



LEBANON THIS WEEK

In This Issue

Economic Indicators.....1

Capital Markets.....1

Lebanon in the News.....2

More than 75% of Lebanese consider the government to be ineffective in providing social protection, 90% support subsidy reforms

Airport passengers up 5.4% in 2012

Lebanon's CDS spreads tighten by 2% in fourth quarter of 2012

Proposed structure for mobile sector unlikely to stimulate innovation or raise usage of telecom services

Real GDP growth projected at 2.8% in 2013, third lowest in MENA region

Central Bank details mechanism to inject LBP2,200bn in the economy

Central Bank to maintain policy of monetary stability, ABL warns about rise in public spending

Central Bank mandates commercial banks and financial institutions to establish compliance department

Number of tourists down 17.5% in 2012

Industrial exports down 12% to \$2.7bn in first 11 months of 2012

Revenues through the Port of Beirut up 4% to \$2.5bn in first 11 months of 2012

Lebanon has 2,536 pharmacies and 302 medical laboratories

Tourism spending in Lebanon down 29% in fourth quarter of 2012

Corporate Highlights8

New car sales up 9% in 2012

Top eight freight forwarders' activity improves in first 11 months of 2012

Net profit at \$2.2m, loss ratio at 56.2% in 2011 for civil liability insurance segment

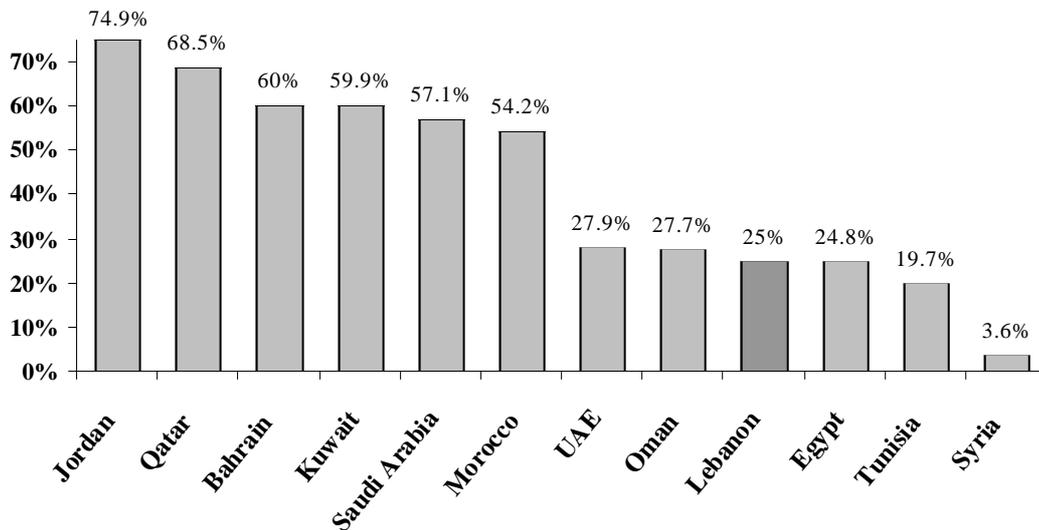
Ratio Highlights.....9

Risk Outlook.....9

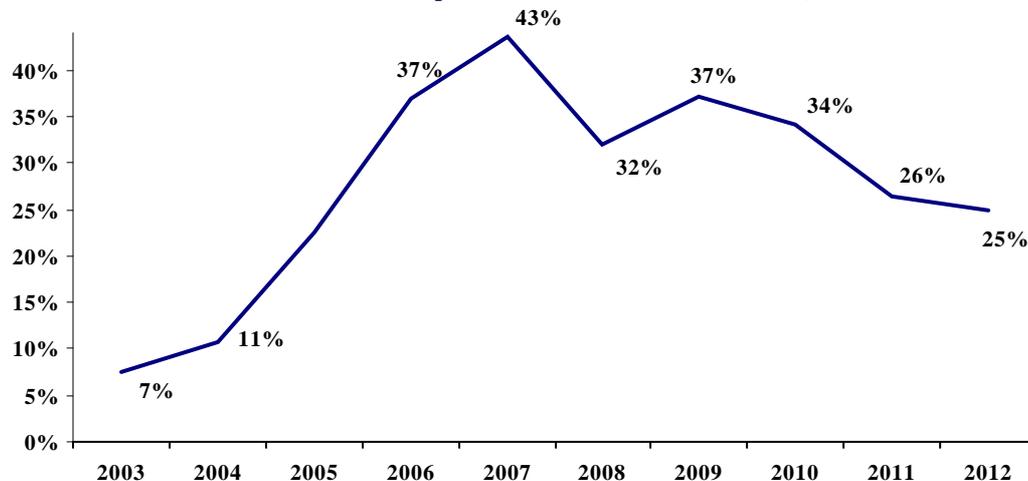
Ratings & Outlook.....9

Charts of the Week

Stock Market Capitalization in Select Arab Countries in 2012
(% of GDP)



Stock Market Capitalization in Lebanon (% of GDP)



Source: Thomson Reuters, Beirut Stock Exchange, International Monetary Fund, Arab Monetary Fund, Institute of International Finance, Byblos Bank

Quote to Note

"Transfers to Electricité du Liban could be reduced by improvement in fee collection and by gradually raising electricity tariffs to cost-recovery levels."

The Institute of International Finance, on ways to reduce the increasing burden of the state-owned and money-losing Electricité du Liban on the budget

Number of the Week

\$29.8bn: Gross foreign currency reserves of the Central Bank of Lebanon at the end of November 2012

Economic Indicators

\$m (unless otherwise mentioned)	2010	Sep 11	2011	Jul 12	Aug 12	Sep 12	% Change*
Exports	4,256	334	4,276	317	339	471	41.02
Imports	17,956	1,792	20,170	1,739	1,782	1,629	(9.10)
Trade Balance	(13,700)	(1,458)	(15,894)	(1,422)	(1,443)	(1,158)	(20.58)
Balance of Payments	3,326	(302)	(1,996)	(322)	(497)	(92)	(69.54)
Checks Cleared in LBP	13,519	1,147	14,251	1,311	1,233	1,233	7.50
Checks Cleared in FC	53,925	5,181	57,852	5,150	4,657	4,580	(11.60)
Total Checks Cleared	67,444	6,328	72,103	6,461	5,890	5,813	(8.14)
Budget Deficit/Surplus	(2,894)	(419)	(2,342)	36.01	(320.35)	(569.85)	36.00
Primary Balance	1,231	44	1,662	158.69	(143.82)	(138.20)	(414.09)
Airport Passengers	5,512,435	582,383	5,596,034	640,615	624,525	542,920	(-6.78)

\$bn (unless otherwise mentioned)	Dec 2010	Sep 11	Jun 12	Jul 12	Aug 12	Sep 12	% Change*
BdL FX Reserves	28.60	30.62	29.26	29.64	29.54	29.99	(2.06)
<i>In months of Imports</i>	<i>19.46</i>	<i>17.09</i>	<i>17.08</i>	<i>17.05</i>	<i>16.57</i>	<i>18.41</i>	<i>(7.72)</i>
Public Debt	52.59	54.35	55.25	55.44	55.69	56.07	3.16
Net Public Debt	45.01	45.80	47.10	47.28	47.82	47.83	4.43
Bank Assets	128.93	138.42	145.90	145.51	147.05	148.36	7.18
Bank Deposits (Private Sector)	107.20	113.39	119.94	119.75	121.16	121.75	7.37
Bank Loans to Private Sector	34.93	38.76	41.70	41.49	41.72	42.29	9.11
Money Supply M2	39.40	37.68	41.00	41.19	41.63	41.81	10.96
Money Supply M3	92.15	95.63	100.36	100.50	101.08	101.50	6.14
LBP Lending Rate (%)	7.91	7.37	7.44	7.24	7.27	7.30	(7b.p.)
LBP Deposit Rate (%)	5.68	5.58	5.45	5.45	5.51	5.43	(15b.p.)
USD Lending Rate (%)	6.74	6.58	7.15	7.19	7.26	7.16	58b.p.
USD Deposit Rate (%)	2.80	2.84	2.78	2.84	2.84	2.83	(1b.p.)
%* Change in CPI**	6.19	5.27	4.72	4.72	5.85	8.26	299b.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"	12.98	1.25	104,757	12.25%
Solidere "B"	13.06	2.19	76,544	8.01%
Byblos Common	1.64	1.86	91,932	5.56%
Byblos Pref. 08	102.00	(0.10)	250	1.93%
Byblos Pref. 09	102.10	0.00	0	1.93%
BLOM GDR	8.25	1.35	54,400	5.75%
BLOM Listed	7.92	0.00	11,790	16.07%
Audi GDR	6.75	5.47	29,746	6.50%
Audi Listed	6.24	1.46	11,610	20.60%
HOLCIM	15.80	0.00	526	2.91%

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

Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
June 2013	8.625	102.75	1.78
Apr. 2014	7.375	106.50	1.96
Jan. 2015	5.875	104.25	3.63
Apr. 2015	10.00	114.00	3.48
Jan. 2016	8.500	112.50	4.02
Mar. 2017	9.000	117.13	4.44
Nov. 2018	5.150	102.00	4.78
Apr. 2021	8.250	117.75	5.53
Nov. 2026	6.600	105.13	5.53

Source: Byblos Bank Capital Markets

	Jan 14-18	Jan 7-11	% Change	Dec 2012	Dec 2011	% Change
Total Shares Traded	473,538	384,801	23.06	6,388,172	9,690,284	(34.08)
Total Value Traded	\$4,030,913	\$2,781,688	44.91	\$32,380,726	\$34,336,260	(5.70)
Market Capitalization	\$10.60bn	\$10.47bn	1.22	\$10.42bn	\$10.29bn	1.32

Source: Beirut Stock Exchange (BSE)



More than 75% of Lebanese consider the government to be ineffective in providing social protection, 90% support subsidy reforms

A survey conducted by global opinion polling and consulting firm Gallup on social safety net reforms in the Middle East & North Africa shows that 83.4% of respondents in Lebanon consider that the government is the most responsible stakeholder for helping the poor in the country, followed by charitable organizations with 8.4%, religious organizations with 5.4% and family and friends with 1%. In comparison, 90.4% of Egyptians respondents, 86% of Tunisians participants and 78.8% of Jordanian respondents think that their government is the most responsible for helping the poor in their country. However, the survey revealed that 78% of Lebanese respondents and 70% of Egyptian participants do not perceive their respective government's current efforts to be effective in providing safety nets, while the majority of Tunisian (62%) and Jordanian (66%) participants consider that their government's efforts in this area are effective. The World Bank commissioned the survey as part of its assessment of the effectiveness of social safety nets and subsidy programs in the MENA region.

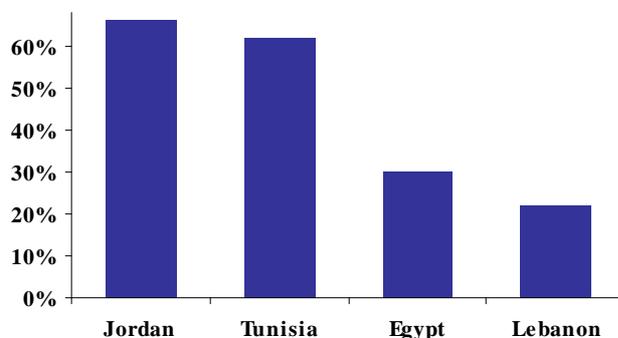
In parallel, the survey shows that 84% of respondents in Lebanon consider that social safety net programs should target the poor in the country, relative to 16% of participants who prefer the programs to focus on specific groups of the population such as widows, orphans and the disabled. In comparison, 92% of respondents in Egypt and 89% of respondents in each of Jordan and Tunisia consider that social safety net programs should target the poor. Also, the survey indicated that 68% of participants in Lebanon prefer cash-based social safety net programs compared to 32% of respondents who prefer programs based on the distribution of goods and benefits. In comparison, 85% of participants in Jordan, 82% of Tunisians and 77% of Egyptian respondents support cash-based social safety net programs. Further, the survey revealed that 66% of respondents in Lebanon rejected imposing conditions in the provision of social safety net programs, relative to 34% of participants who support the implementation of conditions. In comparison, 75% of Jordanian respondents, 73% of Tunisian participants and 64% of Egyptian respondents refuse the imposition of conditions on beneficiaries. The survey indicated that the share of respondents who agreed with imposing some requirements on beneficiaries preferred mainly conditions tied with children's school attendance and active job search efforts by the unemployed.

In parallel, the survey shows that 90% of lower middle-income Lebanese respondents, 89.1% of poor respondents and 85% of upper middle-income and rich respondents in Lebanon support reforming the subsidy system in the country. It noted that Lebanon was the only country where poor respondents were more willing to consider reforming subsidies than the lower middle-income group, and where such reforms had the highest rate of support. In comparison, 65% of lower middle-income Tunisian respondents, 44.7% of those in Jordan and 44% of those in Egypt encouraged the reform of subsidies in their countries. Also, the survey revealed that 97% of participants from Lebanon, who were willing to consider the reform of at least one subsidy, favored the removal of the tobacco growers' subsidy, relative to 20% who support the elimination of the diesel subsidy and 7% who are for the abolition of bread and flour subsidies. It noted that citizens in each of the four countries who were ready to consider the reform of at least one subsidy were more tolerant of reforming fuel than food subsidies. Further, it indicated that the majority of respondents in Lebanon preferred spending the savings from subsidy reform on cash-based transfers targeted to the poor and on investments in education and healthcare, while 71% of respondents in Egypt, 61% of participants in Jordan and 56% of respondents in Tunisia preferred to spend the savings from subsidy reform only on cash-based transfers targeting the poor. The survey's results are based on face-to-face interviews with approximately 1,000 adults per country that were conducted between March and May 2012.

Airport passengers up 5.4% in 2012

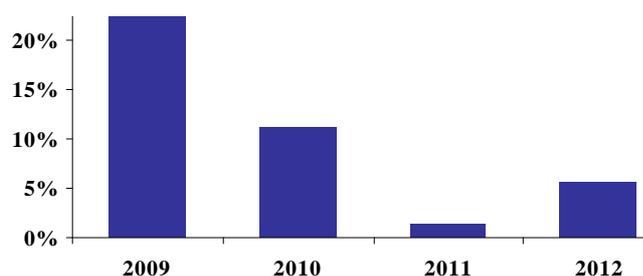
Figures released by the Hariri International Airport (HIA) show that the number of airport passengers (arrivals, departures, transit) totaled 5,960,414 in 2012, constituting an increase of 5.4% from 2011. The total number of arriving passengers grew by 2.8% year-on-year to 2,895,218 in 2012, compared to a rise of 2% in 2011 and a growth of 10.7% in 2010. Also, the number of departing passengers rose by 8.5% year-on-year to 3,018,007 in 2012 relative to a rise of 1% in 2011 and a 12% growth in 2010. In parallel, the airport's landing and take-off activity dropped by 0.7% to 63,211 in 2012 compared to a drop of 3.7% in 2011 and an increase of 15% in 2010. The HIA processed 84,910.7 metric tons of cargo in 2012 that consisted of 84,140.5 tons of freight and 770.2 tons of mail.

Government Effectiveness in Providing a Social Safety Net (% of respondents)



Source: Gallup, Byblos Research

Number of Airport Passengers*



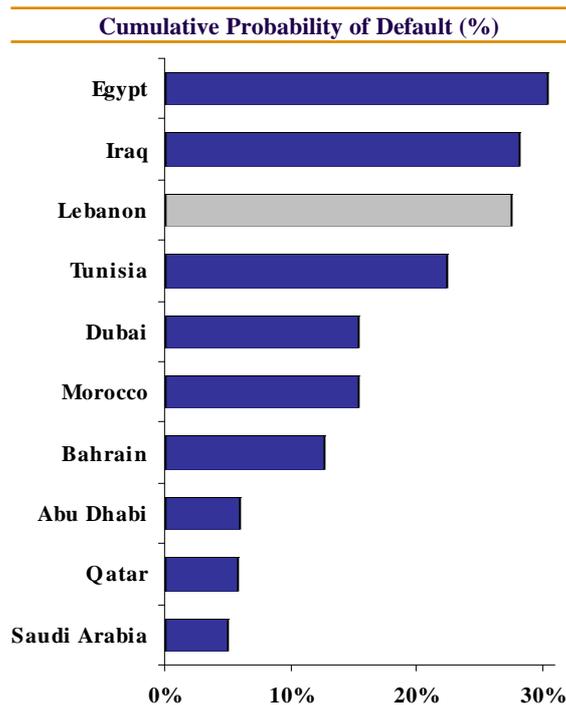
*year-on-year percentage change

Source: Hariri International Airport, Byblos Research

Lebanon's CDS spreads tighten by 2% in fourth quarter of 2012

Figures released by CDS and bond pricing firm CMA Datavision show that spreads on 5-year credit default swaps (CDS) for Lebanon ended the fourth quarter of 2012 at 441 basis points, tightening by 8bps from 449bps at the end of the third quarter, by 37bps from 478bps at the end of the second quarter, and by 5.3bps from 446.3bps at the end of the first quarter of 2012. The firm noted that Lebanon's 5-year CDS spreads were the ninth widest among 69 countries during the fourth quarter. They were wider than Portugal with 436bps, Tunisia with 351bps and Spain with 295bps, and tighter than Iraq's spreads of 462bps, Egypt with 502bps and Ukraine with 628bps. It said that Lebanon's CDS spreads tightened by 1.8% from the preceding quarter.

Further, CMA Datavision indicated that Lebanon ended the fourth quarter of 2012 with a five-year cumulative probability of default (CPD) of 27.5%, decreasing from 27.9% at the end of third quarter and from 29.4% at the end of the second quarter of the year, but similar to the CPD at the end of the first quarter of 2012. It said the CPD quantifies the probability of an issuer being unable to honor its debt obligations over a given time period. It added that the CPD is a function of the market's recovery level, which varies according to several factors and distance to default. It calculates the CPD using an industry standard model and proprietary credit data. Lebanon's CPD at end-December shows that Lebanese debt was the ninth riskiest globally, but it was less risky than the debt of Iraq (28.1%), Egypt (30.4%), Portugal (32.6%), Ukraine (36.3%), Venezuela (37.4%), Pakistan (42.8%), Cyprus (60.5%) and Argentina (61.4%). Sweden, Norway and Finland had the lowest CPDs among the 69 sovereigns covered in the survey, with rates of 1.6%, 1.7% and 2.6%, respectively.



Source: CMA Datavision, Byblos Research

Proposed structure for mobile sector unlikely to stimulate innovation or raise usage of telecom services

Business Monitor International indicated that the Ministry of Telecommunications' new proposed structure for Lebanon's mobile phone sector would meet the government's revenue targets, but is not likely to stimulate innovation or raise the usage of telecom services in the country. It noted that the new structure consists of merging the mobile network infrastructures of the existing state-owned operators Touch and Alfa Telecom into a single platform, and then licensing three to five private firms to operate as Mobile Virtual Network Operators (MVNOs) that offer retail services to customers. It added that the model proposes government ownership of the single network infrastructure, with the possibility of floating a stake of up to 3% on the market.

BMI considered that the proposed new model for Lebanon's mobile sector does not adopt privatization or introduce competition to the market, mainly on the network operator level. It pointed out that the new model ignores the fundamental need for private investment and competition at the network operator level, even though it allows competition between the MVNOs at the retail level. It said that the new structure would allow the government to maintain control of key network strategies, including geographical coverage and technology upgrades, which would prevent the retail service providers from introducing unique services and new value propositions. It added that the pricing ability of the retail operators would be limited under the proposed structure, as the state-owned infrastructure company would impose a uniform rate for capacity.

BMI attributed the government's decision to retain control of the mobile telecommunications sector to its need to secure revenues from telecom services. It said that Touch and Alfa Telecom posted total revenues of about \$1.6bn in 2011, of which \$1.4bn were directly transferred to the government. It noted that these revenues, along with those of the state-owned incumbent operator in the fixed-line and internet markets, accounted for about 40% of public revenues in 2011. BMI expected mobile penetration in Lebanon to reach 100% by end-2016 relative to 78% at the end of 2011. It forecast broadband penetration to remain below 10% by 2017.

Real GDP growth projected at 2.8% in 2013, third lowest in MENA region

The World Bank projected economic growth in Lebanon at 2.8% in 2013, compared to growth of 3.4% in the Middle East & North Africa, 3.5% for the region's developing oil importers that include Egypt, Jordan, Lebanon, Morocco and Tunisia, 2.4% for the global economy and 5.5% in developing countries. Lebanon's projected growth rate for 2013 would make it the third slowest growing economy among 11 countries in the MENA region, ahead of Syria with growth of 1% and Iran with growth of 0.6%, and the slowest growing economy among developing oil-importers in the region. The 11 countries exclude the GCC economies. The Bank attributed Lebanon's weak economic growth this year partly to the continued negative spillovers from the Syrian conflict on the tourism sector and other export services. It said that economic spillovers from the crisis would intensify if the Syrian conflict worsens. It noted that the Syrian war weighed on Lebanon's inflation levels, in part due to an increase in rental prices for residential properties from Syrians fleeing the conflict to Lebanon. It added that spillovers effects from the Syrian conflict would result in temporarily weaker foreign investment inflows to Lebanon. But Lebanon's economic growth to pick up to 3.6% in 2014 and 4% in 2015. However, Lebanon's projected growth rate for 2014 and 2015 would remain the third slowest growth rate in the region and the slowest among developing oil importers in each year. Further, the World Bank forecast Lebanon's current account deficit at 19.4% of GDP in 2013 relative to 20.1% of GDP last year, widest in the region, and compared to a surplus of 0.6% of GDP for the region this year. Lebanon's current account deficit would remain the widest in the region in both 2014 and 2015 at 18.5% of GDP and 17.9% of GDP, respectively.

In parallel, the World Bank revised downward its estimate for economic growth in Lebanon to 1.7% in 2012 from 2.8% previously, and compared to growth of 3.8% in the MENA region and 2.5% for the region's developing oil importers last year. Lebanon was the second slowest-growing economy among 11 MENA countries in 2012, ahead of only Yemen at 0.1%. Real GDP in Syria and Iran posted contractions of 20% and 1%, respectively, last year. It also estimated Lebanon's current account deficit at 20.1% of GDP in 2012, down from 21.4% of GDP in 2011 and compared to a surplus of 1% of GDP for the region.

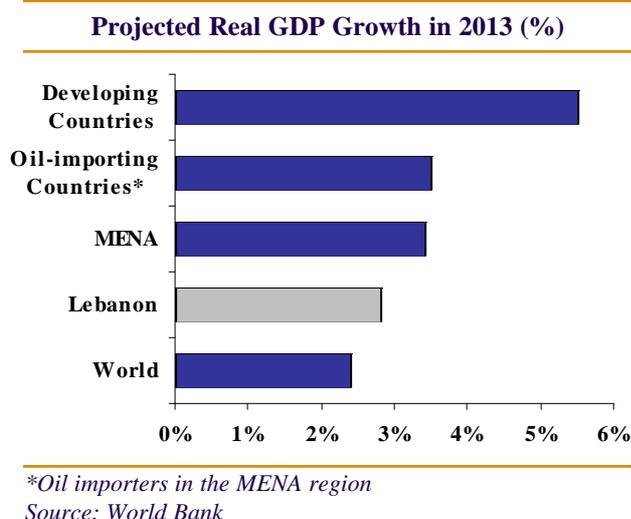
Central Bank details mechanism to inject LBP2,200bn in the economy

The Central Bank of Lebanon issued Intermediate Circular 313 on January 14, 2013, which amends Basic Circular 23 dated March 7, 1996. The circular stipulates that banks operating in Lebanon can benefit from financial facilities from the Central Bank totaling up to LBP2,200bn, or \$1.46bn, against guarantees from the beneficiary banks. The Bank will extend the loans on a first-come first-served, and has fixed the interest rate on these facilities at 1% per year to be paid monthly by the beneficiary banks.

The circular stipulates that banks can take from the Central Bank advances equivalent to between 15% and 60% of loans extended to productive sectors, 60% of non-housing loans extended in local currency, 100% of loans that finance higher education, 150% of credits allocated in local currency for research and development, 150% of loans extended to finance investment projects in Lebanon, and between 30% and 150% of loans extended to finance environmentally-friendly projects. Also, it pointed out that banks are eligible for advances equivalent to between 60% and 100% of allocated housing loans. It noted that the amount of a single housing loan should not exceed LBP800m or \$530,700 and that the beneficiary is not allowed to use other financial facilities to finance the acquired residential unit. It added that a bank can extend under the program a total of LBP100bn or \$63m in each of the first and second half of 2013 in housing loans.

According to the circular, the Central Bank allocated LBP1,232bn or \$817.2m to the housing sector, followed by environmentally-friendly projects with LBP443bn (\$293.9m), productive sectors with LBP310bn (\$205.6m), non-housing loans with LBP120bn (\$79.6m), education with LBP50bn (\$33.2m), and research & development and investment projects with LBP22.5bn (\$14.9m) each. As such, housing loans would account for 56% of the total facility, followed by environmentally-friendly projects with 20%, productive sectors with 14%, non-housing loans with 5.5%, education with 2.3%, and research & development and investment projects with 1% each.

Further, the circular stipulates that overall loans extended under the program must finance new projects or the development of existing ones, and must not be used to refinance existing projects, repay loans, finance partnerships, or fund the operating capital of a company. It pointed out that banks are obliged to abide by the interest rates fixed by the Central Bank for each type of loan and by the total amount that all banks are allowed to lend for each sector. The Central Bank indicated that banks would not benefit from reductions in reserve requirements for these loans.



Central Bank to maintain policy of monetary stability, ABL warns about rise in public spending

In the monthly meeting between the Central Bank and the Association of Banks in Lebanon (ABL), Governor Riad Salamé stated that the banking sector's indicators were positive in 2012, as deposits rose by more than 7% and loans grew by about 10% during the year. But he noted that the balance of payments remained negative with a deficit of \$1.85bn in the first 11 months of 2012. He said the Central Bank will adopt two approaches to address its liquidity, through exchanging Certificates of Deposits that mature in 2013 and 2014 with longer-maturing ones; and through selling part of its Eurobond portfolio, which totals \$3bn, to banks and financial institutions. He added that these steps would help improve the Central Bank's liquidity position in foreign currency and enhance the quality of its balance sheet. Also, he stated that the Bank's policy of monetary stability would remain unchanged during the year, as reflected by a stable exchange rate and interest rates.

In parallel, the ABL expressed its deep concerns about the ongoing increase in public spending despite the steady decline in debt servicing in recent years. It said the spending is being reflected through a widening of the fiscal deficit and a decline in the budget's primary surplus. Further, the deficit at state-owned Electricité du Liban is causing a deficit in the balance of payments close to \$2bn, whose financing is reducing the Central Bank's foreign currency reserves. The ABL also warned from the increase in the public sector's wasteful spending and in election-related expenditures. It questioned the government's capacity to finance the growth in spending and stressed that the economy cannot withstand new taxes or the increase of existing taxes to support government spending. As such, the ABL stated that it is seriously considering whether to stop financing any new unjustified public expenditures or any additional widening of the deficit. Governor Salamé agreed that the continuation of this spending trend is risky and that public finances need structural reforms.

In addition, the ABL urged the Central Bank to help accelerate the ratification in Parliament of three draft laws that were approved by the Cabinet and that have been forwarded to the legislative body. The first draft law is about the exchange of tax information with other countries in line with the standards of the Organization of Economic Cooperation and Development; the second draft law introduces wide modifications to the existing anti-money laundering law so the latter conforms to international standards and norms; and the third draft law regulates the cross-border transfer of cash. The ABL noted that, with the Parliament's ratification of these draft laws, the banking sector would fulfill its international obligations, which would strengthen the Lebanese financial system.

Central Bank mandates commercial banks and financial institutions to establish compliance department

The Central Bank of Lebanon issued Basic Circular 128 on January 12, 2013 that requires banks and financial institutions operating in Lebanon to establish a Compliance Department that would combine a Legal Compliance Unit and an Anti-money Laundering and Combating the Financing of Terrorism (AML/CFT) Compliance Unit. It noted that the Legal Compliance Unit would monitor potential legal risks and take the appropriate measures to prepare for, limit and mitigate these risks. It pointed out that the AML/CFT Compliance Unit would verify that measures to combat money laundering and terrorism financing are properly implemented.

Also, the circular required the Compliance Department to be completely independent from other departments at the bank or financial institution, including from the Legal Department and the Internal Audit Department. It indicated that banks and financial institutions in Lebanon should grant their Compliance Department the required authority to carry out its responsibilities in order to avoid possible breaches of laws and regulations. It noted that the department should have the right to obtain access to any records or files necessary to carry out its duties, and should have direct access to members of the Board of Directors of the bank or financial institution, as well as to the Central Bank, the Banking Control Commission of Lebanon, and the Special Investigation Commission against Money Laundering and Terrorism Financing.

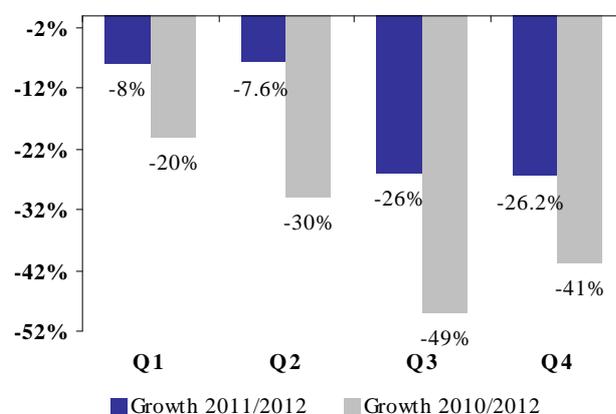
Further, the circular indicated that the Compliance Department should identify and assess non-compliance risks that are associated with the activities of banks or financial institutions, especially those arising from new activities or products. It added that the department should assess the efficiency of the procedures implemented by banks and financial institutions to identify breaches. Further, it said that the department should verify the compliance of banks and financial institutions with laws, rules, regulations and circulars issued by the Central Bank, the Banking Control Commission of Lebanon, and the Special Investigation Commission. It stressed that the department should monitor any amendments to laws and regulations, and should advise the bank or financial institution on required policies and regulations to comply with these changes.

The circular pointed out that the responsibilities of a Compliance Department at a bank or financial institution cover the parent entity and its subsidiaries in Lebanon and overseas. Also, the Central Bank asked banks and financial institutions to establish the Compliance Department before the end of September 2013.

Number of tourists down 17.5% in 2012

The number of incoming tourists to Lebanon totaled 1,365,845 in 2012, constituting a decrease of 17.5% from 1,655,051 tourists in 2011 and a decline of 37% from 2,167,989 tourists in 2010. The decrease in tourist arrivals last year was driven by year-on-year declines in tourist arrivals of 14.8% in December, 38.8% in November, 25.7% in October, 33.3% in September, 13.5% in August, 28.4% in July, 11.6% in June, 0.9% in May, 8.3% in April, 11.2% in March, 8.9% in February and 2.1% in January. Arab tourists accounted for 33.5% of total visitors in 2012, and were followed by visitors from Europe with 32.6%, the Americas with 16.2%, Asia with 9.3%, Africa with 4.5%, and Oceania with 3.8%. Also, tourists from Iraq accounted for 15.7% of visitors during 2012, followed by France with 14.9%, the United States with 13.7%, Jordan with 11%, Canada with 9.4%, and Saudi Arabia with 9%. The number of African tourists was almost unchanged in the covered period; while the number of tourists from Asia declined by 48.1% annually, Arab tourists dropped by 21.2%, those from Europe dropped by 8.4%, visitors from Oceania fell by 8% and tourists from the Americas decreased by 0.7%. Further, the number of tourists from the UAE declined by 44.7% annually, followed by Saudi Arabia and Kuwait with a 35% decrease each, Jordan (-31.3%) and Turkey (-19.1%). In parallel, the number of tourists from Venezuela rose by 24.8% annually, followed by visitors from Egypt and the U.S. with increases of 1.9% and 0.3%, respectively. Incoming tourists totaled 1.66 million in 2011, down 23.7% year-on-year.

Number of Tourist Arrivals in 2012 (% quarterly change)



Source: Ministry of Tourism, Byblos Research

Industrial exports down 12% to \$2.7bn in first 11 months of 2012

Figures released by the Ministry of Industry show that industrial exports totaled \$2.7bn in the first 11 months of 2012, constituting a decrease of 11.7% from the same period of the preceding year. Industrial exports reached \$244m in November 2012, increasing by 0.9% from \$241.9m in October 2012 but declining by 14% from \$283.3m in November 2011. Machinery & mechanical appliances accounted for \$434m, or 16.2% of total industrial exports in the first 11 months of 2012, followed by base metals & articles of base metals with \$421.8m (15.7%), and pearls & precious or semi-precious stones with \$378.2m (14.1%). Arab countries accounted for 54.3% of total industrial exports in November 2012, followed by Asian countries with 17.4%, European countries with 12.3% and African countries with 11%.

In parallel, industrial imports reached \$262.8m in the first 11 months of 2012, up 22.8% from the same period in 2011. Italy was the main source of such imports and accounted for 22% of the total. It was followed by China with 16.8% and Germany with 12.8%. Further, imports of industrial equipment and machinery reached \$23.4m in November 2012, increasing by 52.6% year-on-year. Germany was the main source of imports of industrial equipments, accounting for 17.8% of the total, followed by Italy with 17% and China with 12.3%.

Revenues through the Port of Beirut up 4% to \$2.5bn in first 11 months of 2012

Figures released by the Port of Beirut show that overall receipts generated through the port reached \$2.5bn in the first 11 months of 2012, constituting a rise of 4.1% from \$2.4bn in the same period of 2011. Customs receipts through the port totaled \$1.3bn in the first 11 months of 2012, up 5% from \$1.2bn in the same period of 2011; while receipts from the value-added tax grew by 2.4% to \$1.1bn. Also, the port's overall income grew by 8.8% year-on-year to \$158.5m in the first 11 months of 2012. Further, the Port of Beirut handled an aggregate weight of 6.6 million tons of freight in the first 11 months of 2012, up by 8% from 6.1 million tons in the same period of 2011. Import freight accounted for 88.2% of the weight, while the remaining 11.8% was export cargo. A total of 1,956 ships docked the port in the first 11 months of 2012, constituting a decrease of 1.7% from 1,990 ships in the same period of 2011.

In parallel, overall revenues generated through the Port of Tripoli reached \$104.4m in the first 11 months of 2012, constituting a drop of 28.7% from \$146.3m in the same period of 2011. Customs receipts through the port reached \$33.2m in the covered period, down 16.4% from \$39.7m in the same period of 2011; while receipts from the value-added tax reached \$62.2m and dropped by 35.9% from \$97.1m in the first 11 months of 2011. The port's revenues declined 5.8% to \$9m in the first 11 months of 2012 from \$9.5m in the same period of 2011. Further, the Port of Tripoli handled an aggregate weight of 1.1 million tons of freight in the first 11 months of 2012, down by 26.2% from 1.5 million tons in the same period of 2011. A total of 457 ships docked the port in the first 11 months of 2012, constituting a decrease of 4.2% from 477 ships in the same period last year.

Lebanon has 2,536 pharmacies and 302 medical laboratories

Figures compiled by Université Saint-Joseph, the World Health Organization and the Ministry of Public Health show that there were 2,536 pharmacies in Lebanon in 2011, including 2,315 private pharmacies and 221 hospital pharmacies.

The geographical distribution of pharmacies shows that Mount Lebanon had 1,084 pharmacies or 42.7% of the total in Lebanon last year. It was followed by the North with 373 pharmacies (14.7%), the Bekaa with 348 ones (13.7%), Beirut with 312 (12.3%), the South with 266 (10.5%) and Nabatieh with 153 (6%). Further, Mount Lebanon had 1,027 private pharmacies and 57 hospital pharmacies, followed by the North with 349 private pharmacies and 24 hospital ones, the Bekaa with 328 private and 20 hospital ones, the South with 243 private and 23 hospital pharmacies, Beirut with 223 private pharmacies and 89 at hospitals, and Nabatieh with 145 private and eight hospital ones.

In parallel, there were 302 medical laboratories in Lebanon at end-May 2011, of which 181 private laboratories and 121 at hospitals. The geographical distribution of laboratories shows that Mount-Lebanon had 105 laboratories or 34.8% of the total in Lebanon at end-May 2011, followed by Beirut with 61 laboratories (20.2%), the South with 54 labs (17.9%), the North with 51 labs (16.9%) and the Bekaa with 31 labs (10.3%). Also, Mount Lebanon had 67 private laboratories and 38 hospital ones, followed by Beirut with 41 private labs and 20 at hospitals, the South with 31 private and 23 hospital labs, the North with 29 private and 22 hospital labs, and the Bekaa with 13 private and 18 hospital laboratories.

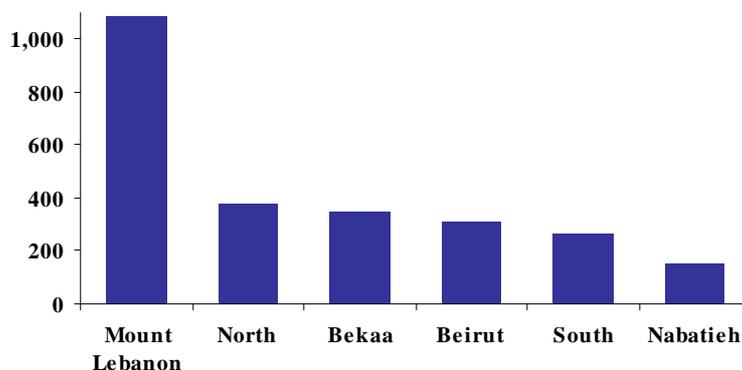
Tourism spending in Lebanon down 29% in fourth quarter of 2012

Figures issued by Global Blue, the VAT refund operator for international shoppers, show that total spending by tourists in Lebanon in the fourth quarter of 2012 decreased by 29% from the same period of the previous year. Visitors from the UAE accounted for 14% of total tourist expenditures in the fourth quarter, followed by visitors from Saudi Arabia with 13%, Egypt with 9%, Kuwait with 8%, and Syria with 7%. Beirut attracted 84% of total spending in the fourth quarter of last year, followed by the Metn area with 13%, and the Keserwan & Baabda regions with 1% each. Fashion & clothing accounted for 70% of total spending in the fourth quarter of 2012, followed by watches & Jewelry with 15%, home & garden products with 4%, department stores and souvenirs & gifts with 3% each, and consumer electronics & household appliances with 2%.

Spending by visitors from Nigeria rose by 7% from the same quarter of 2011; while spending by visitors from Jordan contracted by 55%, followed by visitors from Saudi Arabia (-53%), Qatar (-50%), Kuwait (-48%), Syria (-44%), the United States (-29%), Egypt (-18%), and the UAE (-12%). In parallel, spending by visitors from France remained unchanged from the same quarter of the previous year. Also, the number of refund transactions by visitors from Kuwait decreased by 58%, followed by those from Saudi Arabia (-55%), Jordan (-53%), Qatar (-47%), Egypt and Syria (-32% each), the UAE (-16%), Nigeria (-13%), the United States (-10%), and France (-6%). Spending on watches & Jewelry increased by 7% from the same period of the previous year; while spending on department stores fell by 39%, followed by souvenirs & gifts with a 38% drop, fashion & clothing (-34%), consumer electronics & household appliances (-29%), and home & garden products (-26%).

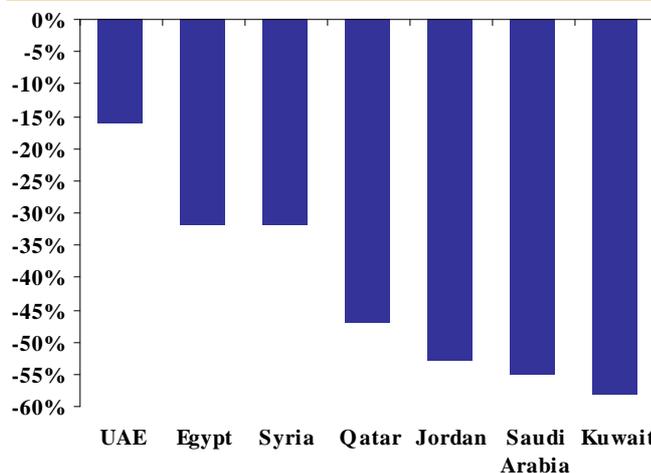
On an annual basis, total spending by tourists in Lebanon decreased by 6% in 2012. Spending by visitors from Nigeria rose by 9% last year, followed by visitors from the U.S. (+4%), the UAE (+2%), and Egypt (+1%); while spending by visitors from Syria contracted by 24%, followed by expenditures by visitors from Saudi Arabia (-23%), Jordan (-21%), Kuwait (-20%), Qatar (-18%), and France (-1%). Also, the number of refund transactions by visitors from Nigeria increased by 2% last year; while refund transactions by visitors from Saudi Arabia fell by 25%, followed by those from Kuwait (-24%), Jordan (-23%), Qatar (-19%), Syria (-15%), France (-7%), the UAE and Egypt (-5%, each), and the U.S. (-2%).

Distribution of Pharmacies by Region



Source: Université Saint-Joseph

Spending by Visitors from Arab Countries in Fourth Quarter of 2012 (% Change)



Source: Global Blue, Byblos Research

New car sales up 9% in 2012

Figures released by the Association of Automobile Importers in Lebanon (AIA) indicate that a total of 35,477 new passenger cars were sold in 2012, constituting an increase of 9.3% from the 32,455 cars sold in 2011 and a rise of 6.2% from the 33,412 cars sold in 2010. Korean cars accounted for 45.1% of total sales, followed by Japanese cars with a 26.9% share, European automobiles with 20.3%, American vehicles with 6.3%, and Chinese cars with 1.3%. Chinese cars posted the highest growth in sales with an 85.7% rise year-on-year, followed by Korean cars with a 17.1% increase, American cars with a 7.8% growth and European cars with a 4.9% rise. In parallel, the number of Japanese cars sold posted a drop of 0.4% year-on-year. Kia was the leading brand in the Lebanese market with 9,484 cars sold in 2012, followed by Hyundai with 6,507 cars sold, Nissan with 5,811, Toyota (1,861), Chevrolet (1,491), Renault (1,302), and Volkswagen (792). In parallel, a total of 2,185 new commercial vehicles were sold in 2012, up 5.7% from the 2,067 vehicles sold in 2011, but down 19.1% from the 2,700 vehicles sold in 2010. The AIA indicated that 92% of new cars sold in 2012 were small automobiles that cost about \$11,000 each. It noted that the trend towards buying smaller cars was due to the high prices of gasoline, the lack of proper public transportation, and fierce competition among car dealers. It added that this translates into lower sales figures and, consequently, a decline in the dealers' income. In parallel, the AIA pointed out that sales of new and used cars reached 71,000 in 2012, constituting a drop of 4.1% from 74,000 cars in 2011 and a decline of 22.8% from 92,000 cars sold in 2010.

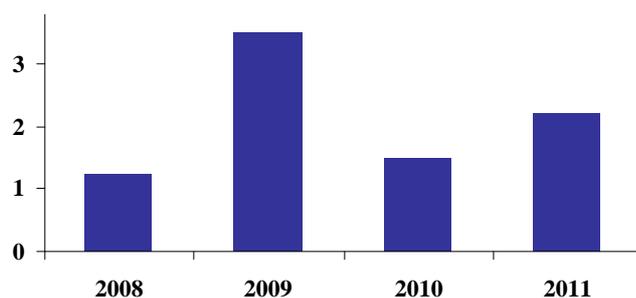
Top eight freight forwarders' activity improves in first 11 months of 2012

Figures released by the Port of Beirut Authority show that overall import shipping operations by the top eight freight forwarders reached 282,907 20-foot equivalent units (TEUs) in the first 11 months of 2012, constituting a rise of 8.9% from 259,766 TEUs in the same period of 2011. They accounted for 60.5% of the total import freight forwarding market during the covered period. Mediterranean Shipping Company (MSC) handled 91,450 TEUs in imports during the first 11 months of 2012, equivalent to 19.6% share of the total freight forwarding import market. It was followed by Sealine Group with 66,212 TEUs (14.2%), Merit Shipping with 53,846 TEUs (11.5%), Metz Group with 34,050 TEUs (7.3%), Gezairy Transport with 19,476 TEUs (4.2%), El Fil Shipping with 8,870 TEUs (1.9%), Edouard Cordahi with 6,763 TEUs (1.4%) and MAERSK with 1,903 TEUs (0.4%). Further, Sealine Group registered the highest growth in import shipping among freight forwarders at 68.5% year-on-year, while MAERSK posted the steepest contraction at 94.2% year-on-year. In parallel, export shipping operations by the top eight freight forwarders reached 52,651 TEUs in the first 11 months of 2012, constituting an increase of 24.6% from 42,262 TEUs in the same period of 2011. They accounted for 99.2% of the total export freight forwarding market during the covered period. Merit Shipping handled 20,304 TEUs of freight, equivalent to 38.3% share of the total freight forwarding export market. It was followed by Sealine Group with 20,079 TEUs (37.8%), MSC with 4,623 TEUs (8.7%), Metz Group with 3,087 TEUs (5.8%), Gezairy Transport with 2,872 TEUs (5.4%), Edouard Cordahi with 619 TEUs (1.2%), MAERSK with 562 TEUs (1.1%) and El Fil Shipping with 505 TEUs (1%). Further, Sealine Group registered the highest growth in export shipping among all freight forwarders at 352.3% year-on-year, while MEARSK posted the steepest drop of 96.3% year-on-year.

Net profit at \$2.2m, loss ratio at 56.2% in 2011 for civil liability insurance segment

Figures released by the Association of Insurance Companies in Lebanon (ACAL) show that the aggregate net profits from the civil liability category of insurance companies operating in Lebanon reached \$2.2m in 2011, relative to net profits of \$1.5m in 2010, \$3.5m in 2009 and \$1.2m in 2008. Civil liability premiums and similar revenues rose by 8.9% to \$11.2m in 2011 and represented 0.9% of total insurance premiums and similar revenues. Written premiums from the civil liability category increased by 14.3% to \$11.5m in 2011 and accounted for 0.9% of the sector's total written premiums, while net premiums from the category rose by 15.1% to \$8.3m and represented 0.9% of the sector's aggregate net premium. Also, net investment income reached \$0.7m last year, up 68.2% from the preceding year. In parallel, the civil liability segment's paid claims increased by 21.2% to \$3m in 2011 and 2011 and accounted for 0.5% of the insurance sector's aggregate paid claims; while overall claim expenses rose by 100.3% to \$6.3m in 2011. Further, net reinsurance expense rose by 161.8% to \$1.2m in 2011; while ceded premiums rose by 5.6% to \$3.2m and paid reinsurance benefits increased by 202.6% to \$0.5m. Also, general insurance expenses decreased by 3.3% to \$3.6m in 2011, as brokerage expenses rose by 1.2% to \$1.8m and administration costs decreased by 4.7% to \$1.5m in 2011. In parallel, the loss ratio of the civil liability category, or the ratio of claims incurred to earned gross premiums, was 56.2% in 2011 compared to 30.6% in 2010 and to 53.1% for the sector's overall ratio during the year. Also, the commission ratio for the civil liability category, or the ratio of acquisition cost to earned gross premiums, reached 17.2% at end-2011 relative to 19.4% at end-2010 and to 16.6% for the sector in 2011. Further, the civil liability segment's reinsurance ratio, or the ratio of net reinsurance income to earned gross premiums, decreased to 11% in 2011 from 19.4% in 2010, and was significantly higher than the insurance sector's ratio of 2.2%. The expense ratio, or the ratio of other general expenses to earned gross premiums, decreased to 15.4% in 2011 from 17.3% in 2010 and was above the insurance sector's ratio of 13%. Finally, the combined ratio of the civil liability category, which is the aggregate ratio of the above four ratios, was 77.7% in 2011 compared to 86.6% in 2010 and relative to the insurance sector's ratio of 85%.

Profits of the Civil Liability Insurance Segment (US\$m)



Source: Association of Insurance Companies in Lebanon

Ratio Highlights

(in % unless specified)	2009	2010	2011	Change*
Nominal GDP ⁽¹⁾ (\$bn)	34.7	37.1	39.1	
External Debt / GDP	61.3	55.4	53.5	(190)
Local Debt / GDP	86.0	86.3	83.7	(260)
Total Debt / GDP	147.2	141.8	137.2	(460)
Total External Debt / GDP	176.1	167.0	163.2	(380)
Trade Balance / GDP	(36.8)	(36.9)	(40.7)	(380)
Exports / Imports	21.5	23.7	21.2	(250)
Budget Revenues / GDP	24.3	22.7	22.7	(5)
Budget Expenditures / GDP	32.8	30.6	27.2	(342)
Budget Balance / GDP	(8.5)	(7.9)	(6.0)	191
Primary Balance / GDP	3.1	3.2	4.3	105
BdL FX Reserves / M2	74.0	77.1	78.8	172
M3 / GDP	236.5	248.4	248.7	30
Bank Assets / GDP	332.1	347.5	359.5	1,200
Bank Deposits / GDP	276.0	289.0	296.0	695
Private Sector Loans / GDP	81.8	94.2	100.7	650
Dollarization of Deposits	64.5	63.2	65.9	270
Dollarization of Loans	84.0	80.3	78.4	(190)

* Change in basis points 10/11

(1) Based on Ministry of Finance Estimations and the International Monetary Fund

Source: Association of Banks in Lebanon, 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	Apr 2011	Mar 2012	Apr 2012	Change*	Risk Level
Political Risk Rating	55.5	55.5	55.5	↔	High
Financial Risk Rating	28.5	35.0	35.0	▲	Low
Economic Risk Rating	32.5	34.0	34.0	▲	Moderate
Composite Risk Rating	58.2	62.2	62.2	▲	Moderate

Regional Average	Apr 2011	Mar 2012	Apr 2012	Change*	Risk Level
Political Risk Rating	60.5	60.5	60.3	▼	Moderate
Financial Risk Rating	41.8	42.1	42.1	▲	Very Low
Economic Risk Rating	37.5	37.3	37.2	▼	Low
Composite Risk Rating	69.9	69.9	69.8	▼	Low

*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	Stable	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		B	Stable

Source: Rating agencies



Economic Research & Analysis Department
Byblos Bank Group
P.O. Box 11-5605
Beirut – Lebanon
Tel: (961) 1 338 100
Fax: (961) 1 217 774
E-mail: research@byblosbank.com.lb
www.byblosbank.com

Lebanon This Week is a research document that is owned and published by Byblos Bank sal. The contents of this publication, including all intellectual property, trademarks, logos, design and text, are the exclusive property of Byblos Bank sal, and are protected pursuant to copyright and trademark laws. No material from Lebanon This Week may be modified, copied, reproduced, repackaged, republished, circulated, transmitted, redistributed or resold directly or indirectly, in whole or in any part, without the prior written authorization of Byblos Bank sal.

The information and opinions contained in this document have been compiled from or arrived at in good faith from sources deemed reliable. Neither Byblos Bank sal, nor any of its subsidiaries or affiliates or parent company will make any representation or warranty to the accuracy or completeness of the information contained herein.

Neither the information nor any opinion expressed in this publication constitutes an offer or a recommendation to buy or sell any assets or securities, or to provide investment advice. This research report is prepared for general circulation and is circulated for general information only. Byblos Bank sal accepts no liability of any kind for any loss resulting from the use of this publication or any materials contained herein.

The consequences of any action taken on the basis of information contained herein are solely the responsibility of the person or organization that may receive this report. Investors should seek financial advice regarding the appropriateness of investing in any securities or investment strategies that may be discussed in this report and should understand that statements regarding future prospects may not be realized.

BYBLOS BANK GROUP

LEBANON

Byblos Bank S.A.L
Achrafieh - Beirut
Elias Sarkis Avenue - Byblos Bank Tower
P.O.Box: 11-5605
Riad El Solh - Beirut 1107 2811 - Lebanon
Phone: (+ 961) 1 335200
Fax: (+ 961) 1 339436

SYRIA

Byblos Bank Syria S.A.
Damascus Head Office
Al Chaalan - Amine Loutfi Hafez Street
P.O.Box: 5424 Damascus - Syria
Phone: (+ 963) 11 9292 - 3348240/1/2/3/4
Fax: (+ 963) 11 3348205
E-mail: byblosbanksyria@byblosbank.com

IRAQ

Erbil Branch, Kurdistan, Iraq
Street 60, Near Sports Stadium
P.O.Box: 34 - 0383 Erbil - Iraq
Phone: (+ 964) 66 2233457/8/9 - 2560017/9
E-mail: erbilbranch@byblosbank.com.lb

Baghdad Branch, Iraq
Al Karrada - Salman Faeq Street
Al Wahda District, No. 904/14
Facing Al Shuruk Building
P.O.Box: 3085 Badalat Al Olwiya - Iraq
Phone: (+ 964) 770 6527807
(+ 964) 780 9133031/2
(+ 964) 1 7177493
E-mail: baghdadbranch@byblosbank.com.lb

UNITED ARAB EMIRATES

Byblos Bank Abu Dhabi Representative Office
Intersection of Muroor and Electra Streets
P.O.Box: 73893 Abu Dhabi - UAE
Phone: (+ 971) 2 6336050 - 2 6336400
Fax: (+ 971) 2 6338400
E-mail: abudhabirepoffice@byblosbank.com.lb

ARMENIA

Byblos Bank Armenia CJSC
18/3 Amiryan Street - Area 0002
Yerevan - Republic of Armenia
Phone: (+ 374) 10 530362
Fax: (+ 374) 10 535296
E-mail: infoarm@byblosbank.com

CYPRUS

Limassol Branch
1, Archbishop Kyprianou Street
Loucaides Building
P.O.Box 50218
3602 Limassol - Cyprus
Phone: (+ 357) 25 341433/4/5
Fax: (+ 357) 25 367139
E-mail: byblosbankcyprus@byblosbank.com.lb

BELGIUM

Byblos Bank Europe S.A.
Brussels Head Office
Rue Montoyer 10
Bte. 3, 1000 Brussels - Belgium
Phone: (+ 32) 2 551 00 20
Fax: (+ 32) 2 513 05 26
E-mail: byblos.europe@byblosbankeur.com

UNITED KINGDOM

Byblos Bank Europe S.A., London Branch
Berkeley Square House - Suite 5
Berkeley Square
GB - London W1J 6BS - United Kingdom
Phone: (+ 44) 207 493 3537
Fax: (+ 44) 207 493 1233
E-mail: byblos.europe@byblosbankeur.com

FRANCE

Byblos Bank Europe S.A., Paris Branch
15 Rue Lord Byron
F- 75008 Paris - France
Phone: (+33) 1 45 63 10 01
Fax: (+33) 1 45 61 15 77
E-mail: byblos.europe@byblosbankeur.com

SUDAN

Byblos Bank Africa
Khartoum Head Office
Intersection of Mac Nimer and Baladiyya Streets
P.O.Box: 8121 - Khartoum - Sudan
Phone: (+ 249) 1 56 552 222
Fax: (+ 249) 1 56 552 220
E-mail: byblosbankafrica@byblosbank.com

NIGERIA

Byblos Bank Nigeria Representative Office
161C Rafu Taylor Close - Off Idejo Street
Victoria Island, Lagos - Nigeria
Phone: (+ 234) 706 112 5800
(+ 234) 808 839 9122
E-mail: nigeriarepresentativeoffice@byblosbank.com.lb

DEMOCRATIC REPUBLIC OF CONGO

Byblos Bank RDC S.A.R.L
Avenue du Marché No. 4
Kinshasa-Gombe, Democratic Republic of Congo
Phone: (+ 243) 81 7070701
(+ 243) 99 1009001
E-mail: byblosbankrdc@byblosbank.com

ADIR INSURANCE

Dora Highway - Aya Commercial Center
P.O.Box: 90-1446
Jdeidet El Metn - 1202 2119 Lebanon
Phone: (+ 961) 1 256290
Fax: (+ 961) 1 256293