BLOMINVEST BANK SAL

Your Investment Reference

THE LEBANON BRIEF

ISSUE 806
Week of 21 – 26 January, 2013

ECONOMIC RESEARCH DEPARTMENT
Rashid Karame Street, Verdun Area
P.O.Box 11-1540 Beirut, Lebanon
T (01) 991784/7 F (+961) 1 991732
research@blominvestbank.com
www.blom.com.lb

TABLE OF CONTENTS

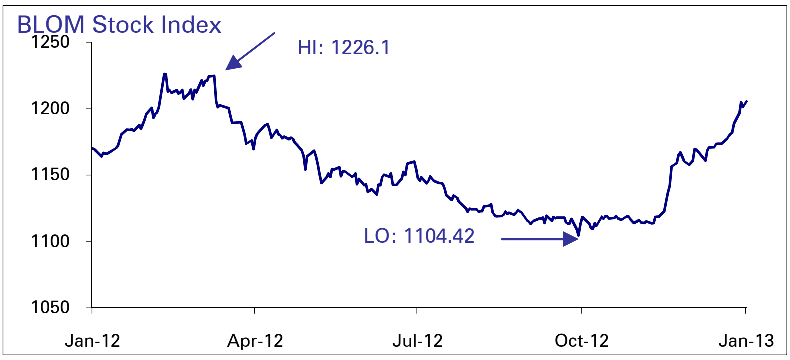
FINANCIAL MARKETS

Equity Market

Stock Market

	25/1/2013	18/1/2013	% Change
BLOM Stock Index*	1,205.36	1,188.93	1.38%
Average Traded Volume	411,735	94,708	334.74%
Average Traded Value	1,154,952	806,183	43.26%

*22 January 1996 = 1000



The Beirut Stock Exchange (BSE) maintained its positive trend also this week with the BLOM Stock Index adding 1.38% to close at 1,205.36 points, recording a 3.1% increase since year start. The market witnessed daily average trade volumes of 411,735 shares worth $1,154,952 compared to 94,708 shares worth $806,183 in the previous week. Market capitalization increased by $128 million from last week to reach $9.41 billion.

The Lebanese Index registered gains during the week beating the S&P Pan Arab Composite LargeMidCap Index that registered losses closing 0.12% lower than the previous week, as well as the MSCI Emerging Markets Index and S&P AFE40 Index that each gained 0.26% and 0.05% to close at 1,075.96 points and 56.18 points this Friday.

Banking Sector

	Mkt	25/1/2013	18/1/2013	% Change
BLOM (GDR)	BSE	$8.30	$8.25	0.61%
BLOM Listed	BSE	$7.90	$7.92	-0.25%
BLOM (GDR)	LSE	$8.25	$8.30	-0.60%
Audi (GDR)	BSE	$7.00	$6.75	3.70%
Audi Listed	BSE	$6.55	$6.24	4.97%
Audi (GDR)	LSE	$7.00	$6.75	3.70%
Byblos (C)	BSE	$1.65	$1.64	0.61%
Byblos (GDR)	LSE	$79.00	$79.00	0.00%
Bank of Beirut (C)	BSE	$19.00	$19.00	0.00%
BLC (C)	BSE	$1.95	$1.81	7.73%
Fransabank (B)	OTC	$28.00	$28.00	0.00%
BEMO (C)	BSE	$1.84	$1.84	0.00%

	Mkt	25/1/2013	18/1/2013	% Change
Banks' Preferred Shares Index *		$105.02	$104.94	0.08%
BEMO Preferred 2006	BSE	$100.00	$100.00	0.00%
Audi Pref. D	BSE	$10.50	$10.42	0.77%
Audi Pref. E	BSE	$100.30	$100.30	0.00%
Audi Pref. F	BSE	$100.00	$100.00	0.00%
Byblos Preferred 08	BSE	$102.00	$102.00	0.00%
Byblos Preferred 09	BSE	$102.10	$102.10	0.00%
Bank of Beirut Pref. E	BSE	$25.70	$25.70	0.00%
BLOM Preferred 2011	BSE	$10.17	$10.17	0.00%
Bank of Beirut Pref. H	BSE	$26.20	$26.20	0.00%

* 25 August 2006 = 100

BSE was the best performer among Arab exchanges followed by Kuwait's Stock Exchange gaining 1.03%, Dubai's Stock Exchange adding 0.98% and Jordan's Stock Exchange adding 0.87%. The worst performer this week was the Bahraini Stock Exchange which fell 1.014%, despite its 1.9% increase last week.

On the Beirut Stock exchange, the banking sector dominated this week capturing 77% of total traded value supported by a cross trade over Byblos Bank shares on Wednesday for a volume of 1,328,967 shares. The latter had a weekly increase of 0.61% to $1.65. Audi listed shares as well as Audi GDR gained 4.97% and 3.7% to close at $6.55 and $7 respectively. BLOM GDR shares increased by 0.61% to end the week at $8.3, while the Listed shares lost 0.25% to $7.90. On the London Stock exchange (LSE), BLOM GDR shares slid 0.6% to $8.25 while Audi GDR added 3.7% to close at $7.

Real Estate

	Mkt	25/1/2013	18/1/2013	% Change
Solidere (A)	BSE	$13.10	$12.98	0.92%
Solidere (B)	BSE	$13.05	$13.06	-0.08%
Solidere (GDR)	LSE	$13.20	$13.50	-2.22%

The Preferred shares index gained 0.08% to close at 105.02 with Audi Preferred D shares adding 0.77% to close at $10.5 per share by the end of the week.

Manufacturing Sector

	Mkt	25/1/2013	18/1/2013	% Change
HOLCIM Liban	BSE	$15.80	$15.80	0.00%
Ciments Blancs (B)	BSE	$3.26	$3.26	0.00%
Ciments Blancs (N)	BSE	$3.30	$3.30	0.00%

In the real estate sector, Solidere A gained 0.92% to close at $13.10, while Solidere B ended the week losing 0.08% to $13.05. On the LSE, Solidere GDR fell 2.22% to close at $13.2.

Funds

	Mkt	25/1/2013	18/1/2013	% Change
Beirut Preferred Fund	BSE	$103.50	$103.50	0.00%
BLOM Cedars Balanced Fund Tranche “A”	-----	$6,952.76	$6,912.44	0.58%
BLOM Cedars Balanced Fund Tranche “B”	-----	$5,265.95	$5,238.72	0.52%
BLOM Cedars Balanced Fund Tranche “C”	-----	$5,280.67	$5,249.99	0.58%
BLOM Bond Fund	-----	$9,826.19	$9,826.19	0.00%

The stock exchange remained active this week as shown by the volume and value of trades. Resilient banking results that will be published next week, and which were preceded by Bank Audi publication of its profits, should reinforce the positive trend established since year start.

Retail Sector

	Mkt	25/1/2013	18/1/2013	% Change
RYMCO	BSE	$2.90	$2.90	0.00%
ABC (New)	OTC	$33.00	$33.00	0.00%

Tourism Sector

	Mkt	25/1/2013	18/1/2013	% Change
Casino Du Liban	OTC	$545.00	$545.00	0.00%
SGHL	OTC	$7.00	$7.00	0.00%

BLOMINVEST BANK SAL

Foreign Exchange Market

Lebanese Forex Market

	25/1/2013	18/1/2013	%Change
Dollar / LP	1502.00	1503.00	-0.07%
Euro / LP	2025.33	2012.96	0.61%
Swiss Franc / LP	1627.62	1611.61	0.99%
Yen / LP	16.60	16.77	-1.01%
Sterling / LP	2377.18	2402.65	-1.06%
NEER Index**	103.42	103.56	-0.14%

*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.

Demand on the US dollar fell during the past week, as banks lowered the range at which they exchange the currency at $/LP 1,500.5 - $/LP 1,503.5, with a mid-price of $-LP 1,502. Foreign assets (excluding gold) at the Central Bank decreased by a monthly 1.4% to $35.18 billion by mid-January 2013, while the dollarization rate of private sector deposits stood at 64.58% by the end of November 2012 as opposed to 65.76% in December 2011.

Nominal Effective Exchange Rate (NEER)

The euro climbed to register an 11 month high against the dollar in reaction to ECB's indications of receiving early payments from banks on its three-year loans. It is estimated that the amount that the banks pledged to pay back exceeded the suspected 84 billion euros out of an original 1 trillion plus borrowed. More good news arrived for the euro as Germany's institute for Economic Research (IFO) declared a boost in business confidence for the third month in a row. By Friday January 25, 2013, 12:30 pm Beirut time, the euro closed at €/$ 1.34 up by 0.61% from last week. Hence, the dollar-pegged LP depreciated to €/LP 2,025.33 from €/LP 2,012.96 on Friday 18th of January. The Nominal effective exchange rate (NEER) decreased by 0.14% over the cited period to 103.42 points, while its year-to-date performance stood at -0.38%.

Money & Treasury Bills Markets

Money Market Rates

	25/1/2013	18/1/2013	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

Broad money M3 decreased by LP 661B ($ 438M) during the week ending January 10 to reach LP 157,577B ($ 110.03B). Accordingly, M3 rose by 7.41% y-o-y and dropped 0.22% from end of December 2012. M1 declined during the week by LP 229B ($152M) as money in circulation and demand deposits each decreased by LP98B ($ 65M) and LP131B ($87M) respectively.
Total deposits (excluding demand deposits) declined by LP 433B ($287M) driven by the progress of term and saving deposits in LP by LP 91B ($60.36M), and the decline in deposits denominated in foreign currencies by $347M. As for the dollarization rate of broad money, it narrowed by 9 basis points on a weekly basis to 58.14%. The overnight interbank rate stood at 2.75% during the month of November, according to BdL.

Treasury Yields

	25/1/2013	18/1/2013	Change bps
3-M TB yield	4.38%	4.38%	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 January 17, the Ministry of Finance raised LP 191.38B ($127M) through the issuance of Treasury Bills. Demand was mainly observed on the 5-year bill which captured 48% of total subscriptions. The 3-month TB paper accounted for 47% of total demand, while the 6-month papers took the remaining 5%. During the auction, the average discount rate for the 3-month and the 6-month as well as the coupon rate for the 5-year papers remained unchanged at 4.38%, 4.87%, and 6.74% respectively. New subscriptions exceeded maturing T-bills by LP 133.5B ($86M).

BLOMINVEST BANK SAL

Eurobond Market

Eurobonds Index and Yield

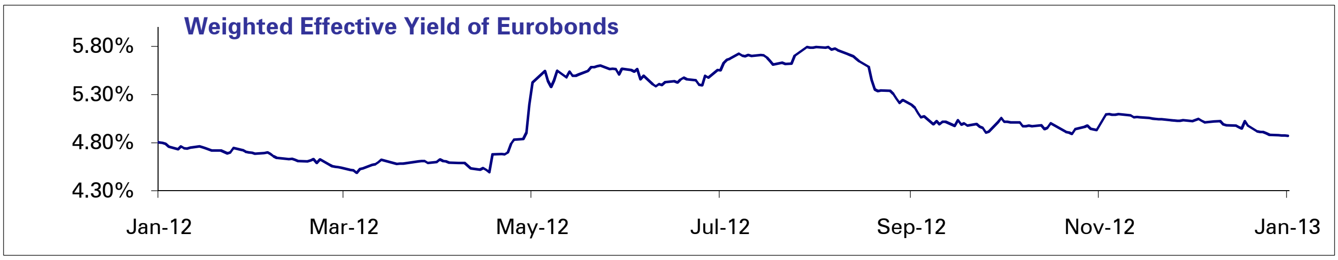
	24/1/2013	17/1/2013	Change	Year to Date
BLOM Bond Index (BBI)*	110.430	110.320	0.10%	1.26%
Weighted Yield**	4.87%	4.90%	-3	-15
Weighted Spread***	405	406	-1	-25

*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)

Lebanese Government Eurobonds

Maturity - Coupon	24/1/2013 Price*	17/1/2013 Price*	Weekly Change%	24/1/2013 Yield	17/1/2013 Yield	Weekly Change bps
2013, Mar - 9.125%	101.19	101.19	0.00%	-1.00%	0.39%	-139
2013, Jun - 8.625%	103.00	103.00	0.00%	0.88%	1.24%	-36
2014, Apr - 7.375%	106.50	106.50	0.00%	1.89%	1.98%	-8
2014, May - 9.000%	108.50	108.50	0.00%	2.10%	2.20%	-10
2015, Jan - 5.875%	104.50	104.50	0.00%	3.48%	3.50%	-2
2015, Aug - 8.500%	111.75	111.75	0.00%	3.58%	3.61%	-3
2016, Jan - 8.500%	112.50	112.50	0.00%	3.99%	4.02%	-3
2016, May - 11.625%	122.75	122.75	0.00%	4.13%	4.17%	-4
2017, Mar - 9.000%	117.13	116.75	0.32%	4.42%	4.53%	-11
2018, Nov - 5.150%	101.88	101.50	0.37%	4.77%	4.85%	-8
2020, Mar - 6.375%	107.13	106.88	0.23%	5.16%	5.21%	-4
2021, Apr - 8.250%	117.88	118.00	-0.11%	5.51%	5.50%	1
2022, Oct - 6.100%	103.75	102.75	0.97%	5.59%	5.73%	-13
2023, Jan - 6.00%	102.00	101.25	0.74%	5.73%	5.83%	-10
2024, Dec - 7.000%	109.00	108.00	0.93%	5.93%	6.04%	-11
2026, Nov - 6.600%	104.75	104.25	0.48%	6.09%	6.14%	-5
2027, Nov - 6.75%	105.63	105.50	0.12%	6.16%	6.18%	-1

- Mid Prices ; BLOMINVEST bank



The Eurobond market continues to lure investors with its long-term papers, attracting considerable demand for all 10Y plus papers which recorded an average gain in price of 0.4% this week. Medium-term papers have also added value albeit less pronounced, increasing by an average of 0.10%, while notes maturing in less than 3 years preserved their values with no significant change. This led the BLOM Bond Index (BBI) to close at 110.43 points on Thursday, with a small increase of 0.10% moderated by the heavily weighted short to medium notes in the overall Lebanese Eurobonds Portfolio. The 10Y bond maturing in 2023 returned 5.78%, falling by 5 basis points since last Thursday, and 20 basis points since year start, while the 5Y bond maturing in early 2018 rose 1 basis point this week to yield 5.03%.

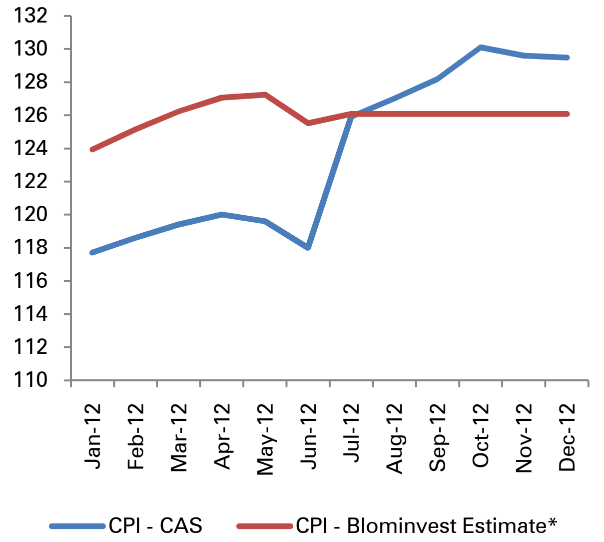
The spread between the average yield on holding the Lebanese Eurobonds and the US treasuries yields narrowed 1 basis point to 405 bps, as the US treasuries yields fell for most of the week to pick up only on Thursday, ahead of superior results for new homes' sales data that would show they peaked to their highest level during December since April 2010. However, the US bonds market is still subject to opposing tides, with investors betting in favor of a rise in yields and against it at the same time, as on one hand treasuries remain the safest investment in a still and unstable economic environment, while on the other hand, the improving economic growth and declining unemployment are inviting investors towards the stock market. In the emerging markets, the JP Morgan emerging markets Bond Index added 0.24% during the past week to close at 672.56 points on Thursday.

The Lebanese Credit Default Swaps (CDS) for 5 years maintained their range this week closing at 378-422 bps compared to 381-419 bps last week. In the Arab markets, Dubai and KSA CDS maintained their quotes at 201-213 bps and 66-72 bps respectively. In the emerging markets, Brazil's CDS also remained unchanged at 106-109 bps and Turkey's slightly narrowed to 119-122 bps from 121-124bps last week.

ECONOMIC AND FINANCIAL NEWS

The Adjusted CPI Increases 4.7% in 2012

Consumer Price Index (CPI) For 2012



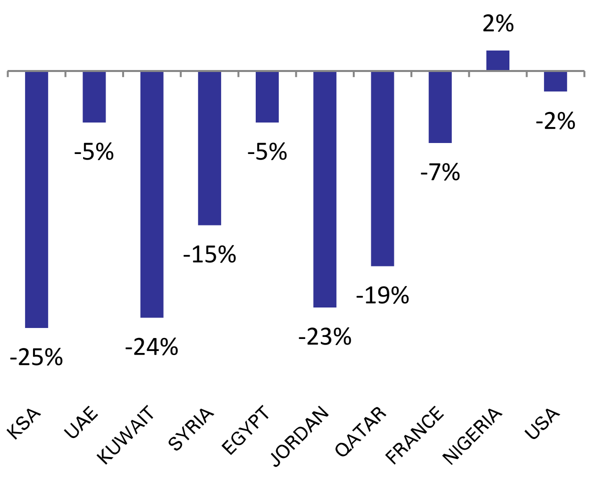
* incorporates the monthly change in housing index

Source: The Central Administration of Statistics (CAS); Blominvest

According to the country's Central Administration of Statistics (CAS), the inflation rate in Lebanon rose to an annual 10.1% in 2012 compared to 3.1% last year. CAS figures include the 44.1% surge in housing when its last survey on rentals was conducted and represents the 3 previous years increase. When spreading the Housing index over the previous three years and considering that rentals in 2012 remained stable, the adjusted Consumer Price Index (CPI) of December effectively rose by 4.7% on a yearly basis. CPI reached 129.5 points mainly driven by a 14.5% jump in the education sub-index that recorded the largest increase to 149.9 points as well as an 8.3% increase in the prices of alcoholic beverages and tobacco to 131.1 points. Water, electricity, gas and other fuel expenditures also rose by 6.6% to 120.1 points compared to 112.7 points during the same period last year. Restaurant and hotels sub-division as well as the clothing sub index witnessed respectively a 4.5% and 4.3% increase in prices compared to last year. Health, which represents 6.8% of the CPI, dropped 0.2% by the end of 2012. On a monthly basis, CPI slightly declined by 0.1% against November 2012 when the registered CPI was 129.6 points.

Tourist Spending Falls 17.5% in 2012

Annual Change in Number of VAT Refund Transactions



Source: Global Blue

The recent instability in the MENA region has highly affected the Lebanese tourism sector in 2012 with the number of tourists falling 17.5% compared to 2011. Accordingly, tourist spending witnessed a 6% drop in 2012 from the previous year. The number of VAT refund transactions by tourists decreased by 11% due to a 25% and 24% decline by Saudi and Kuwaiti visitors, respectively. The announcements by some Gulf countries warning their citizens from visiting Lebanon were the main driver behind this fall. Refund transactions by Jordanians also fell 23%, while Nigerians were the only segment to have an increasing number of refund transactions, rising by 2% in 2012 compared to a year earlier. Arab visitors remained the main spenders in Lebanon, headed by Saudi Arabians with 17%. Tourists from the UAE and Kuwait followed with 13% and 8%, respectively. The spending category that recorded the highest stake of total purchased items by tourists was fashion and clothing representing 73%. Watches and jewelry came second capturing 12%, while Home and Garden merchandises took 4%. According to "Global Blue", the financial services company, 84% of tourist spending was concentrated in the Capital Beirut, 12% in Metn and Mount Lebanon, while 4% in others areas.

Lebanon's Risk Ratings Versus Regional & Global Averages

BMI Risk Ratings – Lebanon	Previous & Current Rating*	Region Ave	Global Mkts Ave
S-T Political	47.7	59.5	65.5
L-T Political	56.4	58.6	63.2
S-T Economy	39.2	53.9	53.7
L-T Economy	49.3	52	53.3
Business Environment	46.5	47.9	48.6
Composite	47.6	53.4	54.5

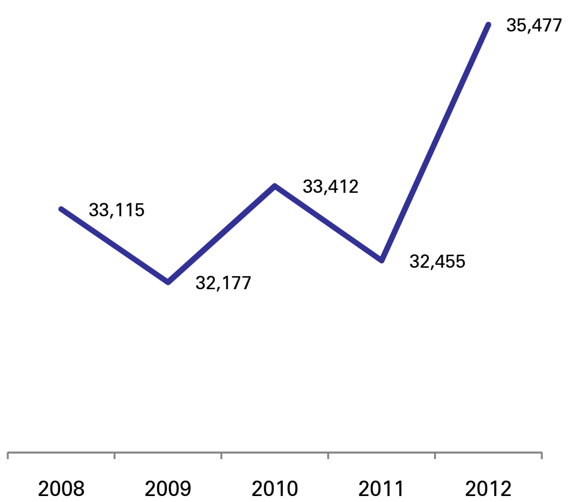
*All ratings are out of 100, higher figures represent lower risk.

Source: BMI

Long Term Outlook For Lebanon Signals Optimism

Business Monitor International released its Lebanese 2013 Q1 forecast, which maintained its previous rating outlook on all fronts. The publication outlines the following four main ratings used in its country assessment: political, economic, business environment, and composite rating. The political and economic ratings are further divided into short term and long term sub-indices and their geometric combination forms the composite index. While all indicators point to Lebanon's regional underperformance, Long term political and economic outlooks remain higher than their short term counterparts, signaling room for optimism with regards to Lebanon's future. From an economic standpoint, ten year forecasts show expectations of higher real GDP growth with 2013's forecasted growth at 1.9%, up 0.9% from 2012. Of all the indices, the business environment index remains the closest to the regional average, mainly due to Lebanon's strong private and financial sector along with its highly educated workforce.

Total Number of Registered Cars: 2008 - 2012



Source: Association of Cars Importers in Lebanon, Blominvest

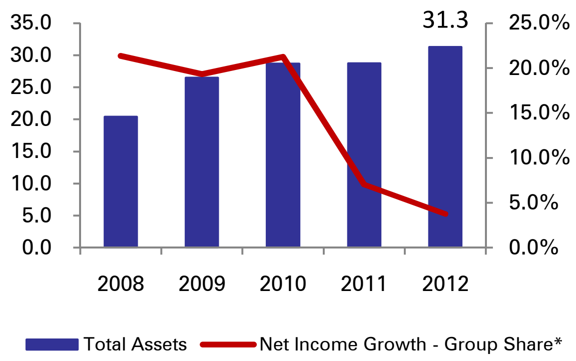
Automotive Sales up 9.3% during 2012, Korean Cars Maintain Grip over Lebanese Market

New cars' sales rose 9.3% during 2012 as 35,477 units (including commercial vehicles) were registered compared to 32,455 last year, according to data released by The Association of Cars Importers in Lebanon. Korean cars maintained their strong grasp over the Lebanese car market, with their market share growing from 42% in 2011 to 45% in 2012. Kia came in first during 2012 as it added 14.2% from last year to reach 9,484 units, with its market share marginally increasing from 25.6% to 26.7%. Hyundai overtook rival Nissan and came in second this year, after having expanded its market share from 16.5% to 18.3% with 6,507 units sold, 21.8% higher than last year. Nissan followed with 5,811, 0.5% less than that registered in the previous year, noting that its market share fell from 18% during 2011 to 16.4% in 2012. Toyota and Chevrolet trailed the top three performers, having increased by 30.6% and 3.5% to reach 1,861 units and 1,491 units. Both car manufacturers' market share stood at 4.4% during 2011; however Toyota's share went up to 5.2% in 2012, whereas Chevrolet's share slipped to 4.2%.

BLOMINVEST BANK SAL

CORPORATE DEVELOPMENTS

Bank Audi: Total Assets vs. Net Income Growth - Group Share



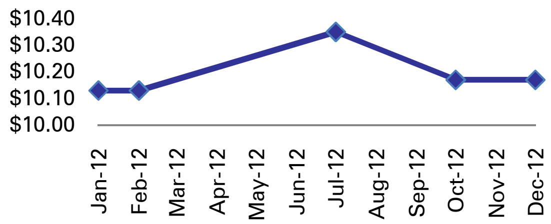
*Excluding non-controlling interest

Source: Bloomberg

Audi Profits up 5% for 2012

Bank Audi sal – Audi Saradar Group released its preliminary unaudited consolidated financials for end 2012. Profits (including non-controlling interest) were up 5% from the previous year to reach $384 million, and assets grew 9% to $31.3 billion. Total asset breakdown by weight was distributed as 33% representing net loans & advances, 31% debt instruments, and 20% cash balances held with the Central Bank. The largest of the asset groups net loans & advances, grew a significant 21% to reach $10.4 billion, with a gross doubtful loans to gross loans ratio of 2.7%. On the liabilities side, total deposits accounting for 94% of total liabilities grew 8% to $26.8 billion. Shareholder's equity increased in value by 13.6% to $2.7 billion at year end. Audi also achieved a capital adequacy ratio of 11.6%, 1.6% higher than the 10% required by Basle III. Return on average common equity stood at 16.6% for 2012, as per the bank's publication.

Beirut Preferred Fund 52-Week Performance



Source: Beirut Stock Exchange, Blominvest

Bank of Beirut Calls for General Assembly

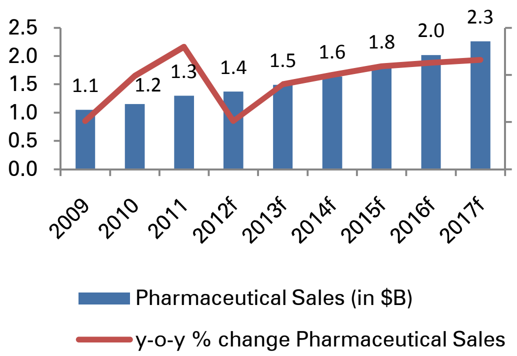
Bank of Beirut board of directors invites holders of its Beirut Preferred Fund for an ordinary general assembly that will be held at the bank's headquarters in Riad el Solh, Beirut on January 29, 2013 at 10 am. The meeting's agenda will include hearings and approvals of the manager and controllers reports concerning the Fund accounts and allocation of its profits and losses during the financial period from the 1st of July 2012 till the 31st of December 2012. Moreover, shareholders will participate in advising on the clearance of the chairman duties for the previously mentioned period as well as electing a new chairman of the shareholders. Other diverse subjects are also on the meetings' schedule.

BLOMINVEST BANK SAL

FOCUS IN BRIEF

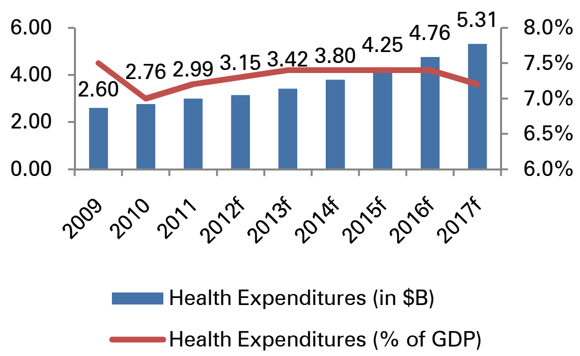
BMI: Review Of Healthcare and Pharmaceutical Sectors in 2012

Pharmaceutical Sales Indicators



Source: United Nations Comtrade Database DESA/UNSD, BMI

Healthcare Expenditures Indicators



Source: World Health Organization (WHO), BM

Business Monitor International (BMI) projected stable growth opportunities in the pharmaceutical and healthcare sectors in Lebanon for 2013 onwards, as the country ranked 8th among 30 countries in the region on the risk-reward matrix measuring the attractiveness of opportunities compared to exhibited risks, right behind GCC markets, Israel and South Africa. Lebanon was credited for its increasingly urbanized population and the rise of healthcare expenditures, while risks included a relatively weak regulatory framework, poor intellectual property laws, medicine pricing restrictions and political unrest. BMI maintained that a multilateral approach is required to improve foreign direct investment into the country to overcome deterred investments and diminishing returns from medical tourism in the short to medium term.

In the pharmaceutical sector, BMI estimated the market at $ 1.37 billion in 2012, up by 9.2% from its 2011's value of $1.3 billion. This represents the second highest pharmaceutical market value in the region behind Israel. On an extended 10-year forecast period, the market is expected to reach $3.1 billion in 2021 at a compounded annual growth rate (CAGR) of 9% in US dollar terms.

The overall market is characterized by its limited size in regional and global standards, its wide reliance on imported drugs and the narrow investment in local production and drug innovation. More than 50 pharmaceutical importers, mostly large foreign companies, supply around 80% of the nearly 6000 types of drugs available on the market, excluding the drugs supplied by Aid agencies. However none operates local manufacturing facilities. Meanwhile domestic production meets less than 4% of market demand in value terms, and remains largely concentrated on manufacturing drugs under license from foreign firms.

BMI deems domestic production to remain limited despite the obvious potential, owing to high costs, uncertain quality and unsettled political situation. Nevertheless, opportunities to the local manufacturers exist, as they are allowed a 15% price advantage in the government procurement, to the detriment of froeign players. To note that public sector procurement accounts for 10% of the drugs purchased in Lebanon; Moreover, Lebanese industrialists benefit from various government subsidies and have acess to low-cost capital, allowing them to expand abroad.

In terms of spending levels, pharmaceuticals take up a considerable chunk of households' budgets compared to regional averages, pushed by the population's preference for patented drugs, the fluctuations in imported drugs' prices as well as the high-value prescriptions patterns. These have led the pharmaceuticals' expenditures to account for 3% of the country's GDP, the highest proportion of GDP in the Gulf Levant region and the seventh highest globally, with per capita spending standing at $305, substantially higher than the regional average of the Arab Gulf and Levant countries. Of all the prescriptions on the market, 67% were spent on the higher-priced patented drugs as the population displays fears of counterfeit medicines and enjoys a generally high per capita income. Avoidance of lower-cost generic products is further motivated by the country's lack of an internationally accredited drug testing and therefore patented medicines that are already approved by the US food and Drug Administration (FDA) or the European Medicines Agency (EMA) remain highly preferred.

Moreover, fluctuations in foreign currencies excluding the US Dollar, together with the fixed mark-ups imposed by the government, have put the supply for some drugs in shortage, as distributors who were faced by decreasing margins stopped importing them or overstocked them in anticipation of price increase. This has relatively eroded the government's attempt to relieve the medicines' cost burden by decreasing the average mark-up charged by pharmacies, from 24-30% to 23% for drugs costing less than $76.6, 21.26% for drugs less than $146.6 and $19.35% for medicines costing more, according to the MoH's pharmaceutical pricing list.

Another noticeable routine impacting the high expenditures was the general lack of control over the marketing practices of drug companies. The latter were reported to use material incentives to influence doctors into prescribing medicine that are not necessarily the most cost-effective to the population.

In the legal framework, the government has taken several incentives on the fronts of enhanced transparency in the registration of new drugs, conformity with international guidelines, lowering medicines prices and performing routine pharmacy inspections. Moreover, the clean-up of the herbal medicine sector persisted. A new law now stipulates that all herbal and nutritional products must be produced in specialized plants that conform to the same requirements as regular pharmaceuticals.

On the other hand, the main observed legal obstacles were the general lack of regulation and the poor enforcement of existing legislation. Cited examples included delays in new products' registration up to 2 years, and registration of generic drugs without proof of bioequivalence. Counterfeiting and smuggling remain a problem, as seen in November 2012 when 4 pharmaceutical importers were reportedly involved in an operation to import more than 100 types of drugs through forged documentation.

According to BMI, the multinationals' interest in the country is challenged by the lack of data protection and effective patent linkage system, considerable counterfeiting and parallel importation. However, the small domestic drug manufacturing industry, the population demographics and state-level efforts to improve governance offer considerable opportunities for foreign investment.

Regarding the healthcare sector, BMI forecasts an increase of 5.6% in the market value to reach $3.15 billion in 2012 and a lesser increase to $3.42 billion in 2013. By 2016, BMI expects the Healthcare market to continue to account for 7.4% of Lebanon's GDP, reaching a value of $4.76 billion, a 9.8% CAGR in US dollar terms. Government health expenditures were forecast at $1.33 billion in 2013 compared to $1.25 billion in 2012, an increase of 5.9%, accounting for 38.7% of total health expenditures compared to 39.8% in the previous year. Medical devices are estimated at $367 million in 2012, up 10.2% from 2011's $243 million, and remain dominated by the private sector which accounts for 90% of healthcare provision.

The high expenditures in this sector are backed by socio-economic factors as well as by the low insurance coverage and the deficiency of national schemes. On one side, practices and habits such as visiting specialists instead of family doctors result in higher cost for households. But on a more important level, 40% of the Lebanese population has no form of health insurance and estimations say around 10% of all hospital patients pay out of pocket for their care. Of the country's estimated 160,000 companies, only 50,000 (mostly the larger ones) have signed up to the national social security fund (NSSF scheme), and the UNDP estimated the population covered by the NSSF at 700,000, while the remaining are thought to be insured through the costly private sector which does not cover chronic diseases. Public and private insurance also cover drugs, however only 20% of medicines consumed are thought to be reimbursed through one of the schemes.

The NSSF scheme remains disputed as it runs a deficit that restricts its credibility and limits its capacity to meet its insurance payments, therefore constraining citizens to resort to more costly alternatives. In May and following strikes of private hospitals, the NSSF agreed to triple the fee for overnight stays in hospitals from $20 to $60, and in parallel as to afford this increase in payments, the NSSF received approval to increase the cap on maximum contributions to the sickness and maternity scheme by 66% from $997 to $1,662 annually, which mainly affects employees earning more than $11,082/annum.

Healthcare's high expenditures were also driven by external demand, with medical tourism witnessing a rapid growth, enhanced by experienced surgeons, tourist friendly environment, absence of stigmation and low prices surgical operations. Surgeons in Lebanon estimate over 40% of patients were from neighboring countries, a figure supported by the fact that cosmetic medicine is illegal in some Arab countries. However, being a discretionary operation and not a life-saving deal, cosmetic surgery remains vulnerable to socio-political factors.

In general, BMI expects the rise of healthcare and pharmaceutical expenditures to continue, especially as the private sector makes up to 90% of Lebanon's hospitals and pharmacies, further contributing to the prescription of high value pharmaceuticals. Moreover, the lack of consolidation in Lebanon's 50+ pharmaceuticals' importers, combined with fixed mark ups margins, removes the possibility for competitive pricing and economies of scale. On the other hand, the promotion of generic drugs and the expiry of patents for branded medicine, together with improved regulations represent further opportunities in exploiting the market for higher rewards.

Research Department:

Mirna Chami	mirna.chami@bliminvestbank.com
Youssef Chahine	youssef.chahine@blominvestbank.com
Maya Mantach	maya.mantach@blominvestbank.com
Marwan Mikhael	marwan.mikhael@blominvestbank.com

BLOMINVEST BANK SAL

Your Investment Reference