

# THE LEBANON BRIEF

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# TABLE OF CONTENTS

<b>FINANCIAL MARKETS</b>	<b>3</b>
Equity Market	3
Foreign Exchange Market	5
Money & Treasury Bills Market	5
Eurobond Market	6
<b>ECONOMIC AND FINANCIAL NEWS</b>	<b>7</b>
Fiscal Deficit Narrowed to \$1.58B by End of H1	7
Lebanon's Commercial Banks Assets Rose to \$170.33B by August	8
Value of Kafalat Guarantees Dipped to \$10.96M in September	9
Airport Passengers enhanced by 4.09% y-o-y by September	10
Port of Beirut Revenues Declined to \$161.16M by September	10
<b>CORPORATE DEVELOPMENT</b>	<b>11</b>
Banque Pharaon and Chiha Sold to ZR Group	11
Bank of Beirut Increases Capital by \$100,002,000	11
<b>FOCUS IN BRIEF</b>	<b>12</b>
The Lebanese Tourism Sector: Performance Review up to August 2014	12

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# FINANCIAL MARKETS

## Equity Market Stock Market

	17/10/2014	10/10/2014	% Change
BLOM Stock Index*	1,169.79	1,174.84	-0.43%
Average Traded Volume	181,434	175,480	3.39%
Average Traded Value	1,122,359	1,485,073	-24.42%

\*22 January 1996 = 1000

### BLOM Stock Index



### Banking Sector

	Mkt	17/10/2014	10/10/2014	% Change
BLOM (GDR)	BSE	\$9.35	\$9.45	-1.06%
BLOM Listed	BSE	\$8.75	\$8.75	0.00%
BLOM (GDR)	LSE	\$9.35	\$9.35	0.00%
Audi (GDR)	BSE	\$6.10	\$6.07	0.49%
Audi Listed	BSE	\$6.00	\$6.00	0.00%
Audi (GDR)	LSE	\$6.02	\$6.00	0.33%
Byblos (C)	BSE	\$1.63	\$1.67	-2.40%
Byblos (GDR)	LSE	\$73.00	\$73.00	0.00%
Bank of Beirut (C)	BSE	\$18.39	\$18.39	0.00%
BLC (C)	BSE	\$1.70	\$1.70	0.00%
Fransabank (B)	OTC	\$28.00	\$28.00	0.00%
BEMO (C)	BSE	\$1.75	\$1.73	1.16%

	Mkt	17/10/2014	10/10/2014	% Change
Banks' Preferred Shares Index *		104.90	104.91	-0.01%
Audi Pref. E	BSE	\$101.50	\$101.50	0.00%
Audi Pref. F	BSE	\$100.50	\$100.50	0.00%
Audi Pref. G	BSE	\$100.50	\$100.50	0.00%
Audi Pref. H	BSE	\$100.00	\$100.00	0.00%
Byblos Preferred 08	BSE	\$100.80	\$101.00	-0.20%
Byblos Preferred 09	BSE	\$100.80	\$100.80	0.00%
Bank of Beirut Pref. E	BSE	\$25.80	\$25.80	0.00%
Bank of Beirut Pref. I	BSE	\$25.75	\$25.75	0.00%
Bank of Beirut Pref. H	BSE	\$25.85	\$25.85	0.00%
BLOM Preferred 2011	BSE	\$10.20	\$10.20	0.00%
BLC Pref A	BSE	\$101.40	\$101.40	0.00%
BLC Pref B	BSE	\$100.50	\$100.00	0.50%
BLC Pref C	BSE	\$100.00	\$100.00	0.00%
Bemo Preferred 2013	BSE	\$101.20	\$101.20	0.00%

\* 25 August 2006 = 100

The Beirut Stock Exchange followed the declining trend in the global market; however, to a lesser extent. The BLOM Stock Index (BSI) lost 0.43% to close at 1,169.79 points.

The average traded volume went from 175,480 shares up to 181,434 while the average traded value slid from \$1.49M to \$1.12M. As for the market capitalization, it narrowed from last week's \$9.72B to \$9.67B. Worth mentioning that Bank of Beirut issued new shares, "Series 2014 Priority Shares", which were listed on the 16th of October on the BSE.

The BSI outperformed all its regional peers where the S&P Pan Arab Composite Large Midcap Index, the S&P AFE40 Index, and the Morgan Stanley Emerging Index (MSCI), plummeted by 8.98%, 7.96% and 3.74% to 148.26 points, 68.81 points, and 970.65 points, respectively.

Among the Arab world, all bourses closed in the red except that of Tunis which gained a weekly 0.28%. In contrast, Dubai's stock exchange, Saudi Arabia's bourse and Egypt's stock market were the worst performers plunging by a weekly 13.60%, 12.02%, and 10.03%, respectively.

Back to the BSE, the banking sector contributed for 83.21% of total traded value and was followed by the real estate sector and the industrial sector with contributions of 16.72% and 0.07%, respectively.

In the banking sector, Byblos' listed shares and BLOM GDR shares lost 2.40% and 1.06% to close at \$1.63 and \$9.35, respectively. Meanwhile, the Global Depositary Receipts of Audi and the listed shares of BEMO added 0.49% to \$6.10 and 1.16% to \$1.75, respectively.

The BLOM Preferred Stock Index (BPSI) also posted a minor downtick of 0.01% to 104.90 points. The drop was triggered by the 0.20% decrease in the share prices of Byblos' preferred 08 which ended the week at \$100.80. In contrast, BLC preferred shares class "B" gained 0.50% to \$100.50.

## Real Estate

	Mkt	17/10/2014	10/10/2014	% Change
Solidere (A)	BSE	\$11.89	\$12.05	-1.33%
Solidere (B)	BSE	\$11.84	\$11.97	-1.09%
Solidere (GDR)	LSE	\$11.65	\$11.81	-1.35%

On the London Stock Exchange (LSE), the Global Depository Receipts (GDRs) of Audi added 0.33% to close the week at \$6.02, while that of Solidere lost a weekly 1.35% to \$11.65.

## Manufacturing Sector

	Mkt	17/10/2014	10/10/2014	% Change
HOLCIM Liban	BSE	\$15.50	\$15.00	3.33%
Ciments Blancs (B)	BSE	\$3.50	\$3.50	0.00%
Ciments Blancs (N)	BSE	\$2.75	\$2.75	0.00%

Solidere shares class "A" and "B" remained on their downtrend for the second week, losing 1.33% to \$11.89 and 1.09% to \$11.84, respectively.

In the industrial sector, HOLCIM shares gained 3.33% to reach \$15.50.

In the tourism sector, Casino Du Liban shares dropped by 5.26% to \$360.00.

## Funds

	Mkt	16/10/2014	09/10/2014	% Change
BLOM Cedars Balanced Fund Tranche "A"	-----	\$7,326.18	\$7,334.58	-0.11%
BLOM Cedars Balanced Fund Tranche "B"	-----	\$5,238.34	\$5,242.82	-0.09%
BLOM Cedars Balanced Fund Tranche "C"	-----	\$5,564.29	\$5,570.66	-0.11%
BLOM Bond Fund	-----	\$9,608.62	\$9,608.62	0.00%

With no improvement on the political security, and economic fronts, the performance of the Lebanese stock market is presumed to remain weak.

## Retail Sector

	Mkt	17/10/2014	10/10/2014	% Change
RYMCO	BSE	\$3.32	\$3.32	0.00%
ABC (New)	OTC	\$33.00	\$33.00	0.00%

## Tourism Sector

	Mkt	17/10/2014	10/10/2014	% Change
Casino Du Liban	OTC	\$360.00	\$380.00	-5.26%
SGHL	OTC	\$7.00	\$7.00	0.00%

## Foreign Exchange Market

### Lebanese Forex Market

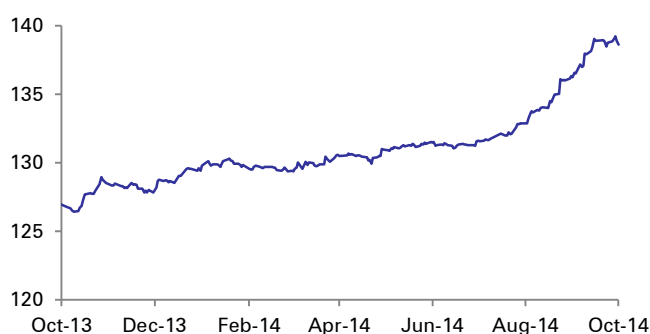
	17/10/2014	10/10/2014	% Change
Dollar / LP	1,512.00	1,512.00	0.00%
Euro / LP	1,934.88	1,910.00	1.30%
Swiss Franc / LP	1,602.36	1,577.54	1.57%
Yen / LP	14.15	13.96	1.36%
Sterling / LP	2,429.19	2,421.95	0.30%
NEER Index**	138.62	138.73	-0.08%

\*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.

### Nominal Effective Exchange Rate (NEER)



Demand for the dollar steadied over the prior week as reflected by the Lebanese pound's peg against the dollar that remained at \$/LP 1,510-1,514 with a mid-price of \$/LP 1,512, since last week. Foreign assets (excluding gold) at the Central Bank rose by a monthly 0.97% from \$38.05B by August to \$38.42B by end-September. Meanwhile, the dollarization rate of private sector deposits stood at 65.89% in August compared to 66.13% in December 2013.

The dollar continued its fall for the second week, where traders held off forecasts of a rise in US interest rates, after results showing weaker global economic growth. Thus, the euro gained 1.30% against the dollar, ending the week at €/ \$ 1.2835.

Gold held its first two-week increase since July due to speculation signs of a global slowdown headed by Europe. This drove a decline in the price of gold from \$1,223.75/ounce last Thursday, to \$1,238.70/ounce this week.

By Friday October the 17th, 2014, 12:30 pm Beirut time, the dollar-pegged LP depreciated against the euro going from €/LP 1,910.00, the prior week, to €/LP 1,934.88. The Nominal effective exchange Rate (NEER) fell marginally by 0.08%, weekly, to 138.62 points, with a 7.41% gain since year-start.

## Money & Treasury Bills Market

### Money Market Rates

	16/10/2014	09/10/2014	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

### Treasury Yields

	16/10/2014	09/10/2014	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

During the week ending September 25, 2014, broad Money M3 dropped by LP 52B (\$34.49M), to reach LP 175,228B (\$116.24B). M3 growth rate reached 7.17% year-on-year and 4.57% since year start. However, M1 regressed by LP 109B (\$72.31M) due to the decrease in money in circulation by LP 104B (\$68.99M) and in demand deposits by LP 5B (\$3.32M).

Total deposits (excluding demand deposits) grew by LP 56.76B (\$37.65M), given the rise in term and saving deposits in domestic currency by LP 164B, while deposits denominated in foreign currencies lessened by \$71M. Over the above mentioned period, the broad money dollarization went down from 59.19% to 59.14%. According to the Central Bank, the overnight interbank rate dropped from 9.00% end of June 2014 to 2.75% end of July.

In the TBs auction held on the 9<sup>th</sup> of October 2014, the Ministry of Finance raised LP 188.53B (\$125.06M), through the issuance of bills maturing in 3M and 6M, and 5Y notes. The highest demand was achieved on the 5Y notes that took a share of 52.46%, while the 3M and 6M bills accounted for 9.38% and 38.16%, respectively. The 3M and 6M bills yielded 4.39% and 4.87%, respectively. Meanwhile the average coupon rate for the 5Y notes stood at 6.74%. Maturing T-bills exceeded new subscriptions by LP 7.84B (\$5.2 M).

## Eurobond Market

## Eurobonds Index and Yield

	16/10/2014	09/10/2014	Change	Year to Date
BLOM Bond Index (BBI)*	107.916	108.290	-0.35%	2.15%
Weighted Yield**	5.25%	5.16%	9	23
Weighted Spread***	394	366	28	-36

\*Base Year 2000 = 100; includes US\$ sovereign bonds traded on the OTC market

\*\* The change is in basis points

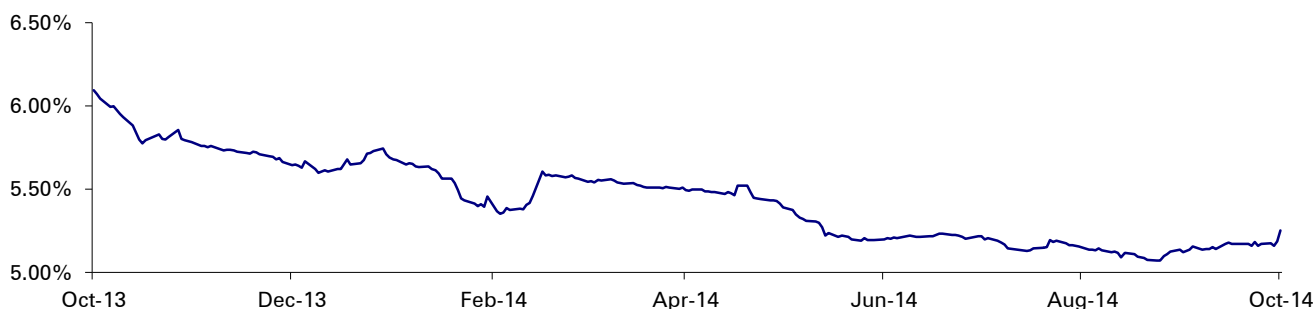
\*\*\*Against US Treasuries (in basis points)

## Eurobonds Lebanese Government

Maturity - Coupon	16/10/2014 Price*	09/10/2014 Price*	Weekly% Change	16/10/2014 Yield	09/10/2014 Yield	Weekly Change bps
2015, Aug - 8.500%	103.746	104.192	0.43%	3.74%	3.31%	-43
2016, Jan - 8.500%	105.738	106.028	0.27%	3.79%	3.63%	-16
2016, May - 11.625%	111.608	111.881	0.24%	3.94%	3.86%	-8
2017, Mar - 9.000%	110.901	111.167	0.24%	4.23%	4.16%	-7
2018, Jun - 5.150%	101.255	101.497	0.24%	4.78%	4.71%	-7
2020, Mar - 6.375%	104.028	104.453	0.41%	5.51%	5.42%	-9
2021, Apr - 8.250%	114.34	114.758	0.37%	5.59%	5.53%	-7
2022, Oct - 6.100%	101.499	101.799	0.30%	5.87%	5.82%	-5
2023, Jan - 6.000%	100.311	100.805	0.49%	5.96%	5.89%	-8
2024, Dec - 7.000%	106.024	106.362	0.32%	6.24%	6.20%	-4
2026, Nov - 6.600%	101.73	102.215	0.48%	6.40%	6.34%	-6
2027, Nov - 6.75%	102.752	103.192	0.43%	6.45%	6.40%	-5

\*Bloomberg Data

## Weighted Effective Yield of Eurobonds



Lebanon's Eurobonds market performed poorly during the week, where the BLOM Bond Index (BBI) fell by 0.35%, to settle at 107.92 points. The gauge posted a 2.15% year-to-date (y-t-d) increase. The falling off of the Eurobonds market can be attributed to a weekly increase in 5Y and 10Y yields of 8 basis points (bps) and 3 bps, respectively.

Slowing worldwide economic growth has negatively impacted investments in emerging markets, with the JP Morgan emerging countries' bond index weekly performance demonstrating a weekly decline of 0.60% to 674.78 bps.

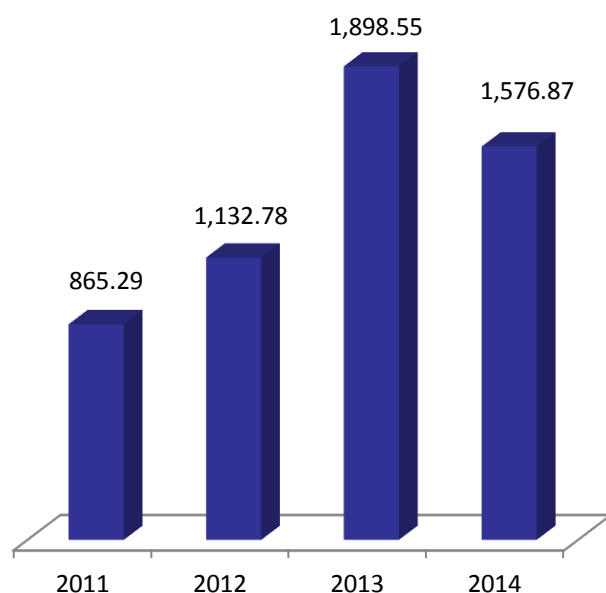
The continuous slowing of the worldwide economy and failures of stock markets internationally has driven up the demand for safe investments. In the U.S, the return to the bonds market sent the 5Y and 10Y U.S yields down by 19 bps and 17 bps to 1.39% and 2.17%, respectively. Correspondingly, the 5Y and 10Y spreads between the Lebanese Eurobonds and their U.S benchmark respectively widened by 27 bps and 20 bps to 383 bps and 407 bps.

Lebanon's Credit Default Swaps for 5 years (CDS) stood at 400-430 bps, compared to last week's quote of 334-364 bps. In regional economies, the 5Y CDS quotes of Saudi Arabia and Dubai broadened from 53-58 bps and 164-174 bps to 59-64 bps and 190-200 bps, respectively. In emerging economies, the global trend continued, as the 5Y CDS of Brazil and Turkey widened from 154-156 bps and 193-196 bps to 163-165 bps and 200-204 bps.

# ECONOMIC AND FINANCIAL NEWS

## Total Budget Deficit by H1

(In \$M)



Source: Ministry of Finance

## Fiscal Deficit Narrowed to \$1.58B by End of H1

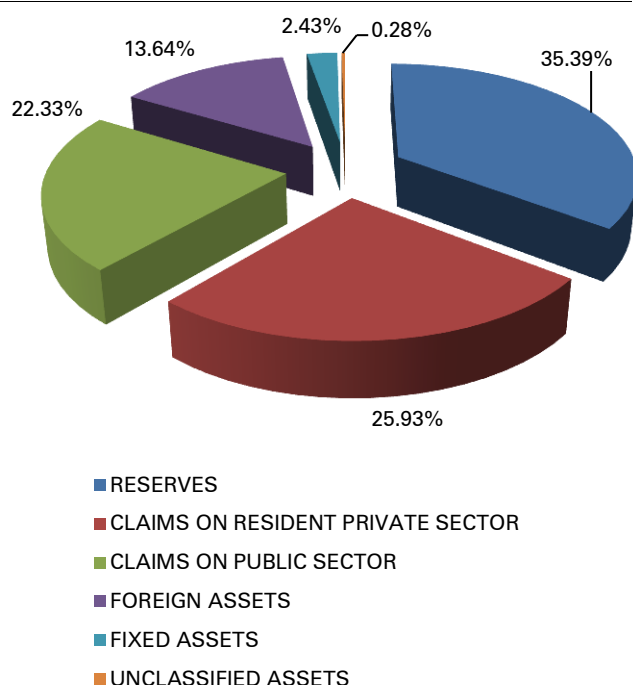
The fiscal performance improved during the first half of the year with the deficit narrowing by 16.94% y-o-y to \$1.58B and the primary surplus surging from \$16.48M to \$579.65M. This improvement came as a result of a 7.91% y-o-y increase in total revenues, coupled with a 0.92% increase in total expenditures. On the expenditures side, transfers to Electricite du Liban (EdL) rose by 10.23% y-o-y to reach \$1.04B.

Tax revenues benefitted from a 5.71% y-o-y increase by H1 to \$3.80B, attributable to VAT revenues, which increased by 1.20% to \$1.09B, despite the 9.72% drop in customs revenue, which decreased as result of the slowdown in economic activity, as well as the decline in trade across the Syrian border. Non-tax revenues also improved, revealing an 11.20% y-o-y rise to \$1.10B. This was due to the 4.17% y-o-y increase in telecom revenues to \$624.11M.

Total interest payments increased by 12.94% to \$2.08B. Interest payments on domestic debt rose by 15.88% to \$1.27B. Interest payments on foreign debt also grew by 8.62% to \$808.85M.



### Percentage Composition of Commercial Banks' Assets by August



Source: BdL

### Lebanon's Commercial Banks Assets Rose to \$170.33B by August

The consolidated balance sheet of commercial banks displayed a 3.34% year-to-date (y-t-d) increase in total assets to \$170.33B by August, equivalent to a 7.42% year-on-year (y-o-y) growth.

Total reserves, which are divided in to cash in vaults of commercial banks and deposits with the Central bank, showed a 10.10% y-t-d increase to form 35.39% of total assets, with a value of \$60.28. The bulk of these reserves are held in the form of deposits with the Central Bank. The resident private sector, with a share of 25.93% of total assets, posted a 6.43% y-t-d increase to \$44.17B. This sector is divided in to claims denominated in foreign currencies, which amount \$32.15B, and the remainder denominated in local currency. The dollarization rate of the private sector demonstrates a slight decrease from 76.54% in December to 75.84% by August. During this period, foreign currency loans advanced by 4.01% to \$37.72B, and were outpaced by local currency loans which displayed a y-t-d increase of 8.13%

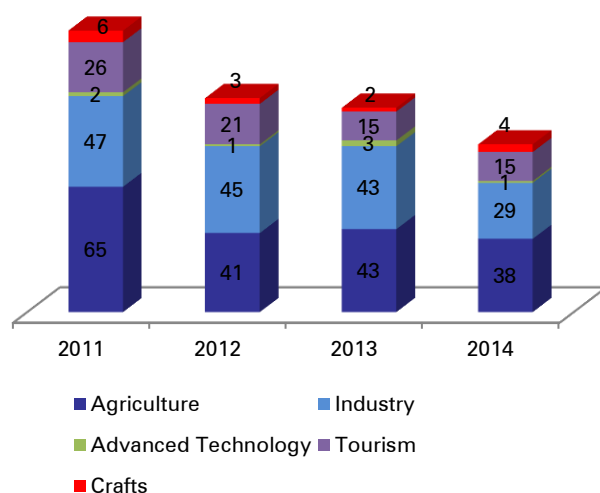
Meanwhile, claims on the public sector, which mainly take the form of treasury bills, barely posted any change, with only a 0.97% y-t-d increase to \$38.03B. Government securities denominated in local currency grew by 4.06% to \$20.79B, while securities denominated in foreign currencies shrunk by 2.63% to \$17.14B.

As for liabilities, resident private sector deposits grew by 4.19% to close at \$112.24B. The bulk of these deposits are denominated in foreign currencies, which increased by 4.06% y-t-d to \$67.59B, while deposits in local currency grew by 4.39% to \$44.64B.

Non-resident private sector deposits, which increased by 2.80% y-t-d to \$29.28B, also witnessed deposits in local currency outgrowing deposits in foreign currencies, with respective y-t-d growths of 8.15% and 2.09% to \$3.63B and \$25.65B. These changes resulted in the increase of the dollarization rate of private sector deposits from 66.13% to 67.62% by August 2014.



## Breakdown of Kafalat Guarantees by Sector in September



Source: Kafalat

## Value of Kafalat Guarantees Dipped to \$10.96M in September

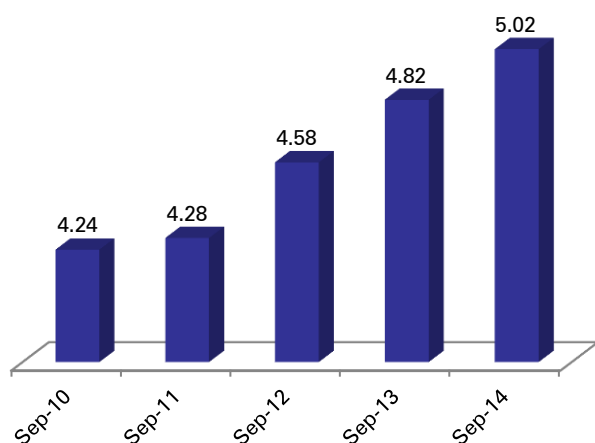
Kafalat issued 671 guarantees in the first 3 quarters of 2014, with a total value of \$87.01M, compared to 645 guarantees worth \$87.43M for the same period in 2013. Correspondingly, the average value per loan edged down from \$135,550 by September 2013 to \$129,672 this year.

The three sectors to benefit the most from loans were agriculture, industry and tourism, with respective shares of 47.39%, 34.58%, and 12.07% for the first nine months of 2014. The agriculture and industry sectors recorded the largest increase in guarantees with the latter number increasing by 56 to reach 318, while guarantees increased by 6 for the industrial sector. The number of guarantees in the tourism sector actually declined by 28 to attain 81, caused by the poor political and economic stability.

As for the regional breakdown, Mount Lebanon continued to grasp the majority of guarantees, with a 43.22% share, followed by respective shares of 18.63% and 12.07% for the Bekaa and South regions. The guarantees issued in Mount Lebanon bumped up to 290 guarantees, from a previous 257, while the Bekaa and the South witnessed declines by September 2014 from 141 and 82 guarantees to 125 and 81 guarantees, respectively, for the same period in 2013. In September alone, Kafalat issued 87 guarantees, representing a 17.92% drop from 106 guarantees in the same month last year.

The value of loans guaranteed by Kafalat totaled \$10.96M in September 2014, down from \$12.38M in September 2013. Accordingly, the average value per loan stood at \$125,992 up from \$116,785 per loan in September 2013.

### Airport Passengers Up to September



Source: RHIA

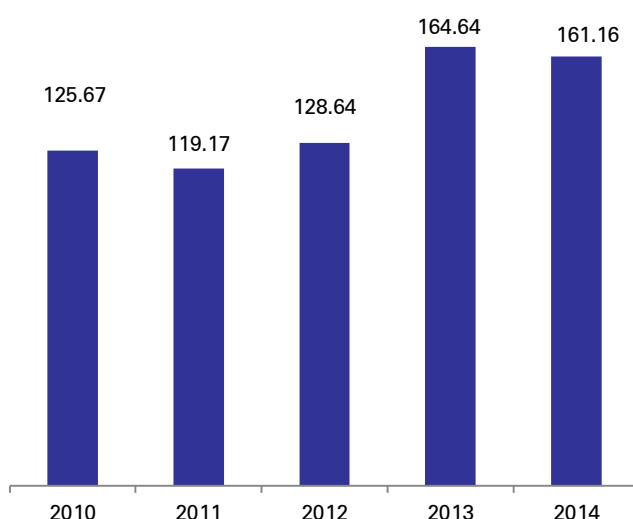
### Airport Passengers Increased by 4.09% y-o-y by September

Rafic Hariri International Airport (RHIA) activity enhanced during the first three quarters of 2014, as the total number of passengers increased by 4.09% year-on-year (y-o-y) to 5.02M, recording its highest level since 2007. The number of arrivals inched up by 2.93% to 2.46M. During the same period, departures rose by 5.31% y-o-y to 2.55M. In contrast, transit travelers dropped by 11.21% to 10,695.

For the month of September alone, the total number of airport passengers grew by 18.77% y-o-y to reach 640,546. Arrivals surged by 23.34% to 281,414 and departures increased by 15.74% reaching 358,288. Transit travelers decreased by 46.00% y-o-y, to 844 in September 2014.

### PoB Revenues by September

(in \$M)



Source: Port of Beirut

### Port of Beirut Revenues Declined to \$161.16M by September

Port of Beirut (PoB) revenues dropped by 2.12% year-on-year (y-o-y) to settle at \$161.16M, by September 2014.

Imported cars decreased by 2.71%, during the stated period, to 67,303 cars. Likewise, the number of vessels docked at the country's main port dropped by 6.54% y-o-y to 1,485 vessels.

However, total container activity including transshipment maintained its increase, going up 8.60% from last year, to reach 924,760 twenty-foot equivalent units (TEU), by September. Container activity excluding transshipment rose slightly by 0.32% y-o-y to 578,570 TEU. Transshipment alone significantly rose by 25.97%, compared to the same period last year, to 346,190 TEU. Total volume of merchandise (imports and exports) edged up by 1.60% to 6.28M tons.

In addition, CMA CGM's transshipment volume leapt by 50.80% y-o-y to 144,034 TEU, similarly that of MSC also increased, by 13.96% to 188,541 TEU.

## CORPORATE DEVELOPMENT

### Banque Pharaon and Chiha Financials

Assets	300.00
Customer Deposits	238.50
Loans	91.60
Net Profits	4.90

Source: Business News

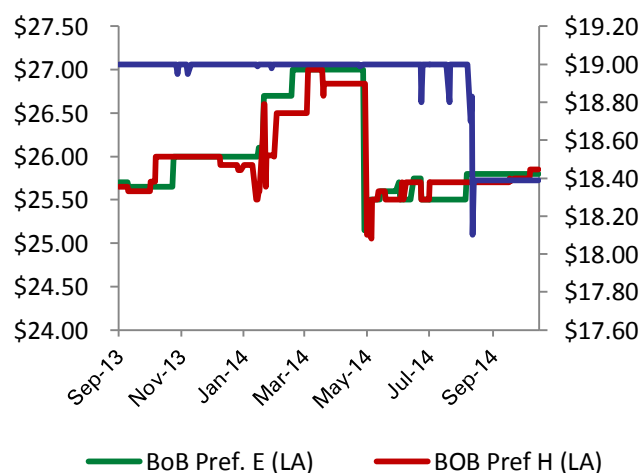
### Banque Pharaon and Chiha Sold to ZR Group

Banque Pharaon and Chiha announced, on the 4<sup>th</sup> of October, the sale of 80% of the bank's shares to Raymond and Teddy Rahme of ZR Group Holding. The latter is considered a well-known player in a multitude of industries such as banking and finance, media, real estate, catering and transportation.

Back to the sale, the main purpose of the deal was not related to financial problems but aimed to increase the bank's capital along with ensuring the development of the branch's activity. Following the agreement, the other bank shareholders, Pierre Doumit and Henry Helou, will maintain their respective 14% and 5% shares of the bank.

The bank is one of the oldest in Lebanon with \$300M of assets by the end of 2013. Net profits reached \$4.9M over the same period, while customer deposits totaled \$238.5M and loans amounted to \$91.6M at the end of 2013. As any change of a bank's ownership is subject to approval by the Banque du Liban (BdL), the deal is expected to be concluded in 2 months.

### Performance of Bank of Beirut Shares



Source: BSE, Blominvest Research Department

### Bank of Beirut Increases Capital by \$100,002,000

Bank of Beirut SAL has completed a \$100,002,000 increase of its capital by way of issuing 4,762,000 "Series 2014 Priority" shares.

The Priority Shares constitute a special class of the Bank's common shares that benefit, for a limited time, from a non-cumulative Priority Dividend. These shares were listed on the Beirut Stock Exchange on Thursday the 16<sup>th</sup> of October 2014, with an issue price of \$21.00 per common share.

The issue price will consist of LBP1,350, and the difference between the issue price and the par value shall constitute an issue premium. The Series 2014 Priority shares will be offered to existing and new shareholders.

## FOCUS IN BRIEF

### The Lebanese Tourism Sector: Performance Review up to August 2014

7 trillion dollars<sup>1</sup>: That is how much the Travel & Tourism (T&T) contributed to global GDP in 2013. In a world where policymakers are aching to create more jobs, the Travel & Tourism industry employed around 266 million jobs worldwide by the end of last year. The outlook for 2014 also seems promising as some economies shake off recession woes and are ready to spend some more.

The T&T industry is just as important to Lebanon's economy as it is to the global economy. This industry's total contribution to Lebanon's GDP is expected to rise from \$8.78B in 2013 to \$8.97B in 2014. 255,000 jobs existed in the Lebanese T&T industry in 2013 a figure expected to reach 261,500 in 2014.

The T&T contribution to GDP is a concoction of the many channels through which T&T can generate revenues for the Lebanese economy whether directly or indirectly. The first and most obvious channel is what the WTTC dubs "Visitor Exports", referring to all the spending made by international tourists in a country for both leisure and business. Visitor exports totaled \$6.28B in 2013 and are estimated to rise to \$6.35B in 2014. The second channel is domestic spending, which stood at \$1.48B in 2013 and is expected to edge up to \$1.50B in 2014. Other channels include government collective spending, which refers to the government's spending aimed at boosting the tourism sector, and capital investment through which T&T providers invest in tourism assets: New transport equipment, new accommodation facilities...etc.

#### Contribution of T&T to the Lebanese Economy

In Billions of USD	2013	2014e	2024F
<b>Direct Contribution to GDP</b>	3.16	3.23	5.90
<b>Total Contribution to GDP</b>	8.78	8.97	16.50
<b>Direct Contribution to Employment (# of Jobs)</b>	93,000	95,000	138,000
<b>Total Contribution to Employment (# of Jobs)</b>	255,000	261,500	375,000
<b>Visitor Exports</b>	6.28	6.35	10.26
<b>Domestic Travel Spending</b>	1.48	1.50	2.46
<b>Leisure Spending</b>	6.86	6.93	10.95
<b>Business Travel Spending</b>	0.90	0.92	1.77
<b>Capital Investment</b>	1.319	1.318	2.25

Source: World Travel and Tourism Council

Although all these channels of contribution seem to be on the up, a look at their growth rates reveals a marked slowdown between 2013 and estimates for the year 2014. The following lines offer a closer look into the T&T activity in Lebanon during 2014 in light of the local security and political developments. The below also demonstrates that the Lebanese tourism sector is far from its glory days, when its total contribution to GDP stood at 27% in 2010, a year before the Arab Spring erupted.

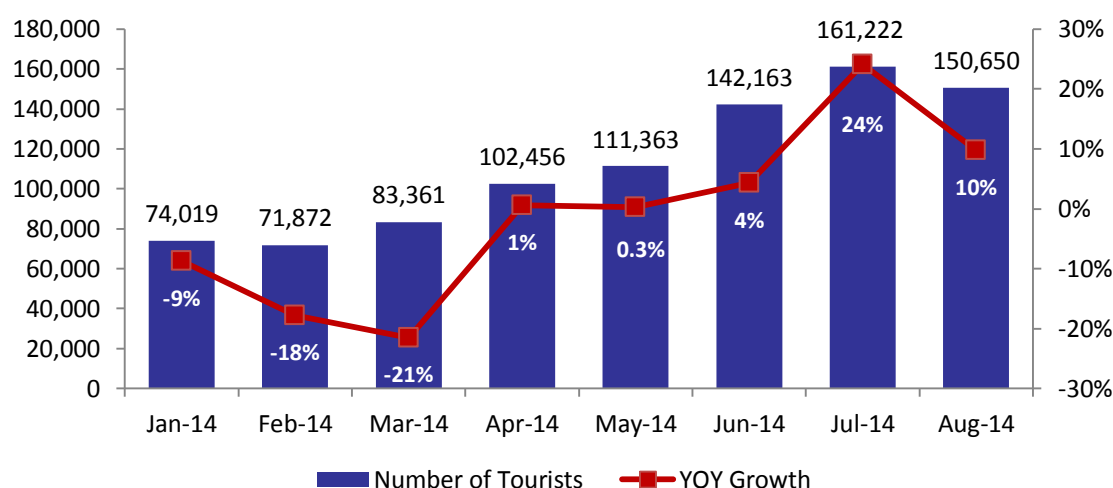
<sup>1</sup> According to the World Travel and Tourism Council

## A Marked Slowdown Looms Ahead...

In %	2013 Growth Rate	2014 Growth Rate
<b>Direct Contribution to GDP</b>	<b>6.9</b>	<b>2.2</b>
<b>Total Contribution to GDP</b>	19.20	2.10
<b>Direct Contribution to Employment</b>	<b>6.7</b>	<b>2.7</b>
<b>Total Contribution to Employment</b>	18.40	2.40
<b>Visitor Exports</b>	<b>23.7</b>	<b>1</b>
<b>Domestic Travel Spending</b>	3.20	1.60
<b>Leisure Spending</b>	6.10	1.00
<b>Business Travel Spending</b>	<b>0.8</b>	<b>1.9</b>
<b>Capital Investment</b>	9.40	-0.10

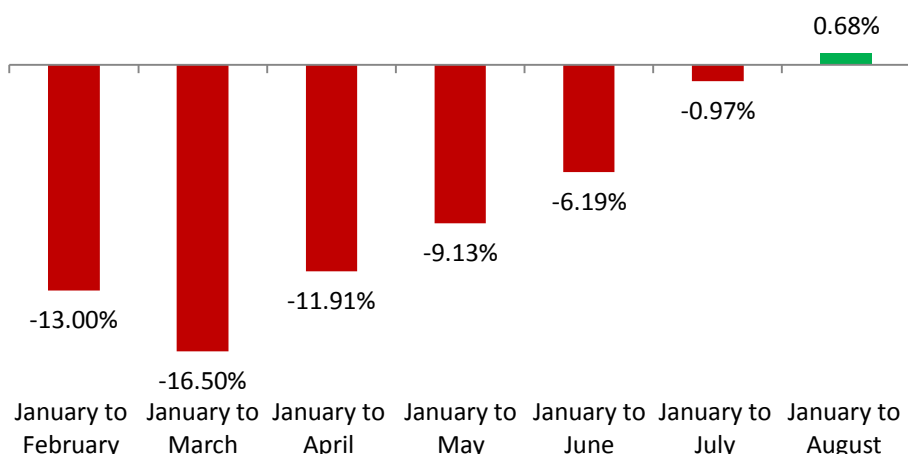
Source: World Travel and Tourism Council

## Monthly Tourist Arrivals and Yearly Growth Rates



Source: Ministry of Tourism

## A Slower Pace of Year-on-Year Decline in Tourist Arrivals



Source: Ministry of Tourism

As economic, security and political concerns extended into 2014, the first three months witnessed a slump in tourist activity. In the first two months of the year the number of tourist arrivals dropped by 13% y-o-y to 145,819 and then a sharper drop of 16.50% was recorded in the first quarter of 2014 bringing the total number of incomers to 229,252. Starting April, year-on-year upturns were registered each month, which allowed the cumulative declines to be reduced.

In the first eight months of 2014, tourism activity posted a minor uptick of 0.68% bringing the total number of tourist arrivals to 897,106. As always the Arab tourists, with a share of 31.90% of the total, had a major role to play in determining the total number of tourist arrivals to Lebanon. More particularly, the surge in the number of Iraqi visitors led the increase in total tourist arrivals since a large number of Iraqis fled their country after the turbulence caused by the Islamic State. However, the increase was capped as European tourists, constituting 34.24% of the total, decreased by 1.62% to 307,142 visitors by August.

In the peak summer months of June, July and August a marked improvement in the number of arrivals has been noticed. However, this cannot be qualified as a more vivid tourism activity since most of the incomers, namely the Iraqis are here with tourism visas yes, but most of them have come to Lebanon for refuge rather than for leisure. This point can be substantiated by the fact that when tourist arrivals increased, hotel occupancy rates failed to follow.

A look at the hotel occupancy rates of Beirut Hotels show that tourism has had a bumpy ride in 2014. According to Ernst and Young's Hotel Benchmark Survey, by the first eight months of the year, occupancy rates of Beirut hotels slipped by 5 percentage points to reach 49%, down from 54% in the same period of 2013. Accordingly, the Average Room Rate (ARR) fell by 4.5% y-o-y to \$162 and the Revenue per Available Room RevPAR declined by 13.6% to \$81.

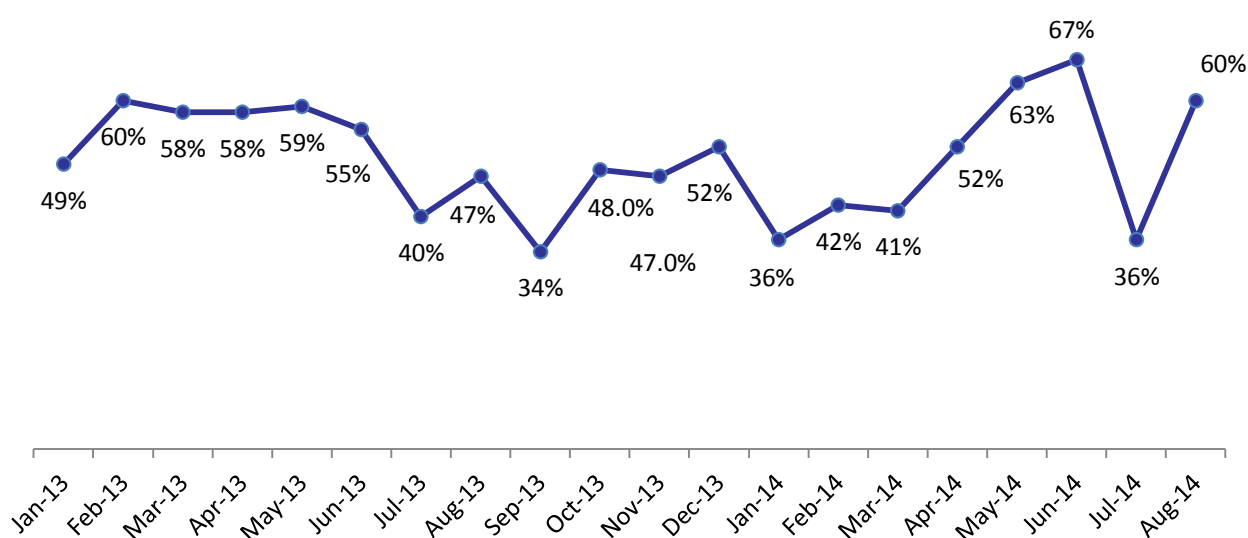
In consistency with the frail tourist arrivals and the reigning instability during the first three months of 2014, the occupancy rates for Beirut hotels were one of the lowest in the Middle East region. For the first three months, occupancy rates were well-below 50% standing at 36% in January, 42% in February and 41% in March.

As the decline in tourist arrivals became less steep, occupancy rates started to edge up. The months of May and June appeared to be positive for Beirut hotels as occupancy rates stood at 63% in May and 67% in June, levels never seen in 2013. The upturn came about as the security scene cooled down and as the Minister of Tourism stated that Arab countries have lifted their travel bans on Lebanon.

In July, the occupancy rates flunked to 36% despite the 24% y-o-y upturn in tourist arrivals. Many reasons lie behind these contrasting indicators. First, the month of July coincided with the holy month of Ramadan. Second, the Arab tourists were deterred by the three explosions which took place by the end of June. Third, the incomers, especially the Iraqis, were fleeing turbulence in their countries rather than heading to Lebanon for leisure.

Finally, occupancy rates during the month of August saw a recovery from a low base and also got a boost from the Lebanon Water Festival, which attracts many foreign professionals in the field of water sports.

### Occupancy Rates of Beirut Hotels

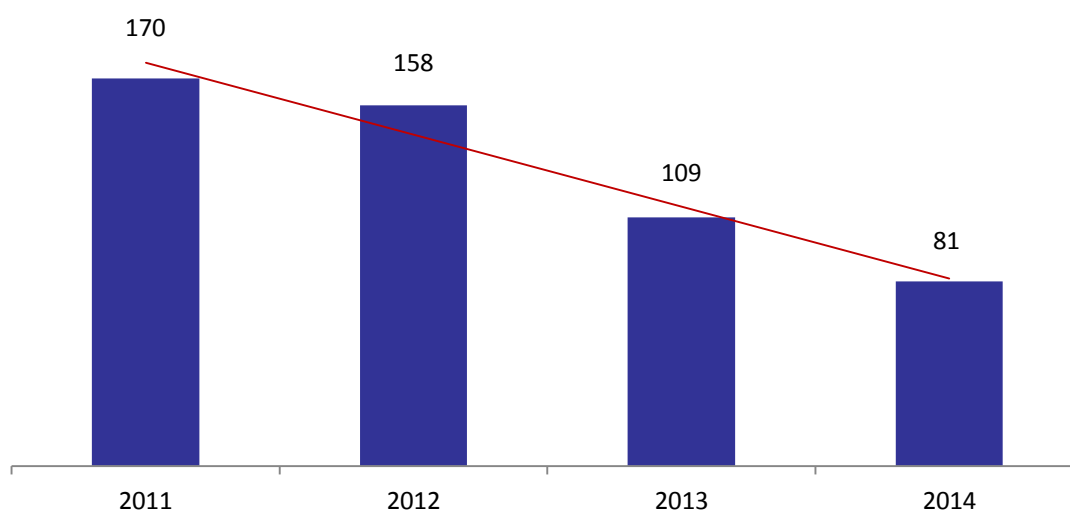


Source: EY Hotel Benchmark Survey

In spite of the dismal monthly improvements in the tourism sector, the broad picture remains bleak as shown by the declining number of Kafalat loans granted to the sector. While 109 Kafalat guarantees were granted for the tourism sector in the first nine months of 2013, only 81 guarantees were registered in the same period of 2014.



## Kafalat Guarantees for the Tourism Sector – Up to September



Source: Kafalat

In the months to come, whatever room is left for improvement remains tied to the security and political developments, both in Lebanon and the region.



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