%	-6
2016, Jan - 8.500%	107.73	107.71	0.02%	3.99%	4.04%	-5
2016, May - 11.625%	114.75	114.73	0.02%	4.23%	4.29%	-6
2017, Mar - 9.000%	111.46	111.41	0.05%	4.80%	4.84%	-4
2018, Jun - 5.150%	100.38	100.38	0.00%	5.05%	5.05%	0
2020, Mar - 6.375%	103.03	103.06	-0.03%	5.76%	5.76%	0
2021, Apr - 8.250%	112.50	112.37	0.11%	6.04%	6.06%	-2
2022, Oct - 6.100%	98.74	98.76	-0.02%	6.29%	6.29%	0
2023, Jan - 6.00%	97.41	97.46	-0.05%	6.39%	6.38%	1
2024, Dec - 7.000%	103.45	103.42	0.02%	6.54%	6.55%	0
2026, Nov - 6.600%	99.75	99.82	-0.07%	6.63%	6.62%	1
2027, Nov - 6.75%	99.82	99.82	-0.01%	6.77%	6.77%	0

*Bloomberg Data

Weighted Effective Yield of Eurobonds



Weekly activity on the Lebanese Eurobonds market maintained its strength, boosted by an improving demand for short and medium term maturities. Consequently, the BLOM Bond Index (BBI) rose by 0.06% to hit an 11-Month high at 106.45 points. Thus, the BBI managed to widen its year-to-date positive performance to 0.76%. However, the BBI still lagged behind the JP Morgan emerging markets' bond index that posted a 0.20% weekly rise to reach 650.66 points. 5Y yield on the Lebanese Eurobonds slipped 2 basis points (bps) to 5.35% while the 10Y yield steadied at 6.52%.

The accelerating economic progress in the US weighed over Treasuries performance this week. Forecasts of the Federal Reserve rising interest rates drove the 5Y and 10Y yields up by 9 bps and 11 bps to 1.79% and 2.80%, respectively. Accordingly, each of the 5Y and 10Y spreads between the Lebanese Eurobonds and U.S benchmarks tightened by 11 bps to stand at 356 bps and 372 bps, respectively.

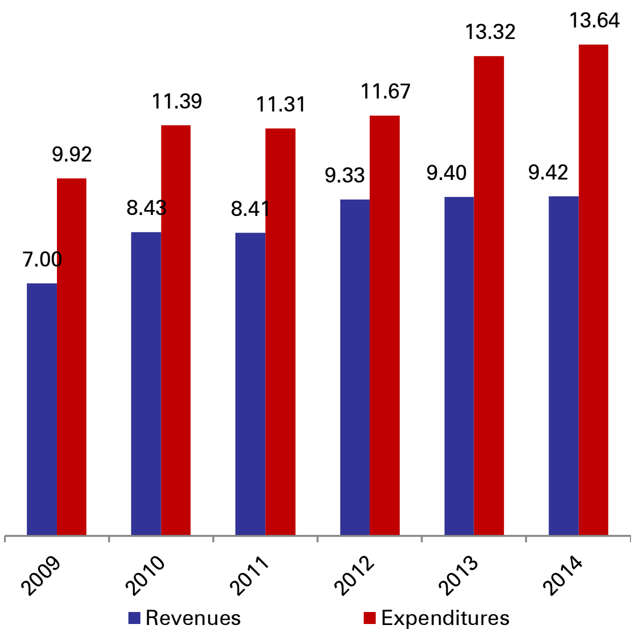
An important key measure of Lebanon's default risk is credit default swaps contracts for 5 years that are currently trading at 360-390 bps as compared to 372-391 bps last week, with the average bid-ask spread narrowing by 7bps. Lebanon's debt profile improved this week as the Lebanese parliament, and after numerous months of political stalemate, concluded considerable pending proposals over the week's 3 legislative sessions. In the Arab world, Dubai credit risk tightened to 165-175 bps from 175-185 bps last week, while Saudi Arabia's CDS were last quoted at 57-62 bps compared to last week's 48-56 bps. As for emerging markets, the 5Y insurance premiums against state-debt default in Turkey closed at 215-220 bps compared to 230-234 bps last week and closed at 170-172 bps in Brazil compared to 162-164 bps last week.

ECONOMIC AND FINANCIAL NEWS

Lebanon's Fiscal Deficit Hits $4.22B in 2013

Total Revenues and Expenditures

(In $B)



Source: Ministry of Finance

Lebanon's fiscal deficit expanded by 7.51% in 2013 to reach $4.22B by end of year coupled with a primary deficit of $239.68M, compared to the $109.87M primary deficit recorded a year earlier.

Despite the sluggish economic activity, government revenues managed to end the year marginally higher than 2012's level on improving treasury resources. Accordingly, public inflows registered a 0.26% yearly uptick to 9.42B, whereas government spending increased at a faster pace jumping by 2.4% y-o-y to $13.64B.

On the budget level, inflows witnessed an overall slip of 0.65% to amount to $8.88B. Customs revenues slipped by an annualized 4.15% to stand at $1.43B by December 2013, while VAT receipts added 0.62% y-o-y to reach $2.19B. Telecom transfers to the Ministry of Finance, accounting for 16.11% of total budget revenues remained subdued at $1.43B.

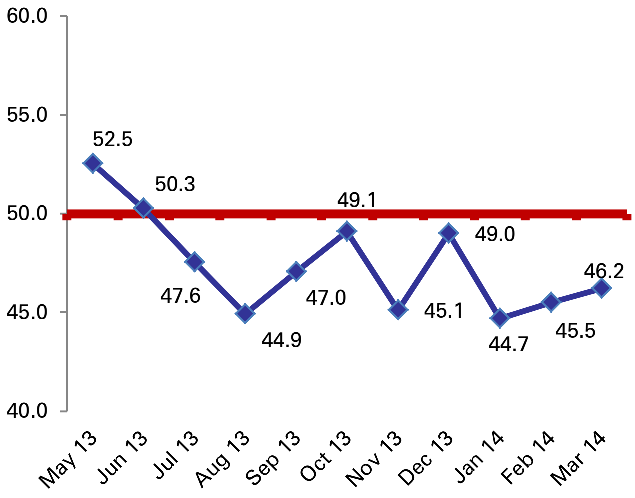
As for budget expenditures, they rose by a yearly 4.9% to stand at $10.65B. Budget outflows were mostly driven by the increase in salaries & wages and related benefits as well as interest payments. Transfers to EDL declined by 10.35% to $2.03B probably on lower international oil prices. However, interest payments on domestic debt slightly grew by 0.23% y-o-y to reach $2.22B by 2013, while those on foreign debt showed an increase of 11.72% to $1.57B from last year's level of $1.41B.

On the Treasury level, resources accounted for 5.8% of total revenues and grew by a yearly 18.17% to $541.30M. Treasury withdrawals dropped by 5.7% y-o-y to $2.99B.

Over the month of December alone, the government's fiscal balance recorded a deficit of $238.09M with a primary surplus of $70.72M compared to the $441.24M fiscal deficit in December 2012 and a primary deficit of $174.33M.

BLOM Lebanon PMI Stood at 46.2 in March

BLOM Lebanon PMI



Source: Markit, Blominvest Bank

As has been the theme in recent months, security issues weighed heavily on economic performance during March. Output levels fell and the appetite for new business also waned. Rates of decline in both business activity and new work remained sharp, despite being the slowest in the year thus far. Adding to companies' woes was a further contraction in incoming new orders from abroad, the third in successive months.

In line with deteriorating order books, Lebanese firms lowered their employment levels slightly during March. It was the second consecutive month of net job losses in the private sector economy. Still, staffing capacity was sufficient for further inroads to be made into outstanding business, as has been observed throughout the opening quarter.
Purchasing activity among businesses also decreased for a third straight month in March, though to a lesser extent than output, thereby leading to a rise in stocks of purchases. The average time taken for suppliers to deliver ordered items meanwhile increased slightly, which anecdotal evidence suggested was partly attributable to disruption on transport routes.

March's survey showed a fractional decrease in overall average input prices. The reduction was predominantly a reflection of decreased staffing costs, with prices paid for purchased items virtually unchanged on the month. Output prices in the private sector economy meanwhile decreased for the third month running, though the rate of decline was notably weaker than in February and only modest.

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Tourist Spending Dropped 15% y-o-y Up to March 2014

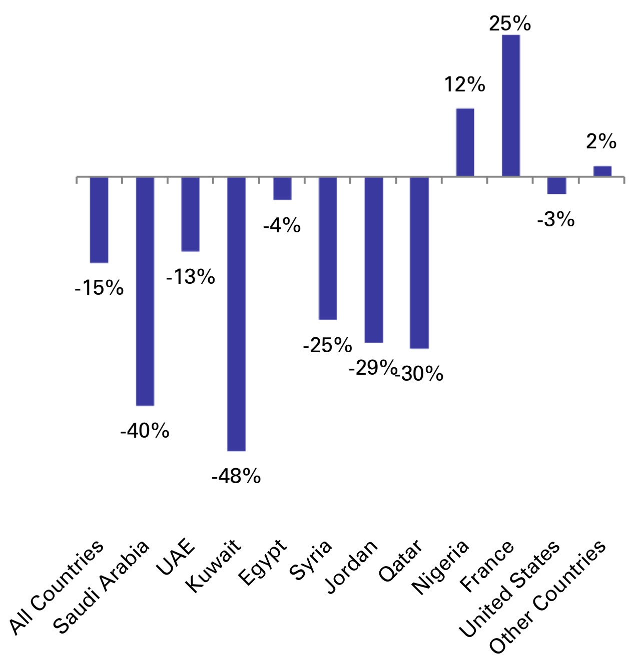
Statistics published by Global Blue showed that tourist spending in Lebanon declined by 15% in the first quarter of 2014 compared the same quarter of 2013. Yet, Q1 2014 fared better than Q4 2013 with a 21% rise partly alluding to the improving tourist sentiment after the Cabinet formation in Mid-February.

With respect to demographics, Arab spending continued to take the largest share of total tourist spending in Lebanon by March this year. Emirati incomers' payments dropped 13% yet grasped the largest stake of 14% of total spending. The second highest spender in Lebanon was Saudis with a 12% share of the total. However, travel warnings against Lebanon from several GCC countries considerably affected tourism with Saudi spending dipping by 40% y-o-y from Q1 2013. With respect to tourists heading from Egypt, their spending tightened by 4%, and represented 7% of total spending.

As for the number of VAT refund transactions, it also decreased by 16% in Q1 2014 from the same quarter last year. Refund transaction by tourists from Nigeria increased by 12% from the previous year, followed by respective annual increases of 1% and 3% by French and American tourists. All other nationalities showed drops in the number of their refund transactions especially Kuwaiti and Saudi nationals with a similar 11% annualized decline.

Tourists generally dedicated 70% of their tax-refundable expenditures in Lebanon on fashion and clothing. Watches and Jewelry took up 14% of their total spending, while "Home & Garden" constituted 4% of the total. With respect to point of sale distribution, Beirut shops attracted visitors the most, catching 81% of their total spending. However, the only area to witness an increase in spending was Baabda, Mount Lebanon (+160% yearly growth) mainly due to the opening of one of the biggest malls in Lebanon, Beirut City Center.

Spending Evolution Q1 2014 vs. Q1 2013



Source: Global Blue

Value of Real Estate Sales Transactions Hits the $1.38B by February 2014

Total real estate transactions maintained the upward trend during the first two months of 2014 to reach 10,428 transactions. This reveals a 19.92% yearly increase from the same period in 2013, yet remaining below 2011's level of 10,750. Therefore, this year's improvement is probably the result of the low base reached in 2013 when regional and domestic uprisings highly hit the Lebanese property sector. In details, total value of property sales transactions surged by 51.1% y-o-y to reach $1.38B by February 2014 compared to $916.16M in the same period last year. Correspondingly, the average value of a real estate transaction went higher to $132,724 by February this year compared to $105,354 in the first two months of 2013. However, figures released by the Ministry of Finance indicated that the volume of sales to foreigners remained subdued with a slight 0.7% y-o-y increase to 150 transactions. Hence, foreigners' share of total real estate transactions went down from 1.7% in the first 2 months of 2013 to 1.4% this year. This means that Lebanese residents and non-residents are the main buyers while foreigners kept on avoiding the country especially after the several travel-warnings, from GCC countries in particular.

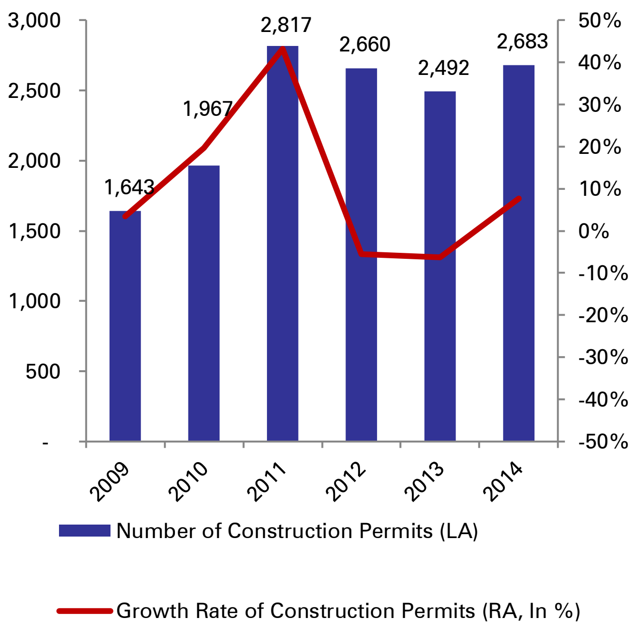
Average Value of Real Estate Transaction

Source: Cadastre

Construction Area Reached 2.20M sqm up to February

Construction activity gained momentum by February this year with the number of real estate permits edging up by a yearly 7.7% to 2,683 compared to 2,492 in the first two months of 2013. This was mainly due to the low base reached in 2013 and the brighter investors' outlooks for 2014. Worth noting that permits are usually issued at least six months after applications are filed. With respect to the construction area authorized by permits (CAP), it registered a 20.5% y-o-y surge by February to reach 2.20M sqm. However, the number of permits in February alone stood at 1,312, a 3.5% y-o-y decrease from February's 2013 level. Yet, the CAP managed to reveal a 7.5% yearly uptick to 1.16M sqm. Worth mentioning that construction remained concentrated in Mount Lebanon with 572 permits or 48.14% of the total, while the South region posted 212 permits or a 12.41% share. On another note, the average area per permit considerably widened from 660.66sqm/permit to 884.53sqm/permit in February this year.

Number of Construction Permits by February



Source: Orders of Engineers in Beirut and North

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Up-to-Date Available Malls in Greater Beirut

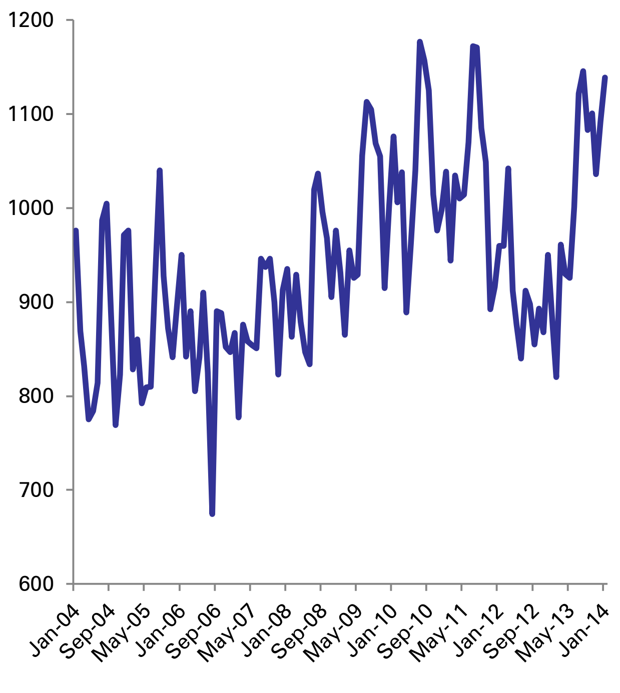
Name of the Mall	Leasable Area (SQM)	Opening Date
Beirut City Center	60,000	2013
City Mall	60,000	2005
ABC Dbayeh	45,000	1992*
Le Mall Dbayeh	24,000	2012
Beirut Mall	16,000	2006
Le Mall Sin el Fil	13,000	2008

Source: RAMCO SARL

RAMCO: 6 malls only are currently functional in Beirut's Suburbs

In a snapshot on Greater Beirut's malls, RAMCO distributed the existing malls into 3 main locations. First, the South Eastern Periphery of Beirut actually accounts for 3 malls offering an 89,000 Square Meters (SQM) retail space. Second, the northern suburbs of Beirut also hold 3 of the largest shopping malls with a leasable area of 116,000 SQM. These 3 malls are located on one of the busiest highway in Lebanon (Dora-Dbayeh Highway) that is used by more than 150,000 cars altering daily into and out of Beirut. Finally, and despite the great prevailing potential as the second busiest artery from and into Beirut, the southern suburbs only benefits from two malls under construction with a leasable area of 107,000 SQM. According to RAMCO, the current 6 malls offers a variety of more than 650 brands noting that Beirut's suburbs, a part of Greater Beirut area, embraces around two thirds of the capital's inhabitants.

Monthly Electricity Production (in MKWH)



Source: BdL

Electricity production stood at 1,139M of KWH in January

According to the Central Bank (BdL), electricity production reached 1,139M of Kilowatt-Hour (KWH) in January 2014 compared to 878M of KWH during the same month last year. In this context, electricity reached its highest 6-Month level since August 2013 when the monthly electricity production stood at 1,146M of KWH. Lebanon still suffers power shortages and reductions in the hours of supply in the majority of regions; however, a $348M contract comprising 2 new power plants (in Jiyyeh and Zouk) should be set in motion in the coming months, which could reduce the energy sector's deficiencies. Worth mentioning that treasury transfers to EDL (Debt service and reimbursement of gas and fuel purchases) totaled $2.03B in 2013, 10.4% lower than the same period last year. This came as a result of a decline in the total volume of energy imports and lower average crude oil prices. Accordingly, transfers to EDL represented 19.0% of the government's $10.65B primary expenditures in 2013 compared to a higher stake of 22.3% in the parallel period of 2012. In addition, KVA, the electric Distribution Service Provider for both Beirut Municipality and Bekaa Valley installed new power feeders in Rachaya –Bekaa. This almost doubled the voltage output to 210 volts which will boost power efficiency.

CORPORATE DEVELOPMENTS

Lebanon's Private Industrial Zones

Industrial Zone	Judiciary
Terbol	Zahle
Shakadif	Jezzine
Tebna	Sidon
Dmoul	Nabatieh

Source: IDAL

New Industrial City in Shakadif – Jezzine

A new private industrial zone will soon be constructed in Shakadif village, Jezzine judiciary, south Lebanon. The project is developed by the Association of Lebanese Industrialists (ALI) in cooperation with the Industrial Rural Development Company (IRD) that will be responsible of developing the area including construction work land and infrastructure rehabilitation.

Shakadif industrial city will extend over an area of 600,000 square meters and is expected to create more than 7,000 jobs. The industrial zone will include a waste treatment plant, food industry zone, and communication platform, as well as constant electricity and water. It will also embrace administrative buildings, fire station and power plant, road and parks etc… In addition, a new bridge connecting Shakadif to Kfar Falous will be constructed shortening the time needed to reach Shakadif from Saida.

Investment methods will be offered as mid- and long term rental contracts at competitive price, with industrialists picking between 2 options: either renting factories implemented by IRD or building their own ones.

3 other private industrial cities will be launched by ALI in Terbol (Bekaa), Tebna and Dmoul (South). Worth noting that an industrial city has several economic, environmental and professional benefits amid a decentralized scheme in favor of rural areas which will lessen exodus into urban regions.

FOCUS IN BRIEF

Lebanon's Public Finance Overview: 2013

Fiscal Indicators (In $M)

	2006	2007	2008	2009	2010	2011	2012	2013
Total Revenues	4,850	5,800	7,000	8,428	8,414	9,334	9,396	9,420
Total Expenditures	7,030	8,360	9,950	11,389	11,308	11,675	13,321	13,640
Primary Balance	120	730	600	1,078	1,231	1,661	-110	-240
Fiscal Balance	-2,180	-2,560	-2,950	-2,961	-2,894	-2,341	-3,925	-4,220
Public Debt	40,500	42,100	47,000	51,100	52,589	53,656	57,686	63,462

Fiscal Indicators (In % of GDP)

	2006	2007	2008	2009	2010	2011	2012	2013
Total Revenues	21.86%	23.24%	23.58%	24.32%	22.66%	23.48%	22.28%	21.66%
Total Expenditures	31.68%	33.50%	33.52%	32.87%	30.46%	29.36%	31.59%	31.36%
Primary Balance	0.54%	2.92%	2.02%	3.11%	3.31%	4.18%	-0.26%	-0.55%
Fiscal Balance	-9.8%	-10.3%	-9.9%	-8.5%	-7.8%	-5.9%	-9.3%	-9.7%
Public Debt	183%	169%	158%	147%	142%	135%	137%	146%

Source: Ministry of Finance, Association of Banks in Lebanon, International Monetary Fund

Lebanon's public finances have long been precarious. According to the World Bank, in the 10 years prior to the Syrian conflict, the fiscal deficit averaged 9.7% of GDP, taking the debt to GDP ratio to a peak of 183% in 2006.

In the period 2006-2010, robust economic activity and the post war rebound boosted government revenues. However, this positive trend started to subside one year later, in 2011 when the Syrian and other Arab uprisings broke out. The following scrolls through Lebanon's public finance performance during 2013, especially since the economy was rattled by local instabilities and regional tumults.

Public Finance General Overview

The total fiscal deficit grew by 8% or $294.53M to reach $4.22B in 2013 taking its share in the GDP from 9.1% in 2012 to 9.3% in 2013. In parallel, the deficit in the primary balance also increased from $110.12M in 2012 or 0.3% of GDP to $239.47M in 2013 or 0.5% of GDP.

The deteriorating public finances came about as the share of total revenues in GDP fell by more than 1 percentage point (pp) from 21.9% in 2012 to 20.8% in 2013 while the share of total expenditures decreased by only 0.8 pp from 31.0% in 2012 to 30.2% in 2013.

The ever-growing deficit inflated the debt/GDP ratio, already one of the highest in the world, from 134.3% in 2012 to 140.5% in 2013.

Revenues

Overall revenues marginally grew by $24.54M to reach $9.42B as compared to $9.69B last year. The main drivers behind this shallow performance are the slight upturn in treasury receipts and the drop in tax and non-tax-revenues. The overall slowdown in economic activity pulled tax revenues down by an annual $47M to $6.71B in 2013. Taxes on international trade dropped by 4% and reached $1.43B in 2013 mainly due to a fall in gasoline and tobacco excise. After collections of tobacco excises recorded double digit year-on-year growths of 16% and 28% in 2011 and 2012, they fell by 23% in 2013 as the imported quantities of tobacco plummeted by 17%. The flocking Syrian refugees and re-exports into war-ridden Syria lie mostly behind the higher quantities of tobacco imports in 2011 and 2012. However, the rise in tobacco imports was interrupted in 2013 partly due to Syria regained its tobacco self-sufficiency.

As for gasoline, excises declined by $7.96M since the imported quantities of gasoline inched down by 3%. Interestingly, the drop in gasoline excise is not accompanied by a drop in the car excise as the latter, which is linked to the number of imported cars, improved by $13.27M.

The lower quantities of gasoline imports can be linked to a shift in the preferences of Lebanese consumers. Given the tough economic climate, Lebanese consumers have turned to small and fuel-efficient vehicles. Slower tourist activity may as well be behind some of the decline in the quantity of imported gasoline.

Meanwhile, this drop in excises was partially offset by the 3% increase in customs receipts on the back of a 5% growth in non-fuel imports. Imports of food products increased by 4% over the year, especially that some of the food products are subject to a protectionist policy and therefore incur higher custom tariffs. With one Syrian refugee entering the country each minute according to the UNHCR, the rising demand for food products is inextricably linked to the influx of Syrians. The same can be said about “pharmaceutical products” and “Engines, appliances & other machinery” which recorded double digit growths of 12% and 13% during the year, respectively. Overall domestic taxes on goods and services remained stable in 2013 reaching $2.51B by end-2013 compared to $2.49B in 2012. These are mainly composed by VAT receipts that reached $2.19B up by 0.6% from last year.

VAT receipts were boosted by the VAT collected internally which outweighed the drop in VAT collected at customs. According to the Ministry of Finance, customs VAT have dropped due to Law 207, dated March 5th 2012, which stipulates an increase in the tax on gasoil. Moreover, Electricite du Liban (EDL)’s fuel imports come in with “special permits” which exempt them from any customs or tariffs which represents lost VAT revenues for the government, estimated at $34M in 2010, $175M in 2011 and around $100M in 2012.

The slowdown in economic activity weighed on the income tax on profits, collected on the previous year’s earnings. The income tax on profits dropped by 3% year-on-year in 2013 to $646.10M, showing that companies are indeed struggling to remain profitable amidst a rough economic backdrop. While the flocking Syrians into the country might have slightly boosted customs receipts, the spillovers of the neighboring war in terms of instability and lack of investor confidence took the upper hand. The economic hardships brought about by the Syrian spillovers have been translated into lower company profits. In the same line of thought, income tax on capital gains and dividends dropped by a staggering 22% to $153.23M.

The slowdown in real estate also led to the $15.26M decline in real estate registration fees, outweighing the $5.31M upturn in overall taxes on property. The number of properties sold slid by 7% over the year 2013, pulling the total value of property sales down by 3%. Accordingly, construction permits decreased by an annual 8.1% to 16,724 in 2013.

As for non-tax revenues, they slid by less than 1% to $2.17B. In this category, Telecom transfers remained unchanged across the year and stood at $1.43B. Meanwhile, retirement deductibles, rent of Rafic Hariri International Airport, revenues from Casino du Liban, the National Lottery and the Vehicle Control Fees or “Mecanique” all went down. However, telecom revenues might edge down in the coming year after the Ministry of Telecommunications announced a reform plan that would slash by half the cost of international calls, prepaid cards, Telecarte and Kalam. The plan will also render land line subscriptions free of charge.

The last item on the revenues side are Treasury receipts which rose by 18% in 2013 to reach $541.29M in 2013. Treasury receipts were first boosted by the reimbursement of treasury advances by the Ministry of Economy and Trade. As part of its wheat subsidy plan, the government provided the Directorate General of Cereals and Beetroot (part of the Ministry of Economy and Trade) with a $65M treasury advance in 2013, which covers the difference between the international price of wheat and the local market price. Treasury receipts were also higher due to $26.53M worth of accrued interest received in Treasury accounts on the settlement of the US$ 1.1 billion dual-tranche offering on April 17th 2013. Once the first coupon payments on the issued notes reach due date, these transitory receipts will be netted out.

Expenditures

On the other hand, higher interest payments and capital spending lifted total expenditures by 2% to $13.64B in 2013. Current expenditures (including interest payments), representing 81% of total expenditures, posted a 1.2% uptick to $11.92B and capital spending grew by 30% to $654.73M.

Although current primary expenditures, which exclude interest payment and debt service, declined over the year they were toppled by higher interest payments in foreign currency and foreign debt principal repayments. Regarding current primary expenditures, they were pulled down by lower public sector wages and transfers to EDL. Salaries, wages and related items registered a 3% drop to $2.84B while transfers to EDL slid by 10.3% to %2.03B.

Salaries, wages and related benefits witnessed a downward correction in 2013 after some exceptional retroactive payments to the education, civil and military personnel were made in 2012.

Meanwhile, transfers to EDL, the second largest component of primary expenditures were lower in 2013. This came about as average prices of crude oil retracted by 4% to $109 per barrel and since no treasury advances were made to EDL across the year. Unlike 2013, EDL benefitted from $145.94M worth of treasury advances in 2012, $119.40M covering the first three payments for a leasing contract between EDL and Karpowership on two electricity generation barges and $26.53M for VAT payments.

Some other categories of transfers also went up, mainly driven by payments to the National Social Security Fund (NSSF). Payments to the NSSF rose from $66.33M in 2012 to $165.84 in 2013, most likely due to higher contributions in 2013 stemming from payments in some government arrears.

Also pulling expenditures higher are the cost of new medicaments and treatments. The latter surged from $80.27M in 2012 to $162.52M in 2013, most likely as a result of the higher number of Syrian refugees which are adding strain to public services and also as a result of the repeated security incidents and clashes in the country. On the same note, transfers to hospitals hiked by 16.2% to $257.38M in 2013. Higher medicament costs are, to a lesser extent, linked to the 4% appreciation of the Euro against the dollar according to the MoF.

Two other categories of transfers also drove expenditures upwards. First, transfers to the special tribunal for Lebanon went from nil in 2012 to $38.47M in 2013. Second, transfers to private sector entities, through social ministries (Education, Public Health…Etc.) rose by 31% to reach $192.37M in 2013 due to higher costs per assisted individual.

As for capital expenditures, they rose on account of higher maintenance costs and payments to the Council of Development and Reconstruction (CDR). Payments to the CDR were $69.65M higher in 2013 chiefly for the construction of highways and roads. The biggest bulk, $59.70M, was meant for the construction of highways in Batroun, Tripoli and Zahrani and various other development projects mainly roads' construction. Maintenance costs increased by $78.28M mostly relating to transfers to the Ministry of Public Works and Transportation for maintenance and restoration of roads and transfers to the CDR for the maintenance of Rafic Hariri University Campus-Hadath.

Regarding the debt service, a $170.48M increase in interest payments to $3.79B was registered. This expansion lies mainly on the back of the $165.17M higher interest rate payments in foreign currency. However, foreign debt principal repayment slid by 2.8% to $190.38M.

Challenges to Public Finance Management

Public finance management is up against two major challenges: The Pay scale issue and the Syrian influx.

The first major hurdle to Public finances is responding to the social uprising led by the Union Coordination Committee (UCC) which is demanding higher public sector wages. The reason why this matter remains unresolved to this day is financing. Some suggested taxes on interest from customer deposits, taxes on profits from real estate transactions or even upping VAT from 10% to 15% on certain "luxury items". Others argue that with the current economic woes, the taxable base would be too narrow to provide proper financing which would compel governments to take on more debt and pay additional interest charges. The key is then to ensure financing through recurrent revenue sources, or sources that provide a steady inflow of cash in order to guarantee that the government has the means to disburse higher salaries in a sustainable way.

Decision makers must also dampen the pay scale's effect on inflation. As the salaries augment, higher purchasing power is bound to increase the money supply and therefore inflation. However, if inflation outpaces growth, the positive effect of higher purchasing power would be eradicated.

On another note, the heavy influx of Syrian refugees, which have now exceeded the 1 million mark, threatens to strain already weak public finances. According to the World Bank, the Syrian conflict is estimated to cut $1.5B in government revenue collection during 2012-2014 due to a combination of direct impact on key sectors and indirect impacts through weaker economic activity. Budgetary expenditures are also estimated to be up to $1.1B higher over the 2012-2014 period. This combination leaves the country with a sizeable cumulative fiscal deficit of $2.6B over 2012-2014 and raises interest risk premium since the neighboring Syrian war has halted Lebanon's progress in reducing its debt to GDP ratio. Therefore, contribution from international donors is necessary to ease the direct and indirect impact of the Syrian crisis on the Lebanese economy.

For the first time since 2006, Lebanon's debt to GDP ratio stopped declining in 2012 and continued its upward trend in 2013. It is therefore clear that addressing these challenges is key to putting Lebanon's debt and fiscal dynamics back onto a sustainable path.

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