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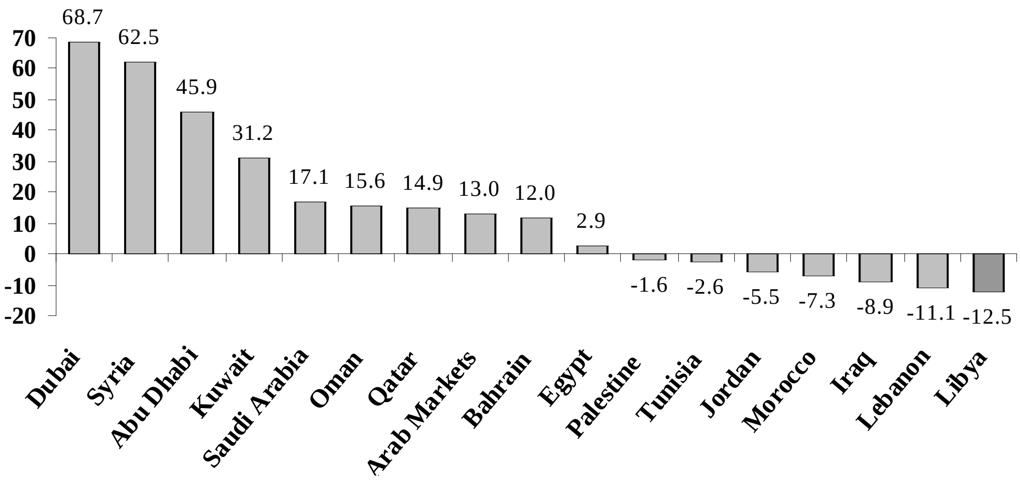
LEBANON THIS WEEK

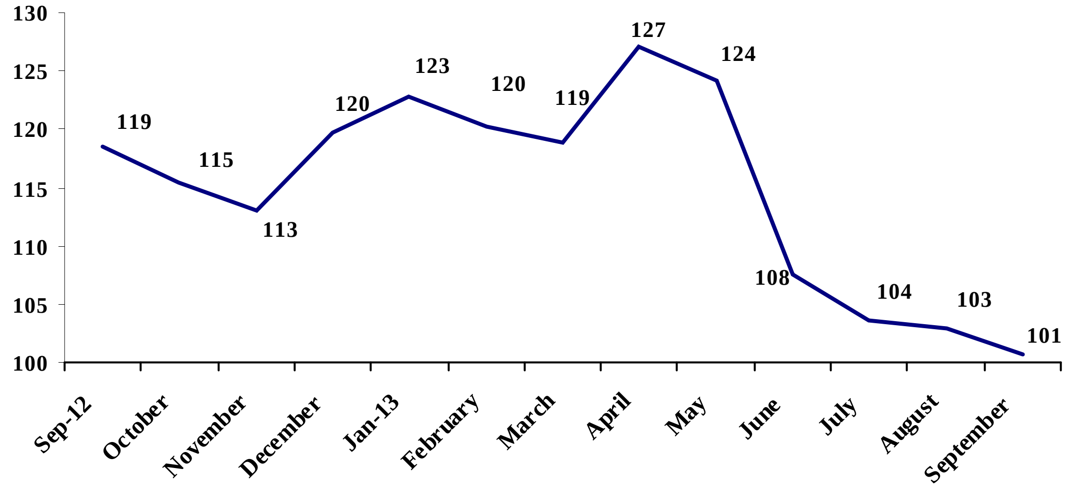
In This Issue

Charts of the Week

Performance of Arab Stock Markets in the First Nine Months of 2013 (% change)



Performance of the Beirut Stock Exchange*



** Banque du Liban Market Value Weighted Index average monthly values*
Source: Local Stock Markets, Dow Jones Indices, Banque du Liban, Byblos Bank

Quote to Note

"The absence of a government exacerbates risks to socioeconomic stability."

Barclays Capital, on the rising impact of the absence of a functioning Cabinet since last March

Number of the Week

65.4%: Percentage of countries around the world that have a higher level of accountability than Lebanon, according to the World Bank's World Governance Indicators for 2012

Economic Indicators

$m (unless otherwise mentioned)	2012	Jun 12	Mar 13	Apr 13	May 13	Jun 13	% Change*
Exports	4,486	345	406	412	364	348	0.87
Imports	21,281	1,713	2,076	1,849	1,797	1,634	(4.61)
Trade Balance	(16,795)	(1,368)	(1,670)	(1,437)	(1,433)	(1,286)	(5.99)
Balance of Payments	(1,538)	(23)	(353)	44	(131)	(233)	914.8
Checks Cleared in LBP	14,976	1,283	1,286	1,473	1,457	1,444	12.55
Checks Cleared in FC	56,044	4,766	4,472	4,854	4,526	4,523	(5.10)
Total Checks Cleared	69,787	6,049	5,758	6,327	5,983	5,967	(1.36)
Budget Deficit/Surplus	(3,925)	8.14	(484.90)	(726.31)	(113.72)	(275.88)	-
Primary Balance	(109.87)	281.1	(75.10)	(264.63)	309.14	(23.19)	-
Airport Passengers	5,960,414	545,379	502,923	514,458	514,520	570,903	4.68

$bn (unless otherwise mentioned)	Dec 2012	Jun 12	Mar 13	Apr 13	May 13	Jun 13	% Change*
BdL FX Reserves	29.97	29.26	30.36	30.66	31.36	31.72	8.39
In months of Imports	*16.02*	*17.08*	*14.62*	*16.58*	*17.45*	*19.41*	*13.6*
Public Debt	57.69	55.25	57.75	59.12	59.18	60.01	8.62
Net Public Debt	49.12	47.10	50.07	50.68	50.71	50.90	8.06
Bank Assets	151.88	145.90	155.44	155.11	156.61	157.95	8.26
Bank Deposits (Private Sector)	125.00	119.94	128.11	128.10	130.05	131.27	9.44
Bank Loans to Private Sector	43.45	41.70	44.70	44.08	44.42	44.84	7.53
Money Supply M2	43.62	41.00	43.76	43.93	44.16	44.20	7.80
Money Supply M3	104.71	100.36	105.85	106.18	106.77	107.31	6.93
LBP Lending Rate (%)	7.47	7.44	7.28	7.27	7.35	7.87	43b.p
LBP Deposit Rate (%)	5.46	5.45	5.44	5.43	5.49	5.39	(6b.p)
USD Lending Rate (%)	7.05	7.15	6.95	6.90	6.97	6.97	(18b.p)
USD Deposit Rate (%)	2.94	2.78	2.97	2.97	2.90	2.86	8b.p
%* Change in CPI**	3.66	4.72	4.57	2.94	2.43	3.72	(100b.p)

** Year-on-Year; ** Consumer Price Index*
Note: b.p. i.e. basis point
Sources: ABL, BdL

Capital Markets

Most Traded Stocks on BSE	Last Price ($)	% Change*	Total Volume	Weight in Market Capitalization
Solidere "A"	11.50	0.70	91,345	10.96%
Solidere "B"	11.49	1.86	38,608	7.12%
Byblos Common	1.50	(0.66)	227,399	5.14%
Byblos Pref. 08	100.00	0.00	0	1.91%
Byblos Pref. 09	100.00	0.00	1,028	1.91%
BLOM GDR	8.60	1.18	3,000	6.06%
BLOM Listed	8.25	0.00	1,000	16.91%
Audi GDR	6.49	0.00	0	6.31%
Audi Listed	6.10	(0.49)	206,545	20.34%
HOLCIM	14.32	(4.34)	1,650	2.66%

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

Sovereign Eurobonds	Coupon %	Mid Price $	Mid Yield %
Apr. 2014	7.375	101.50	4.51
Jan. 2015	5.875	101.75	4.46
Apr. 2015	10.00	108.25	4.48
Jan. 2016	8.500	107.75	4.89
Mar. 2017	9.000	109.75	5.85
Nov. 2018	5.150	97.25	5.78
Apr. 2021	8.250	108.25	6.83
Nov. 2026	6.600	96.25	7.04

Source: Byblos Bank Capital Markets

	Sep 30-Oct 4	Sep 23-27	% Change	Sep 2013	Sep 2012	% Change
Total Shares Traded	588,073	186,866	234.86	1,866,526	2,108,718	(11.49)
Total Value Traded	$3,885,732	$1,480,215	162.51	$14,728,227	$16,363,982	(10.00)
Market Capitalization	$10.49bn	$10.49bn	0.02	$10.54bn	$10.02bn	5.28

Source: Beirut Stock Exchange (BSE)

Expatriates' remittances to Lebanon at $7.6bn in 2013, 12th highest among developing economies and second highest in Arab world

The World Bank projected expatriates' remittances inflows to Lebanon at $7.6bn in 2013, constituting an increase of 4.4% from $7.3bn in 2012. The Bank revised downward its estimate for expatriates' remittances inflows to Lebanon to $7.3bn in each of 2011 and 2012 from earlier estimates of $7.53bn and $7.47bn, respectively. As a result, remittance flows to Lebanon contracted by 0.9% in 2011 and remained unchanged in 2012.

Lebanon would post the 10th highest growth among the 15 largest recipients of remittances in developing economies this year, better than China (+4.1%), Egypt (+4%), Morocco (+2%), Nigeria (+1.8%) and Mexico (-5.9%). In comparison, remittance inflows to developing countries are forecast to rise by 6.3%, flows to Arab countries would increase by 4.7% and inflows to Upper Middle Income Countries (UMICs) are expected to grow by 4% in 2013.

Lebanon would be the 18th largest recipient of remittances globally and the 12th largest recipient among developing economies in 2013. Also, it would be the second largest recipient of remittances among 16 Arab countries and the third largest recipient of remittances among 46 UMICs.

Top 15 Recipients of Remittance Inflows in Developing Economies in 2013

Country	US$bn	Growth Rate	% of GDP
India	71.00	5.6%	3.6%
China	60.18	4.1%	0.7%
Philippines	26.05	5.7%	9.2%
Mexico	22.00	-5.9%	1.7%
Nigeria	21.00	1.8%	7.4%
Egypt	20.00	4.0%	7.6%
Bangladesh	15.19	7.8%	11.2%
Pakistan	14.86	6.1%	6.2%
Vietnam	10.65	6.5%	6.8%
Ukraine	9.29	10.0%	5.1%
Indonesia	7.88	9.3%	0.8%
Lebanon	**7.64**	**4.4%**	**17.4%**
Sri Lanka	6.88	14.6%	10.5%
Morocco	6.64	2.0%	6.2%
Guatemala	5.41	7.5%	10.2%

Source: World Bank, IMF, Byblos Research

Globally, Lebanon would receive more remittances than Poland ($7.27bn), Sri Lanka ($6.88bn) and Morocco ($6.64bn), and less than Italy ($7.67bn), Indonesia ($7.88bn) and Korea ($9bn). It would receive more remittances than Sri Lanka, Morocco and Guatemala ($5.41bn) and less than Indonesia, Ukraine ($9.30bn) and Vietnam ($10.65bn) among developing economies. Remittance inflows to Lebanon would be lower than only inflows to Egypt ($20bn) among Arab countries and less than those to China ($60.2bn) and Mexico ($22bn) among UMICs.

Remittance inflows to Lebanon would account for 1.4% of the global inflow of remittances in 2013, unchanged since 2011 and compared to 1.6% in 2010 and 1.8% in 2009. They would represent 1.8% of aggregate remittances to developing economies this year, down from 1.9% in 2012 and 2% in 2011; while they would account for 15.4% of remittance inflows to Arab countries in 2013 relative to 15.5% in 2012 and 17.2% in 2011. Further, they would represent 5.2% of remittance inflows to UMICs in 2013 relative to 5.1% in 2012 and 5% in 2011.

Further, expatriates' remittances to Lebanon would be equivalent to 17.4% of GDP in 2013, the 10th highest such ratio in the world behind Tajikistan (48.4% of GDP), the Kyrgyz Republic (31.9% of GDP), Nepal (26.3% of GDP), Moldova (24.9% of GDP), Lesotho (24.7% of GDP), Armenia (22.8% of GDP), Liberia (20.4% of GDP), Samoa (20.3% of GDP) and Haiti (20.1% of GDP). Expatriates' remittances to Lebanon were equivalent to 17.7% of GDP in 2012 and 18.8% of GDP in 2011. The World Bank estimated remittance inflows to Arab countries at $49.6bn, equivalent to 2.2% of the region's GDP this year.

Net public debt at $51.7bn at end-August 2013

Lebanon's gross public debt reached $60.5bn at the end of August 2013, constituting a rise of 4.9% from the end of 2012 and an increase of 8.6% from end-August 2012. Domestic debt totaled $34.3bn at end-August, up by 2.9% from end-2012 and by 5.1% annually; while external debt stood at $26.2bn, increasing by 7.6% from end-2012 and by 13.5% from a year earlier. Local currency debt accounted for 56.6% of the gross public debt at the end of August 2013 compared to 58.5% a year earlier, while foreign currency-denominated debt represented 43.4% of the total at the end of August relative to 41.5% a year earlier. The weighted interest rate on outstanding Treasury bills was 6.71%, while the weighted interest rate on Eurobonds was 6.49% at the end of August. Further, the weighted life on Eurobonds was 5.91 years, while that on Treasury bills was 1,126 days.

Commercial banks accounted for 52.3% of the local public debt at the end of August 2013 compared to 51.8% a year earlier. They were followed by the Central Bank with 32.2%, up from 31.5% at end-August 2012; while public agencies, financial institutions and the general public accounted for 17.5% of local debt compared to 16.7% at end-August 2012. Eurobond holders, foreign private sector loans and special T-bills in foreign currencies accounted for 90.8% of the external debt, followed by multilateral institutions with 4.8%, foreign governments with 3.9%, and Paris II loans with 0.5%. The net public debt, which excludes the public sector's deposits at the Central Bank and at commercial banks from overall debt figures, increased annually by 8.2% to $51.7bn. In parallel, the gross market debt accounted for about 65% of total public debt. Gross market debt is the total public debt less the portfolios of the Central Bank, the National Social Security Fund, bilateral and multilateral loans, as well as Paris II and Paris III related debt.

Lebanon ranks 74th globally, 10th in MENA region in terms of human capital

The World Economic Forum's first Human Capital Index ranked Lebanon in 74th place among 122 countries globally and in 10th place among 15 countries in the Middle East & North Africa region for 2013. Lebanon also ranked in 23rd place among 33 upper-middle income countries (UMICs) included in the survey. The index is a new measure that captures and tracks the state of human capital development around the world. It is based on 51 indicators grouped in four pillars that are Health & Wellness, Education, Workforce & Employment, and the Enabling Environment.

Human Capital Index 2013	Overall Score	MENA Rank	Global Rank
Qatar	0.834	1	18
UAE	0.610	2	24
Israel	0.587	3	25
Saudi Arabia	0.245	4	39
Bahrain	0.232	5	40
Oman	0.220	6	41
Jordan	0.005	7	52
Kuwait	-0.059	8	59
Tunisia	-0.165	9	67
Lebanon	**-0.220**	**10**	**74**
Morocco	-0.336	11	82
Egypt	-0.790	12	111
Algeria	-0.954	13	115
Mauritania	-1.297	14	121
Yemen	-1.395	15	122

Source: World Economic Forum, Byblos Research

Globally, Lebanon's human capital is considered to be better than that of Peru, Trinidad & Tobago and Georgia, and worse than that of Armenia, Albania and Colombia. Also, it is considered to be better than that of Peru, Botswana, Serbia, South Africa, Suriname, Iran, the Dominican Republic, Namibia, Venezuela and Algeria among UMICs. Lebanon received a score of -0.22 point, lower than the global average score of -0.04 point and the UMICs' average of 0.05 point, but higher than the MENA region's average score of -0.52 point. Lebanon's score was better than the Gulf Cooperation Council countries' average score of -0.59 point and the average score of non-GCC Arab countries of -0.75 point.

Lebanon ranked ahead of Hungary and Malaysia, and came behind Spain and Latvia on the Education Pillar, which covers the access to education, the quality of education that would impact the future labor force, and the educational attainment of those already in the labor force. Lebanon ranked in first place among UMICs and came behind only Qatar, Israel and the UAE in the MENA region on this pillar. Lebanon performed well on most indicators in this category except on the Internet access in schools indicator.

Also, Lebanon ranked ahead of Nicaragua and Colombia, and came behind Ecuador and the Kyrgyz Republic on the Health & Wellness Pillar that captures how various socio-cultural, geographical, environmental and physiological health factors impact the development of human capital. It also ranked ahead of only Colombia, Peru, the Dominican Republic, Botswana, Iran, Algeria, Azerbaijan, South Africa and Namibia among UMICs; while it came ahead of only Algeria, Egypt, Mauritania and Yemen in the region.

Further, Lebanon ranked ahead of Jordan and Benin and came behind Lesotho and Paraguay on the Workforce & Employment Pillar, which combines labor force participation rates with indicators about the level or quality of the experience gained. It also ranked ahead of Jordan and Bulgaria and came behind Botswana and Argentina among UMICs; while it came ahead of Jordan, Morocco, Tunisia, Egypt, Yemen, Algeria and Mauritanian in the MENA region.

Lebanon ranked ahead of Albania and Malawi and came behind Tanzania and Moldova on the Enabling Environment Pillar, which captures whether a country's human capital is effectively deployed or whether obstacles are preventing the effective use of human capital. It also ranked ahead of only Albania, Algeria and Venezuela among UMICs; and came ahead of only Algeria, Yemen and Mauritania in the region. Lebanon's poor performance on this category mainly reflects the low quality of its of domestic transport system and its inadequate social safety net social safety net protection.

Components of the 2013 Human Capital Index for Lebanon

Category	Global Rank	Arab Rank	UMICs Rank	Lebanon Score	Global Average Score	Arab Average Score	UMICs Average Score
Education	32	4	1	0.55	-0.06	-0.74	-0.06
Health & Wellness	77	11	24	-0.10	-0.22	-0.31	0.01
Workforce & Employment	96	8	22	-0.46	0.15	-0.70	0.22
Enabling Environment	104	12	30	-0.87	-0.02	-0.33	0.03

Source: World Economic Forum, Byblos Research

Economic risks on the rise with lack of government

Citigroup indicated that the prospects of forming a new Lebanese government in the near future are not improving with time, six months after the resignation of the previous Cabinet. It noted that the March 8 and March 14 coalitions continue to hold opposing views on fundamentals such as the allocation of ministries, the number of ministers each party will designate and the Cabinet's Policy Statement. It noted that Lebanon did not have a government for extended periods of time during several instances before. But it considered that the current political deadlock has become detrimental to the country's socio-economic stability, given the significant increase in the level of domestic violence and insecurity, the absence of a functioning Parliament, and the heightened economic challenges. It added that Lebanon's economic risks have increased substantially, as day-to-day management of the country's operations has become difficult and is often dependent on presidential decrees.

In parallel, it anticipated that Lebanon's attempt to develop its potentially substantial offshore oil & gas resources would be delayed in the absence of a government. It noted that the country's energy poverty constitutes a major drag on the economy, given the high Treasury transfers to Electricité du Liban of around 4% of GDP per year to compensate for losses in electricity generation, the large fuel import bill of more than 10% of GDP annually, and the negative impact of recurrent blackouts on businesses. It considered that the production of oil & gas would eventually lead Lebanon to energy independence, which would transform the country's fiscal and economic dynamics. But it did not expect progress in exploiting Lebanon's energy resources in the current political environment.

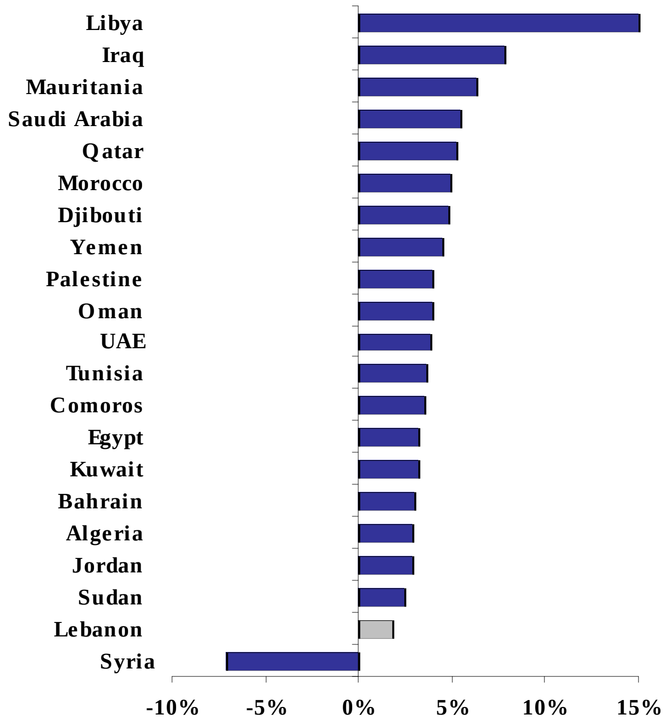
In parallel, Citigroup indicated that Lebanon's sovereign risk remains relatively stable despite the rising level of country risk in the context of a slowing domestic activity and a deteriorating security situation. The country risk refers to risks of doing business in a country and covers economic, security, political, operational and regulatory risks, among others; while the sovereign risk is the ability of the sovereign to meet its financial obligations on time. It attributed the sovereign's stable credit profile to a resilient banking sector and to weak but stable public finances. It said that Lebanon's public finances are currently not weaker compared to their performance prior to the breakout of regional unrest. It considered that the fiscal deficit has widened, but remains in line with historical averages. Further, it pointed out that the Lebanese banking system continues to be able and willing to finance the government's deficit. It attributed the banks' willingness to provide support to the sovereign to the fact that their own balance sheets would be severely damaged by a sovereign default. It noted that the banks' ability to finance the government reflects continued deposit inflows and rising cash reserves. It considered the stability of the banking system to be critical to Lebanon's debt sustainability. Overall, it said that the stability of Lebanon's sovereign debt outlook is contingent on the resilience of the banking sector.

Real GDP growth projected at 1.8% in 2013, business confidence to remain weak

The United Nation's Economic and Social Commission for Western Asia (ESCWA) projected Lebanon's real GDP growth at 1.8% in 2013 relative to 1.2% in 2012, and compared to growth rates of 2.6% and 4.4% for the Mashreq and Arab economies, respectively. Lebanon's projected growth rate in 2013 would continue to make it the slowest growing economy in the Arab region and among Mashreq countries, with the exception of the Syrian economy that is forecast to contract by 7.1%. It said that the geopolitical spillovers, mainly from Syria, have negatively affected Lebanon's economy as the inflow of capital and tourists, which constitute the main growth drivers, deteriorated. It expected Lebanon's consumer confidence and business sentiment to remain weak in 2013 due to the prevailing instabilities. In parallel, the ESCWA anticipated that the rapidly increasing number of Syrian refugees in Lebanon will have a significant impact on the Lebanese economy. It added that addressing the impact constitutes the most important challenge for the Lebanese authorities. It noted that the high number of Syrian refugees has already put an additional fiscal burden on the country.

In parallel, the ESCWA forecast consumer price inflation in Lebanon at 5.2% in 2013 relative to 6.6% in 2012, and compared to inflation rates of 4.8% for the Arab region and of 9.3% for Mashreq economies. Lebanon's projected inflation rate would make it the seventh highest rate in the Arab region and the fourth highest among Mashreq countries. It noted that the impact of the proposed increase in public-sector wages on consumer prices remains uncertain.

Projected Real GDP Growth for 2013



Source: ESCWA, Byblos Research

Economy continues to pay heavy price of political instability

Regional investment bank EFG Hermes modified its projection for real GDP growth in Lebanon to 1.5% in 2013 from an earlier forecast of 1% due to domestic demand that includes consumption by Syrian refugees. But it considered the upward revision to be a cosmetic change and largely insignificant, as real GDP growth remains at relatively very low levels and would be the lowest growth rate in the Middle East & North Africa region for this year. It said that regional and domestic political and security instability continue to severely affect the Lebanese economy, with the tourism sector being the most affected industry. It noted that the domestic political environment remains paralyzed, as political parties have not been able to agree on the formation of a new government more than six months after the designation of a new Prime Minister. Further, it forecast real GDP growth at 1.8% for 2014 in case of another stimulus package from the Central Bank and sustained domestic demand.

In parallel, it revised its forecast for Lebanon's fiscal deficit to 9.4% of GDP in 2013 from a previous forecast of 8.9% of GDP. It attributed the widening of the deficit mainly to a higher-than-expected decline in public revenues so far this year. It noted that total revenues fell by 4% annually in the first half of the year due to lower income from property taxes and customs, while spending rose by 9% annually. It added that the rising number of Syrian refugees in Lebanon is putting strains on public services, despite the refugee's relative impact on domestic demand. It considered that the country's fiscal deficit remains a concern, as the slowdown in economic activity is preventing the government from increasing its revenue base and is blocking potential attempts to lower the debt level through privatization or through potential oil wealth.

Further, it said that Lebanon failed to launch its first licensing round for offshore oil and gas exploration and production, as disagreements among the political class prevented the government from ratifying the required decrees. It noted that the Ministry of Energy postponed the bid round for the first time until December 2013, but it considered that significant risks of further delays are high. It pointed out that successive delays and political instability threaten the credibility of the bidding process, which would eventually lead to companies withdrawing their bids. It did not expect positive developments in the country's oil and gas sector in the near future.

Macroeconomic Indicators

	2011E	2012E	2013F	2014F
Real Sector				
Real GDP Growth Rate (%)	1.5	1.0	1.5	1.8
CPI Inflation (yoy % average)	4.9	6.5	4.5	5.5
External Sector				
Trade balance ($bn)	(15.9)	(16.8)	(17.5)	(18.8)
Current account balance (% of GDP)	(11.8)	(12.1)	(11.0)	(12.5)
BdL gross FX reserves (ex-gold) ($bn)	30.6	29.8	29.7	30.7
Fiscal Sector				
Fiscal balance (% of GDP)	(5.7)	(8.9)	(9.4)	(9.4)
Net domestic debt (% of GDP)	61.7	55.8	51.8	49.5
External debt (% of GDP)	50.7	55.0	58.9	60.1
Financial Sector				
Broad money growth (yoy %)	5.5	5.4	7.1	6.4
Private sector credit growth (yoy %)	13.2	10.2	10.5	10.0

Source: EFG Hermes, October 2013

Coincident Indicator stagnates in July 2013

The Central Bank's Coincident Indicator, an index of economic activity in Lebanon, reached 248.7 points in July 2013 compared to 265.5 in June 2013 and 247.8 in July 2012. The Coincident Indicator, an average of 8 weighted economic indicators, decreased by 6.3% month-on-month and rose by 0.4% year-on-year in July 2013. The indicator averaged 260 in the 12 months ending July 2013, compared to 259.9 in the 12 months ending June 2013 and 258.1 in the 12 months ending July 2012. As a result, the average coincident indicator remained nearly unchanged month-on-month and increased by 0.7% year-on-year, which reflects economic stagnation. In parallel, the indicator improved eight times and regressed 13 times in the month of July since 1993. The indicator reached an all-time high of 273.7 points in April 2012. It averaged 256.6 in 2012, 255.7 in 2011, 249.5 in 2010 and 225.9 in 2009.

Value of cleared checks up 1%, returned checks down 3% in first eight months of 2013

The value of cleared checks reached $46.5bn in the first eight months of 2013, constituting an increase of 1.2% year-on-year, compared to a decrease of 0.9% in the same period of 2012 and an increase of 1.2% in the first eight months of 2011. The value of cleared checks in Lebanese pounds rose by 13.1% annually to the equivalent of $11bn in the first eight months of 2013, while the value of cleared checks in US dollars regressed by 1.6% to $36.8bn. The dollarization rate of cleared checks decreased to 79.2% from 81.4% in the same period of the previous year. Also, the value of returned checks in domestic and foreign currency declined by 2.8% to $1bn in the first eight months of 2013, relative to a rise of 9.8% in the same period of 2012 and a decrease of 2.6% in the first eight months of 2011. In parallel, the number of cleared checks totaled 8.8 million checks in the first eight months of 2013, up 1.7% from the same period last year. Also, the number of returned checks totaled 179,000 checks, down by 5.3% from 189,000 in the same period of 2012.

Occupancy rate at Beirut hotels at 55%, room yields down 31.2% in first seven months of 2013

Ernst & Young's benchmark survey of the Middle East hotel sector indicated that the average occupancy rate at hotels in Beirut was 55% in the first seven months of 2013, down from 63% in the same period last year and compared to a rate of 65% in 16 Arab markets. The occupancy rate at Beirut hotels was the third lowest in the region in the covered period, while it was the sixth lowest in the first seven months of 2012. Cairo and Manama posted the lowest- and second-lowest occupancy rates of 28% and 42%, respectively, in the first seven months of this year. Occupancy rates at Beirut hotels were 49% in January, 60% in February, 58% in March, 65% in April, 59% in May, 55% in June, and 40% in July 2013, compared to 60% in January, 64% in February, 74% in March, 66% in April, 67% in May, 59% in June, and 54% in July 2012.

Also, the occupancy rate at hotels in Beirut fell by eight percentage points year-on-year, constituting the third steepest decrease among 16 Arab markets, and relative to an average decrease of 1.3 percentage points for the region. Amman and Cairo posted the steepest and second-steepest drops of 15 and 11 percentage points, respectively, in hotel occupancy rates in the region.

E&Y indicated that the average rate per room at Beirut hotels was $166 in the first half of 2013, ranking the capital's hotels as the 11th most expensive in the region. The average rate per room at Beirut hotels decreased by 21% year-on-year and posted the steepest decrease among all markets in the region. The average rate per room in Beirut came below the regional average of $188.8, which increased by 2.2% from the same period last year.

Hotel Performance in First Seven Months of 2013

	Occupancy Rate (%)	RevPAR (US$)	RevPAR % change
Dubai	81	222	6.0
Jeddah	80	223	13.8
Makkah	79	218	8.8
Abu Dhabi	77	161	8.9
Hurghada	71	26	43.2
Madina	71	151	10.9
Sharm El Shaikh	69	37	21.4
Al Ain	69	94	8.6
Muscat	68	142	1.8
Doha	67	173	(1.9)
Riyadh	62	138	(0.6)
Amman	61	96	(16.7)
Kuwait	60	179	12.6
Beirut	**55**	**92**	**(31.2)**
Manama	42	90	14.7
Cairo	28	25	(20.1)

Source: Ernst & Young, Byblos Research

E&Y indicated that the average rate per room at Beirut hotels was $166 in the first seven months of 2013, ranking the capital's hotels as the 11th most expensive in the region. The average rate per room at Beirut hotels decreased by 20.7% year-on-year and posted the steepest decrease among all markets in the region. The average rate per room in Beirut came below the regional average of $192.1, which increased by 3.6% from the same period last year.

Further, revenues per available room (RevPAR) were $92 in Beirut in the first seven months of the year, down from $133 in the same period last year, and coming in 12th place in the region. Beirut's RevPAR fell by 31.2% year-on-year compared to an increase of 3.5% across the MENA region, and posted the steepest decrease in the region. Beirut posted RevPARs of $82 in January, $97 in February, $93 in March, $106 in April, $98 in May, $101 in June, and $67 in July 2013, compared to $139 in January, $131 in February, $149 in March, $138 in April, $134 in May, $132 in June, and $112 in July 2012. Kuwait City posted the highest average room rate in the region at $294, while Jeddah posted the highest RevPAR at $223, and Dubai posted the highest occupancy rate at 81% in the first seven months of 2013.

Start of onshore seismic survey for oil and gas deposits

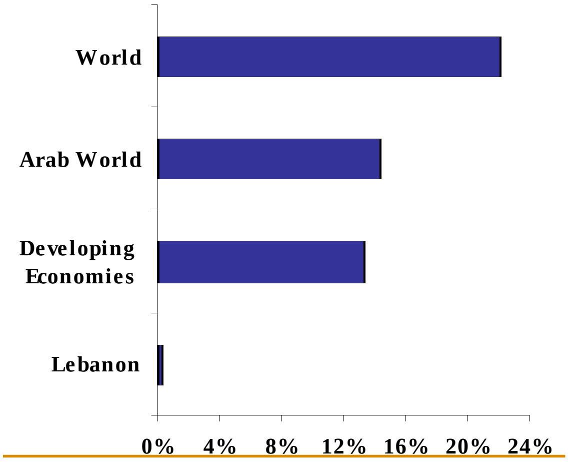
British firm Spectrum Energy & Information Technology launched a three-dimensional onshore seismic survey in the Batroun area, north of Lebanon. The survey will provide advanced information about prospective oil and gas deposits in the covered area. The first phase of the survey is expected to be completed by November 2013, while the second phase would start following the winter season. Last February, the Ministry of Energy & Water and Spectrum announced an initiative to begin a three-dimensional onshore seismic survey to assemble data on potential locations of petroleum and gas deposits within the Lebanese territory. The survey is expected to cover 500 kilometers of land that exclude previously surveyed areas in 1947 and 1968.

In October 2011, the Cabinet approved the start of onshore oil exploration in Lebanon, as it authorized the launch of a tender process to survey the Lebanese territory and locate areas with potential oil deposits. It also recommended the preparation of a draft law that regulates oil exploration on Lebanese soil, followed by a tender process for onshore exploration. The decisions constituted at the time the government's first official step for launching onshore oil exploration.

Lebanon ranks 136th globally, 14th among Arab countries in mobile broadband penetration

Figures released by the International Telecommunication Union (ITU) indicate that Lebanon ranked in 136th place among 170 countries at the end of 2012 in terms of mobile broadband penetration, which is the number of subscriptions to the service per 100 inhabitants. Lebanon also came in 14th place among 17 Arab countries and ranked in 34th place among 45 upper middle income countries (UMICs) included in the survey. Lebanon had 0.3 mobile broadband subscriptions per 100 inhabitants in 2012, significantly lower than the global average of 22.1 subscriptions per 100 inhabitants, the Arab world's average of 14.3 subscriptions per 100 inhabitants and the average of 13.3 subscriptions per 100 inhabitants in developing economies. On a global basis, Lebanon had a higher rate of broadband penetration than Bangladesh, Yemen and Haiti, and a lower penetration rate than Pakistan, Benin and Ethiopia. Also, Lebanon had a higher broadband penetration rate than only Thailand, Suriname, Gabon, Iran, Tuvalu, Turkmenistan, Cuba, Dominica, Grenada, Saint Lucia and Saint Vincent & the Grenadines among UMICs, while its penetration rate was higher than just Yemen, Djibouti and Algeria among Arab countries.

Mobile Broadband Penetration at end-2012



Source: ITU, Byblos Research

In parallel, the ITU's figures show that 64% of Lebanese households had internet access in 2012, compared to 37.4% of households globally, 24% of households in developing economies and 29.6% of households in Arab countries. As such, Lebanon ranked in 13th place among 128 developing countries at the end of 2012 in terms of the percentage of households with Internet access. Lebanon also ranked in sixth place among 19 Arab countries and in second position among 35 UMICs. Further, the percentage of Lebanese households with Internet access was lower than that in South Korea, Qatar, Singapore, Macao, Bahrain, Hong Kong, Israel, Brunei Darussalam, the UAE, Saudi Arabia, Kuwait and Malaysia among developing economies. Also, Lebanon came behind just Qatar, Bahrain, UAE, Saudi Arabia and Kuwait among Arab countries, while it came behind only Malaysia among UMICs.

Energy Ministry extends deadline for oil and gas exploration bids for second time

The Ministry of Energy & Water announced that it has extended from December 10, 2013 to January 10, 2014 the deadline for pre-qualified firms to submit their offers for Lebanon's first licensing round for offshore oil and gas exploration and production. The decision constitutes the second consecutive delay, as the ministry extended in September the bids' deadline from November 4, 2013 to December 10, 2013.

The ministry started accepting bids on May 2, 2013. It attributed the delay to the government's failure to ratify two decrees that are required to set the guidelines for exploration and production sharing agreements, in order to allow Lebanon to grant exploration and production licenses. It noted that the first decree establishes a model exploration and production sharing contract, while the second one specifies the number of blocks that will be auctioned. It added that the ministry and the Petroleum Administration have approved a decree to auction 10 separate blocks off Lebanon's coast and submitted it to the Cabinet for endorsement. But it noted that the Cabinet resigned last March before discussing the decree. It said that blocks 1, 4, 5, 6 and 9 would be available for bidding once the government holds a session to endorse the two decrees.

The list of pre-qualified companies includes 12 operators and 34 non-operators. The pre-qualified operators are the United States' Exxon Mobil, Chevron and Anadarko Petroleum Corporation, France's Total, Anglo-Dutch's Royal-Dutch Shell, Italy's Eni, Brazil's Petrobras, Malaysia's Petronas, Spain's Repsol, Denmark's Maersk, Norway's Statoil and Japan's INPEX. The ministry previously expected the bids' evaluation to be completed in January 2014 and for negotiations and contracts to be signed with the selected firms in February of the same year. It said that awarded contracts will cover 10 plots with a size ranging between 1,259 square kilometers and 2,374 square kilometers each. It anticipated the exploration process to take up to 18 months from the contracts' signing date. It previously estimated that drilling would begin by the end of 2015, followed by the development phase in 2016 and production thereafter.

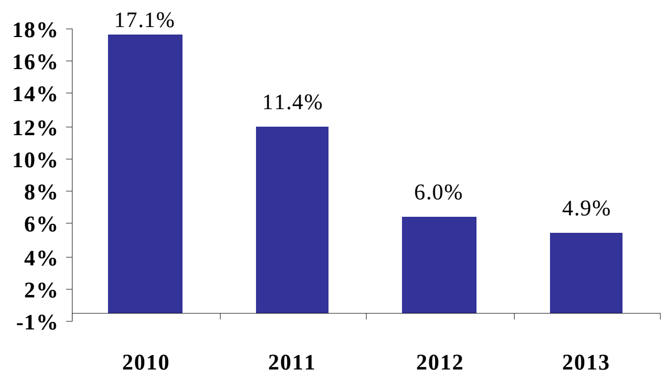
Corporate Highlights

Stock market activity down 36% to $213m in first nine months of 2013

Figures released by the Beirut Stock Exchange indicate that total trading volume reached 31 million shares in the first nine months of 2013, constituting a decrease of 28.8% from the same period last year; while aggregate turnover amounted to $212.9m, down 36.1% from a turnover of $333.4m in the first nine months of 2012. Market capitalization increased by 5.3% from end-September 2012 to $10.54bn, of which 78.1% was in banking stocks, followed by real estate stocks with 18.5%, industrial stocks with 3%, and trading stocks with 0.4%. The market liquidity ratio was 2% compared to 3.3% in the same period last year. Banking stocks accounted for 80.9% of aggregate trading volume in the first nine months of the year, followed by real estate stocks with 16.1%, and trading and industrial stocks with 1.5% each. Also, banking stocks accounted for 69.9% of the aggregate value of shares traded, followed by real estate stocks with 28.6%, industrial stocks with 0.9% and trading stocks with 0.6%. The average daily traded volume for the period was 171,340 shares for an average daily value of $1.2m. The figures reflect decreases of 28% in volume and 35.4% in value year-on-year.

Commercial banks' assets reach $158.6bn at end-August 2013

Private Sector Lending Growth* (% Change)



**in first eight months of each year*
Source: Association of Banks in Lebanon, Byblos Research

The consolidated balance sheet of commercial banks operating in Lebanon shows that total assets reached $158.6bn at the end of August 2013, constituting an increase of 4.4% from the end of 2012 and a rise of 7.8% from end-August 2012. Private sector deposits totaled $131.4bn, increasing by 5.1% from end-2012 and by 8.4% from end-August 2012. Deposits in Lebanese pounds reached $45bn and rose by 2.4% from end-2012 and by 5.7% from end-August 2012; while deposits in foreign currencies totaled $86.4bn and increased by 6.6% from end-2012 and by 9.9% from a year earlier. Non-resident foreign currency deposits totaled $23.1bn at the end of August 2013, up by 11.3% from the end of 2012 and by 17.4% year-on-year. Total non-resident deposits reached $26.4bn at the end of August 2013 and grew by 9.5% from end-2012 and by 15.4% from a year earlier. Total private sector deposits increased by $558.2m in January, $745m in February, $1.8bn in March, $1.95bn in May, $1.2bn in June and $203m in August; while they decreased by $11.3m in April and by $88m in July 2013. In comparison, they rose by $976m January, $726m in February, $806m in March, $533m in April, $141.3m in May, $986m in June and $1.4bn in August; while they declined by $130m in July 2012. In parallel, deposits of non-resident banks reached $4.9bn at the end of August 2013 and decreased by 16.5% from end-2012 and by 12.9% from a year earlier. The dollarization rate of deposits reached 65.7% at the end of August 2013 up from 64.9% at the end of 2012 as well as at end-August 2012. Further, the average deposit rate in Lebanese pounds reached 5.47% at end-August 2013, down from 5.51% a year earlier; while the same rate in US dollars was 2.91%, up from 2.84% in August 2012.

Loans to the private sector totaled $45.6bn, constituting an increase of 4.9% from end-2012 and a rise of 9.2% from a year earlier. Lending to the resident private sector totaled $40.3bn and increased by 6.4% from end-2012 and by 10.3% year-on-year, while credit to the non-resident private sector reached $5.3bn and decreased by 5.4% from end-2012 and increased by 1.9% from end-August 2012. The dollarization rate in private sector lending regressed to 76.9% at end-August 2013 from 77.4% a year earlier. The average lending rate in Lebanese pounds was 7.24% in August 2013 compared to 7.27% a year earlier, while the same average in US dollars was 7.16% compared to 7.26% in August 2012. In addition, claims on non-resident banks reached $13.2bn at end-August 2013, posting a decrease of 8.2% from end-2012 and a rise of 2.6% from a year earlier. Claims on the public sector stood at $33.1bn, constituting an increase of 6.2% from end-2012 and a rise of 10.5% year-on-year. The ratio of private sector loans-to-deposits in foreign currencies stood at 40.6%, down from 41.2% at end-August 2012 and well below the Central Bank's limit of 70%. In parallel, the same ratio in Lebanese pounds was 23.4%, up from 22.1% at the end of August 2012. The ratio of total private sector loans to deposits was 34.7% at the end of August compared to 34.4% a year earlier. The banks' aggregate capital base stood at $13.6bn, up by 0.5% month-on-month and by 14.7% from $11.9bn in August 2012.

Jammal Trust Bank's net profits down 77% to $1m in 2012

Jammal Trust Bank sal, one of the smaller banks in Lebanon, posted audited consolidated net profits of $1.2m in 2012, constituting a decrease of 76.5% from $5.2m in 2011. Net interest income reached $18.7m in 2012, up 9.5% from a year earlier; while net fees & commission income decreased by 3.6% to $3.7m year-on-year. Operating expenditures rose by 12.7% to $22.5m, with staff expenses increasing by 29.7% to $9.3m. In parallel, total assets reached $672m at end-2012, constituting a 13.4% increase from $592.5m at end-2011; while loans & advances to customers, excluding loans & advances to related parties, increased by 37.4% year-on-year to $257m. Also, customer deposits, excluding deposits to related parties, totaled $600.6m at end-2012, growing by 16.2% from a year earlier. The bank's loans-to-deposits ratio increased to 42.8% in 2012 from 36.1% in the previous year. The bank's total shareholders' equity rose by 2.1% year-on-year to $58.7m at end-2012. Also, the bank's capital adequacy ratio stood at 11.43% according to Basel II criteria.

Corporate Highlights

BLC Bank's net profits up 12% to $18m in first half of 2013

BLC Bank sal, one of Lebanon's listed banks, announced unaudited consolidated net profits of $17.5m in the first half of 2013, constituting an increase of 12.4% from net earnings of $15.5m in the same period of 2012. Net interest income, including interest from fair value securities, rose by 15.2% to 59.4m, while net fees & commission receipts increased by 6% to $9.9m in the first half of 2013. Net financial revenues after impairment charge for credit losses reached $61m in the first half of 2013, constituting a rise of 11% from $55m in the same period last year. Administrative expenses increased by 8.5% to $13.2m, while staff expenses increased by 3.5% year-on-year to $24.9m in the first half of 2013. Also, the bank's return on average assets reached an annualized rate of 0.72% in June 2013, relative to 0.71% a year earlier; while its return on average equity reached 9.6% on an annualized basis relative to 9.84% in June 2012. In parallel, total assets reached $5.1bn at end-June 2013, constituting a marginal increase of 0.2% from $5.09bn at end-2012; while loans & advances to customers increased by 1.5% to $1.8bn at end-June 2013. Further, customer deposits totaled $4.29bn at end-June 2013, constituting a marginal decrease of 0.1% from $4.3bn at end-2012. The loans-to-deposits ratio increased to 42.1% at end-June 2013 from 41.4% at end-2012. In parallel, the bank's total shareholders' equity rose by 1.1% from end-2012 to $378.2m at end-June 2013. BLC Bank is part of the Fransabank Group.

UCA's general company investments up 15% to $24m in 2012

United Commercial Assurance sal (UCA) released its audited balance sheet that shows total assets of $37.5m at the end of 2012, up 13.8% from $33m at end-2011. On the assets side, general company investments totaled $24.4m and increased by 14.8% from a year earlier. They included $4.5m in land and real estate investments that rose by 293.3% annually; as well as $3.7m in blocked bank deposits and deposits with maturity of more than three months, of which $1.4m were blocked in favor of the Economy Ministry as guarantees; $6.2m in variable income investments; and $9.3m in cash and cash equivalents. Also, the reinsurance's share in technical reserves for the life and non-life categories amounted to $0.3m and $3.8m, respectively, constituting a decrease of 3.4% and an increase of 15.4%, respectively.

On the liabilities & shareholders' equity side, technical reserves for the life segment decreased by 4.7% year-on-year to $0.7m, while technical reserves for the non-life category reached $13.8m at end-2012 and increased by 13% from a year earlier. Non-life technical reserves included unearned premium reserves of $11m that rose by 5.6%, outstanding claims reserves of $2.6m that increased by 57.7%, and $96,104 in premium deficiency reserves that rose by 278.4% year-on-year. Shareholders' equity totaled $17.3m at end-2012, up by 14.8% from a year earlier. Further, provisions for risks and charges reached $0.35m and increased by 28.3% from a year earlier.

Al-Bayan magazine's annual survey of the insurance sector in Lebanon ranked UCA in 24th and 17th place in 2012 in terms of life and non-life premiums, respectively. The firm's life premiums reached $0.9m and non-life premiums amounted to $14.4m, constituting increases of 11.1% and 3.3%, respectively. It had a 0.2% share of the life market and a 1.5% share of the local non-life market.

Ratio Highlights

(in % unless specified)	2010	2011	2012	Change*
Nominal GDP ($bn)	37.1	39.3	41.6	
Public Debt in Foreign Currency / GDP	55.5	53.2	58.7	550
Public Debt in Local Currency / GDP	86.2	83.2	80.2	(300)
Gross Public Debt / GDP	141.7	136.4	138.9	250
Total Gross External Debt / GDP	167.2	173.8	172.3	(150)
Trade Balance / GDP	(36.9)	(40.5)	(40.4)	10
Exports / Imports	23.7	21.2	21.1	(10)
Fiscal Revenues / GDP	24.8	23.7	22.8	(90)
Fiscal Expenditures / GDP	30.5	29.7	30.2	50
Fiscal Balance / GDP	(5.7)	(6.0)	(8.3)	(230)
Primary Balance / GDP	5.5	4.2	0.7	(350)
Gross Foreign Currency Reserves / M2	72.6	79.2	69.4	(980)
M3 / GDP	248.4	247.4	250.0	260
Commercial Banks Assets / GDP	347.3	357.4	365.6	820
Private Sector Deposits / GDP	289.0	294.4	300.5	610
Private Sector Loans / GDP	94.2	100.2	104.5	430
Private Sector Deposits Dollarization Rate	63.2	65.9	64.8	(110)
Private Sector Lending Dollarization Rate	80.3	78.4	77.6	(80)

** Change in basis points 11/12*
Source: Association of Banks in Lebanon, Institute of International Finance, International Monetary Fund, Ministry of Finance, Byblos Research Calculations
Note: M2 includes money in circulation and deposits in LBP, M3 includes M2 plus Deposits in FC and bonds

Risk Outlook

Lebanon	Nov 2011	Oct 2012	Nov 2012	Change*	Risk Level
Political Risk Rating	55.0	53.5	53.0	↓	High
Financial Risk Rating	35.0	35.0	35.0	↔	Low
Economic Risk Rating	34.0	34.0	34.0	↔	Moderate
Composite Risk Rating	62.0	61.2	61.0	↓	Moderate

Regional Average	Nov 2011	Oct 2012	Nov 2012	Change*	Risk Level
Political Risk Rating	60.2	59.3	59.2	↓	High
Financial Risk Rating	42.3	41.8	41.7	↓	Very Low
Economic Risk Rating	36.2	36.2	36.2	↔	Low
Composite Risk Rating	69.3	68.6	68.5	↓	Moderate

**year-on-year*
Source: The PRS Group, Byblos Research
Note: Political & Composite Risk Ratings range from 0 to 100 (where 100 indicates the lowest risk)
Financial & Economic Risk ratings range from 0 to 50 (where 50 indicates the lowest risk)

Ratings & Outlook

Sovereign Ratings	Foreign Currency			Local Currency		
	LT	ST	Outlook	LT	ST	Outlook
Moody's	B1	NP	Negative	B2		Stable
Fitch Ratings	B	B	Stable	B		Stable
Standard & Poor's	B	B	Negative	B	B	Negative
Capital Intelligence	B	B	Stable	B	B	Stable

Source: Rating agencies

Banking Ratings	Banks' Financial Strength	Banking Sector Risk	Outlook
Moody's	E+		Negative
EIU		CCC	

Source: Rating agencies

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