



LEBANON THIS WEEK

In This Issue

Economic Indicators.....1

Capital Markets.....1

Lebanon in the News.....2

Copyright violations remain a significant obstacle to legitimate business in Lebanon

New \$30m fund to support seed and early growth firms

Labor force participation rate at 45.7% in Lebanon, youth labor force participation rate at 29.4%

French firm confirms presence of offshore hydrocarbon reserves

Airport passengers up 8% in January 2013

Launch of pre-qualification phase for offshore oil and gas exploration and production

Central Bank reaffirms Lebanon's commitment to implement FATCA, stimulus package to prevent recession

Customs receipts up 3% to \$1.6bn in 2012

Domestic political uncertainties and Syrian conflict to limit economic growth in 2013

Beirut ranks 204th worldwide, 21st in MENA region in infrastructure quality

Government to launch tender for management contracts of mobile phone networks

Beirut Chamber of Commerce launches fund in support of entrepreneurs and SMEs

EU provides grants of €5m to facilitate credit access to farmers, build municipal capacity and to train stakeholders in the judiciary

Opened letters of credits at \$2.9bn for imports and \$2.1bn for exports in first half of 2012

Slow construction and public work activity in second quarter of 2012

Corporate Highlights8

New car sales up 13% in January 2013

Abraaj Capital to sell stake in Spinneys Group

CMA CGM finalizes financial restructuring plan

Fitch Ratings affirms MetLife ratings

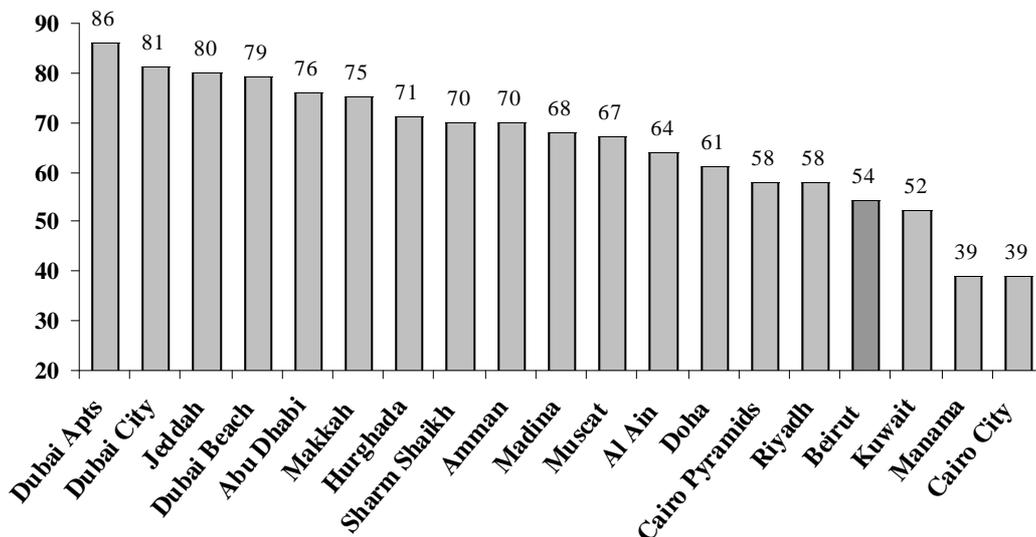
Ratio Highlights.....9

Risk Outlook.....9

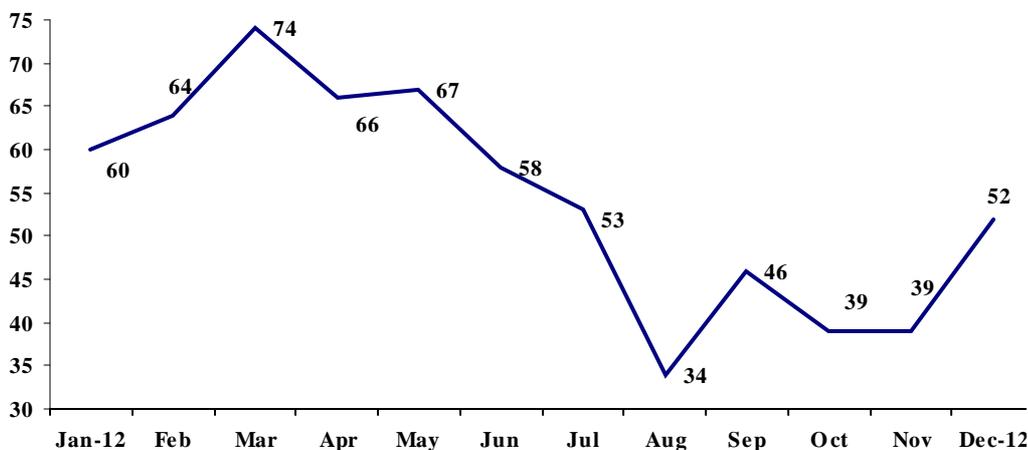
Ratings & Outlook.....9

Charts of the Week

Occupancy Rate at Hotels in Arab Cities in 2012 (%)



Occupancy Rate at Hotels in Beirut in 2012 (%)



Source: Ernst & Young, Byblos Bank

Quote to Note

"The fractured domestic political environment implies little progress on the reduction of the high fiscal deficit, particularly in the lead-up to elections."

Russian bank VTB Capital, on the lack of political will to reduce the fiscal deficit

Number of the Week

\$6.6bn: Outstanding housing loans in Lebanon at the end of June 2012, according to the Central Bank of Lebanon

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"	12.75	(0.93)	54,559	11.70%
Solidere "B"	12.64	(0.08)	28,430	7.54%
Byblos Common	1.60	(1.84)	25,370	5.28%
Byblos Pref. 08	102.30	0.00	0	1.88%
Byblos Pref. 09	102.10	0.00	0	1.87%
BLOM GDR	8.43	0.24	13,230	5.71%
BLOM Listed	8.10	2.02	31,000	15.98%
Audi GDR	6.85	0.74	10,000	6.41%
Audi Listed	6.74	(0.15)	59,820	21.62%
HOLCIM	15.80	0.00	0	2.83%

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

Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
June 2013	8.625	102.60	0.73
Apr. 2014	7.375	106.13	1.95
Jan. 2015	5.875	104.75	3.27
Apr. 2015	10.00	113.88	3.34
Jan. 2016	8.500	111.00	4.43
Mar. 2017	9.000	115.88	4.68
Nov. 2018	5.150	100.25	5.10
Apr. 2021	8.250	115.88	5.78
Nov. 2026	6.600	103.25	6.24

Source: Byblos Bank Capital Markets

	Feb11 - 15	Feb 4 - 8	% Change	Jan 2013	Jan 2012	% Change
Total Shares Traded	80,033	55,565	44.03	2,975,129	4,698,553	(36.68)
Total Value Traded	\$488,185	\$369,860	31.99	\$15,350,339	\$30,077,732	(48.96)
Market Capitalization	\$10.90bn	\$10.89bn	0.08	\$10.85bn	\$10.29bn	5.47

Source: Beirut Stock Exchange (BSE)



Copyright violations remain a significant obstacle to legitimate business in Lebanon

The International Intellectual Property Alliance (IIPA), an organization representing more than 3,200 companies that produce and distribute copyright-protected materials throughout the world, asked the United States Trade Representative to keep Lebanon on the Watch List for the ineffective and inadequate protection of intellectual property rights (IPRs), and for severe copyright problems. The alliance's request is part of its overall recommendations to the U.S. authorities in the annual 'Special 301' review of copyright piracy and market access problems in 48 countries. Lebanon is one of 25 countries recommended for the Watch List that includes Egypt, Israel, Kuwait, Saudi Arabia, Turkey and the UAE from the region.

The IIPA indicated that Lebanese authorities have made incremental progress in copyright protection. But it noted, however, that it is premature to remove Lebanon from the 'Special 301' list, given the importance of establishing a proper legal framework for copyright protection and to fully implement Lebanese laws to reduce piracy and foster growth in the country's creative sectors. It added that some in the government have questioned whether they should take IPR enforcement actions against small businesses, which constitutes another factor against removing Lebanon from the list.

The IIPA stated that piracy remains a significant obstacle to legitimate business in Lebanon despite the authorities' incremental progress in fighting piracy. It cited problems like end-user piracy of business software that continues to cause enormous losses to software companies; book piracy in the form of illegal photocopying on and around university campuses; the export of pirated books to Gulf countries; retail piracy of all kinds of copyright materials such as movies, music and entertainment software; cable and pay TV piracy; growing Internet-based and mobile device piracy; hard-disk loading of software onto computers at points of sale; and the sale of circumvention devices such as pay TV decoders.

It pointed out that Lebanese courts continue to be a weak link in enforcing intellectual property rights as court processes, from prosecutorial preparation to judicial process, do not deter further infringements or provide adequate compensation against piracy. Further, it said that the Lebanese government uses unlicensed software on its equipment. It noted that the government needs to lead by example in protecting IPRs and in ensuring that its own software usage is licensed. It added that authorities have to take the lead in driving local education, awareness and enforcement to combat software piracy in the country. It pointed out that copyrights are important to Lebanon's economy and would contribute even more to the economy if intellectual property rights were more effectively enforced. It said that it is important for Lebanon to establish the proper legal framework for copyright protection and to fully implement the laws to reduce piracy and foster growth in the country's creative sectors.

The IIPA noted that the Lebanese government's efforts remain inadequate regarding the amendments of its 1999 Copyright Law and related laws that are necessary to implement the relevant international treaties related to Lebanon's accession to the World Trade Organization. It said the current law provides a sound basis for IPR protection, but includes several deficiencies that must be addressed and that would lead to a more effective statute.

The IIPA called on the Lebanese government to take several actions that would yield immediate benefits to copyright industries. It said authorities need to ensure that the Cyber Crime and Intellectual Property Rights Bureau Unit continues to actively run raids against piracy targets on request, including end-user software piracy; and to provide the unit with ex officio raiding authority, authority to employ investigative techniques to detect piracy, and a regular operating budget. Further, it asked authorities to ensure that draft amendments to the Lebanese Copyright Law are compatible with major international copyright treaties, including the Trade-Related Aspects of Intellectual Property Rights (TRIPS) Agreement, the WIPO Copyright Treaty (WCT) and the WIPO Performances and Phonograms Treaty (WPPT). Also, it encouraged authorities to pass accession legislation to permit Lebanon to join the Berne Convention and to deposit the ministerial acts of ratification of the WCT and WPPT with the World Intellectual Property Organization in Geneva. Finally, it urged the continuous training of Lebanese prosecutors and judges, and called on the government to consider seriously the establishment of a special IPR tribunal and to assign special IPR prosecutors.

New \$30m fund to support seed and early growth firms

The World Bank extended a \$30m soft loan to Lebanon in a pilot program to support innovation in small- and medium-size enterprises (SMEs) in the country. The program will be implemented by the Kafalat Corporation. The initiative consists of establishing an iSME fund with a capital of \$27.5m to support innovation at SMEs. The fund will provide \$25m in equity investments to finance qualified seed- and early growth-stage firms. It will also extend \$2.5m to entrepreneurs to develop new business ideas. In parallel, entrepreneurs need to secure matching funds from a private-sector investor in order to qualify for equity investment from the iSME fund. The remaining \$2.5m of the initiative will support the program's management, strategic training activities, and promotional and marketing activities. The World Bank loan is for 17 years and has a six-year grace period. Kafalat is a state-sponsored organization that provides financial guarantees for loans up to \$400,000 earmarked for the set up and expansion of small and medium-size companies in productive sectors.

Labor force participation rate at 45.7% in Lebanon, youth labor force participation rate at 29.4%

Figures issued by the International Labor Organization indicate that the labor force participation rate for Lebanese aged 15 and above was 45.7% in 2010, with a rate of 70.8% for males and 22.5% for females. Lebanon's labor force participation rate was lower than the population-weighted average labor force participation level of 49.1% in Arab countries, as well as lower than the 59.8% rate in Gulf Cooperation Council (GCC) countries and the 48.8% level in North African countries, while it was higher than the 43.5% rate in Middle Eastern economies. Also, Lebanon had the sixth lowest rate among 18 Arab countries, higher than that of Algeria (43.3%), Syria (42.3%), Iraq (41.4%), Jordan (41.1%) and Palestine (40.8%).

Further, Lebanon's labor force participation rate excluding students reached 56.5% in 2010, with a rate of 86% for males and 28.6% for females. Lebanon's labor force participation rate excluding students was higher than the equivalent participation rate of 56% in Arab countries, the 55.6% rate in North African countries and the 49.4% level in Middle Eastern countries, while it was lower than the 68.5% rate in GCC economies. Also, Lebanon had the ninth lowest rate among Arab countries.

In parallel, the youth labor force participation rate in Lebanon was 29.4% in 2010, with a rate of 41% for males and 17.6% for females. Lebanon's youth labor force participation rate was lower than the equivalent level of the 32.1% in Arab countries, the 33.6% rate in North African countries and the 31.1% level in Middle Eastern countries, while it was higher than the 26.9% rate in GCC economies. Lebanon had the sixth lowest such rate among Arab countries, higher than that of Iraq (28.9%), Algeria (28.1%), Jordan (27.1%), Palestine (25.2%), and Saudi Arabia (16.2%).

Also, Lebanon's youth labor force participation rate excluding students was 57.7% in 2010, with a rate of 74.6% for males and 37.4% for females. Lebanon's youth labor force participation rate excluding students was higher than the equivalent rate of 43.4% in the Arab world, the 46% level in GCC countries, as well as the rates of 44.9% in North African economies and 39.6% in Middle Eastern countries. Lebanon had the eighth highest such rate among Arab countries.

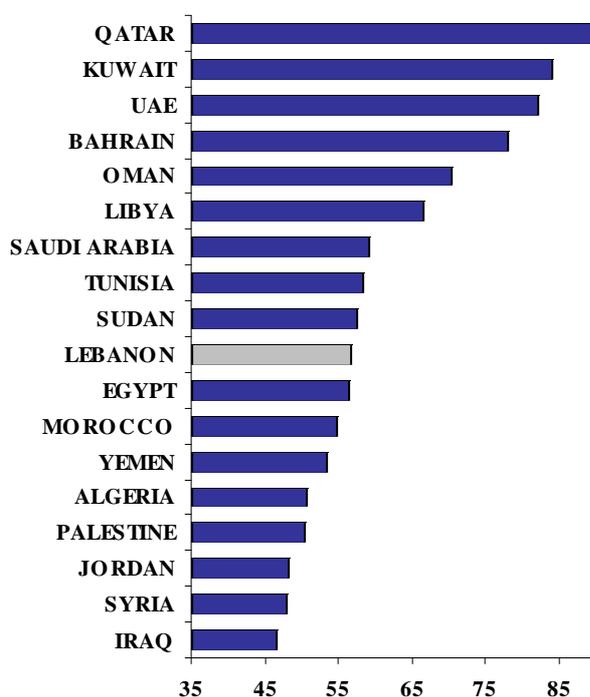
French firm confirms presence of offshore hydrocarbon reserves

French oil and gas consulting firm Beicip-Franlab confirmed the presence of hydrocarbon reserves off Lebanon's northern maritime boundary with Cyprus and Syria. It estimated the reserves at between 440 and 675 millions barrels of oil and about 15 trillion of cubic meters of natural gas. Beicip-Franlab's estimates are in line with earlier findings by the United States Geological Survey (USGS) that estimated that the Levant Basin Province has a mean of 1.7 billion barrels of recoverable oil and a mean of 122 trillion cubic feet of recoverable gas. The Levant Basin Province encompasses approximately 83,000 square kilometers of the eastern Mediterranean area off the coasts of Lebanon, Syria, Cyprus and Israel. The USGS stressed that the estimates represent technically-recoverable oil and gas resources, and are not estimates of economically-recoverable resources. Beicip-Franlab is an affiliate of the French state's oil research institute IFP-Energies nouvelles.

Airport passengers up 8% in January 2013

Figures released by the Hariri International Airport (HIA) show that the number of airport passengers (arrivals, departures, transit) totaled 463,972 in January 2013, constituting an increase of 7.8% from the same month last year. The total number of arriving passengers grew by 10.1% year-on-year to 201,507 in January 2013, compared to an annual rise of 17.6% in January 2012 and a drop of 1% year-on-year in January 2011. Also, the number of departing passengers rose by 8% year-on-year to 261,195 in January 2013 relative to an annual rise of 15% in January 2012 and a growth of 0.7% year-on-year in January 2011. In parallel, the airport's aircraft movements dropped by 4.7% to 4,913 take-offs and landings in January 2013, compared to an annual drop of 0.3% in January 2012 and an increase of 0.7% year-on-year in January 2011. The HIA processed 6,370.8 metric tons of cargo in January 2013 that consisted of 6,308.7 tons of freight and 62.1 tons of mail.

Labor Force Participation Rate in 2010*



*Excluding students

Source: International Labor Organization, Byblos Research

Launch of pre-qualification phase for offshore oil and gas exploration and production

The Ministry of Energy & Water launched on February 15, 2013 the pre-qualification phase for companies that are interested in participating in Lebanon's first licensing round for offshore oil and gas exploration and production. It said that firms have until March 28, 2013 to submit their bids. It plans to publish the list of pre-qualified firms by April 18th and to start receiving their formal applications on May 2nd. It added that companies will have six months from that date to prepare their files and need to submit their offers by November 2013. Also, it 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 anticipated the exploration process to take up to 18 months from the contracts' signing date. As such, the ministry estimated that drilling would begin by the end of 2015, followed by the development phase in 2016 and production thereafter. The ministry said that 29 international firms, which include U.S., European and Asian companies, have already expressed interest in bidding.

Earlier this month, Citigroup indicated that the government's timetable for the start of commercial extraction by 2017 is not realistic and estimated that it is unlikely to start before 2020, given the prevailing divisive politics and the traditional institutional bickering in the country that would result in delays. It noted that this is reflected by the very long period it took authorities to appoint the six members of the Petroleum Administration board to oversee the tendering process. It added that it took more than two years from the ratification of the Petroleum Resources Law in August 2010 to appoint the six members. It noted that the Petroleum Administration and the Cabinet have to take decisions at each stage in order to allow the process to move forward. Such decisions include the parameters for the tendering process, assessment of the bids, terms of contracts, award of contracts, and use of proceeds, among others. It considered that the process would face difficulties, major obstacles and uncertainties, given that political dysfunction in Lebanon has prevented the passage of something as basic and important as a national budget for the past seven years.

Central Bank reaffirms Lebanon's commitment to implement FATCA, stimulus package to prevent recession

In the monthly meeting between the Central Bank and the Association of Banks in Lebanon (ABL), Governor Riad Salamé indicated that deposits in the Lebanese banking sector grew by 8% in 2012, equivalent to a growth of \$9bn, of which \$4.74bn were in foreign currency. He considered that the increase in deposits last year was good even though the rise included \$1bn in end-of-year "window dressing" that is used to inflate banks' balance sheets. It noted that credit to the economy increased by about 10% last year and supported Lebanon's economic activity. He added that the balance of payments posted a deficit of over \$1.5bn in 2012, but it noted that the deficit was lower-than-expected and was narrower compared to the deficit registered in 2011. Also, Governor Salamé considered that the swap operations implemented by the Central Bank last year and that exceeded LBP 5,000bn reflect market stability. He also noted that the Central Bank sold \$2bn from its Eurobonds portfolio, which reflects market liquidity and the confidence in Lebanese debt securities.

In parallel, Governor Salamé indicated that the Bank's stimulus package is going to be essential to promote economic growth this year which could reach around 3%. He added that even if economic growth does not reach such levels, the financial facilities will at least prevent an economic recession. Further, he projected the banking sector's profits to increase by 3% to 4% in 2013 as additional general provisioning will not be required this year, given that banks have already took the necessary provisions related to their regional exposure. He added that the Bank bought \$480m from the market, which strengthens its foreign assets.

Further, Governor Salamé reaffirmed Lebanon's commitment to implement the Foreign Account Tax Compliance Act (FATCA) and stressed that the Central Bank will verify the readiness of banks to comply with the law. He added that the Bank, through the Special Investigation Commission against money laundering and terrorism financing, will assist banks to overcome potential disclosure problems in the absence of a taxation treaty with the U.S., which is currently in a draft format in Parliament. The ABL indicated that it will propose to the U.S. Internal Revenue Service to sign a framework agreement for the sector, but the banks will still have to sign the law individually.

Customs receipts up 3% to \$1.6bn in 2012

Figures released by the Customs Directorate indicated that customs revenues reached \$1.6bn in 2012, constituting an increase of 3.2% from \$1.5bn in 2011. The Port of Beirut continues to be the main point of customs receipts, as it accounted for 88.1% of the total last year, and was followed by the Hariri International Airport with 7.2%, the Port of Tripoli with 2.4%, the Masnaa crossing point with 1.5%, the Port of Saida with 0.5%, the Port of Tyre with 0.2% and the crossing point of Abboudieh with 0.1%. Customs receipts from the value-added tax totaled \$1.45bn last year down 3.9% from \$1.5 in 2011. The Port of Beirut accounted for 79.3% of such receipts, and was followed by the Hariri International Airport with 9.7%, the Masnaa crossing point with 5%, the Port of Tripoli with 4.6%, and the Port of Saida with 1.2% of the total. As such, overall customs receipts reached \$3bn last year, with the Port of Beirut accounting for 83.9% of the total, followed by the Hariri International Airport with 8.4%, the Port of Tripoli with 3.4% and the Masnaa crossing point with 3.2%. In addition, other entry points represented the balance, with the port of Saida accounting for 0.8%, and the crossing point of Abboudieh and the port of Tyre with 0.1% each.

Domestic political uncertainties and Syrian conflict to limit economic growth in 2013

Citigroup anticipated that domestic political instability and the ongoing conflict in Syria would continue to weigh on investment, tourism and trade in Lebanon over the near-term, which would lead to subdued economic growth of 2% this year. It added that high global oil prices would further widen Lebanon's fiscal and current account deficits. It forecast the fiscal deficit to widen to 8.7% of GDP in 2013 relative to an estimated deficit of 7.3% of GDP last year, and for the current account deficit to widen to 15.8% of GDP from 14.6% of GDP in 2012.

It said that the Central Bank's stimulus package is targeting the real estate and construction sectors by lowering mortgages costs and making them more accessible to investors and buyers. It added that authorities consider that a recovery in the real estate sector will be channeled to other sectors of the economy, which would stimulate a broader recovery in economic activity. However, Citigroup indicated that access to finance might not be the main driver of the decline in activity of the real estate sector. It considered that the real estate sector in Lebanon is suffering from wider economic uncertainties that are driven by domestic political instability, the negative economic impact of the Syrian conflict, and concerns about the possible spillover of violence from that conflict. It noted that the Lebanese banking sector is highly liquid, as reflected by the double-digit growth in private sector lending and the continued growth in deposits, even though both indicators decelerated in recent months. It added that banks in Lebanon are more concerned about the lack of domestic lending opportunities and are seeking opportunities in new overseas markets. As such, it pointed out that the package may not be sufficient to stimulate the allocation of further credit.

In parallel, Citigroup indicated that deposit growth in the Lebanese banking sector has been on a downward trend in recent months, as deposits grew by 7.3% annually in November 2012 compared to an annual increase of over 10% at the beginning of 2012. It attributed the deceleration in deposit growth to the deterioration in domestic economic conditions and global uncertainty rather than to political concerns, given that the downward trend started before the deterioration of Lebanon's political and security conditions last year. It added that signs of risk aversion remain stable, as the dollarization rate of deposits has not increased and the interest rate premium on local currency deposits, or the spread between interest rates on US dollar and Lebanese pound deposits, has not widened. Further, it pointed out that the slowdown in deposit growth would not have an impact on the banking sector's ability to support the government's financing needs, as the deposit growth level has outpaced the rate of net debt issuance by the government. It expected the banking sector's support for government debt to continue due to the banks' high liquidity level.

Beirut ranks 204th worldwide, 21st in MENA region in infrastructure quality

Global consulting firm Mercer Consulting's City Infrastructure Index for 2012 ranked Beirut in 204th place among 221 cities worldwide and in 21st place among 25 cities in 22 countries in the Middle East and North Africa region. Also, Beirut came in last place among 42 cities in 36 Upper Middle Income Countries (UMICs) included in the survey. The index ranked the quality of each city's infrastructure based on the level of electricity supply, water availability, telephone and mail services, public transportation, the level of traffic congestion, and the range of international flights from local airports.

On a global basis, Beirut's infrastructure was better than that of Dhaka in Bangladesh, Addis Ababa in Ethiopia, and Nouakchott in Mauritania; but was worse than that of Yaoundé in Cameroon, Tbilisi in Georgia, and Luanda in Angola. Regionally, the quality of infrastructure in Beirut was better than that of only Nouakchott, Khartoum, Sanaa and Baghdad. Beirut was among 12 Arab cities that ranked in the lowest third of the index globally, and was one of five Arab cities that came among the 20 cities with the worst infrastructure worldwide. As such, 92% of cities included in the survey had a better infrastructure level than that of Beirut. Singapore had the best infrastructure worldwide, while Port-au-Prince in Haiti had the most dilapidated infrastructure globally. The data for the survey was collected between September and November 2012.

City Infrastructure Index 2012		
City	MENA Rank	Global Rank
Dubai	1	34
Tel Aviv	2	58
Abu Dhabi	3	72
Muscat	4	94
Cairo	5	95
Doha	6	102
Tunis	7	103
Istanbul	8	104
Manama	9	110
Kuwait City	10	113
Riyadh	11	119
Casablanca	12	121
Jeddah	13	130
Rabat	14	139
Tehran	15	146
Amman	16	158
Tripoli	17	161
Djibouti	18	167
Damascus	19	184
Algiers	20	192
Beirut	21	204
Nouakchott	22	207
Khartoum	23	210
Sanaa	24	219
Baghdad	25	220

Source: Mercer Consulting 2012, Byblos Research

Government to launch tender for management contracts of mobile phone networks

The Ministry of Telecommunications announced that the government will launch a tender to award management contracts of the two state-owned mobile phone networks Mobile Interim Company 1 (MIC 1) and Mobile Interim Company 2 (MIC 2), instead of renewing the existing contracts of the current managers. It said that the new contracts will be for a period of three to five years. Orascom Telecom has been managing MIC 1 since January 2008 and Zain has been running MIC 2 since June 2004. The two operators were receiving a total amount of \$150m per year in management fees. In January 2008, the government said that the duration of both contracts was for one year renewable for one time only. But the contracts of both companies have been renewed annually since then. Upon the contracts' expiration at the end of January 2013, the government extended the deals for one month until it decides what to do. Touch and Alfa's collective income reached \$1.6bn in 2011, of which \$1.4bn were transferred as revenues to the Lebanese Treasury. Touch has a market share of 53% while Alfa accounts for the remaining 47%.

Beirut Chamber of Commerce launches fund in support of entrepreneurs and SMEs

The Beirut & Mount Lebanon Chamber of Commerce, Industry & Agriculture (CCIB) launched a seed capital, development and orientation fund named FARO Lebanon to support entrepreneurs and small- and medium-sized enterprises (SMEs) in the country. The fund's idea is derived from an initiative by the French government to encourage innovation and cooperation among firms and entrepreneurs across the Mediterranean Basin and to create a network of similar funds within the framework of the Union for the Mediterranean project. The first FARO fund was launched in France in May 2010 with the cooperation of the French Development Agency (AFD), the Groupe Caisse des Dépôts, and OSEO, an organization that supports SMEs. The Faro fund has a budget of €1m and enables French entrepreneurs to study the feasibility of innovative projects undertaken in collaboration with partners from South Mediterranean countries. Each project backed by the fund is allocated a subsidy of up to €20,000 to finance up to 50% of the total costs of the project. FARO Lebanon will operate under the same precepts and will implement the same mechanism. The fund will have an initial budget of \$500,000 that will be increased gradually, and will provide up to \$20,000 per eligible project. Also, the European Union pledged to contribute €1m, or \$1.3m, to the fund in 2013.

FARO Lebanon will be managed by a board of trustees that includes representatives from public and private institutions, and will be chaired by the president of the CCIB. In parallel, Lebanese entrepreneurs and SMEs are expected to provide an innovative product or service, or an innovative business model, in order to be eligible for the fund's support. Further, SMEs must have at least one partner from a European or Mediterranean country in order to qualify for the financial support. The fund will be based at the CCIB, while the Chamber's Center for Economic Research will be in charge of reviewing applications and making relevant recommendations to the board of trustees. The center's responsibilities also cover identifying areas where applicants need support, such as preparing a business plan or a feasibility study. Lebanon is the second country after France to establish a FARO fund.

EU provides grants of €5m to facilitate credit access to farmers, build municipal capacity and to train stakeholders in the judiciary

The European Union approved a €5.5m grant to the Ministry of Agriculture under the Credit for Agricultural and Rural Development (CARD) scheme. The CARD plan will support the sector's long-term credit needs and will provide short-term loans of up to €5,000 to rural women and young farmers. The plan is part of the EU-funded Agricultural and Rural Development Program that aims at increasing access to credit for small farmers and agricultural cooperatives. It will be administered by the Kafalat Corporation and will complement Kafalat's agriculture guarantee scheme.

Also, the EU extended €0.62m in grants to nine municipalities and unions of municipalities in Lebanon. The funds will be earmarked to strengthen the capacity of the municipalities and unions of municipalities in terms of planning, financial management, procurement, project design and supervision. The grant also aims to increase the efficiency of municipalities in services delivery. In addition, the EU and the Judicial Studies Institute launched a €0.9m program for the training of judicial stakeholders in Lebanon. The EU-funded program aims to improve the professional level of all stakeholders in the judiciary system.

In parallel, the Council for Development and Reconstruction signed a \$20.3m loan agreement with the Islamic Development Bank to upgrade the infrastructure of the city of Saida. It said that the upgrade will include the improvement of infrastructure services in the city's commercial areas.

Opened letters of credits at \$2.9bn for imports and \$2.1bn for exports in first half of 2012

Figures issued by the Central Bank indicate that the value of letters of credits (LCs) opened to finance imports to Lebanon totaled \$2.9bn in the first half of 2012 compared to \$2.5bn in the same period of 2011. Also, utilized credits for imports totaled \$2.8bn in the first half of 2012, up 16.4% from \$2.4bn in utilized credits in the same period of 2011. They accounted for 95.7% of opened LCs in the first half of 2012 compared to 97.3% in the same period of 2011. In addition, outstanding import credits totaled \$995m at end-June 2012 compared to \$956m at end-June 2011. Further, the aggregate value of inward bills for collection totaled \$1.1bn in the first half of 2012 compared to \$1bn in the first half of 2011. Outstanding bills for collection reached \$169.3m in June 2012 relative to \$148m at end-June 2011.

In parallel, the value of documentary letters of credits opened to finance exports from Lebanon totaled \$2.1bn in the first half of 2012, constituting an increase of 4.7% from \$2bn in the same period of 2011. Utilized credits for exports totaled \$1.8bn in the first half of 2012, up 7.8% from \$1.7bn of utilized credits in the same period of 2011. Further, outstanding export credits totaled \$1.42bn in June 2012, up from \$1.25bn in June 2011 and compared to \$1.24bn at end-December 2011. The aggregate value of outward bills for collection totaled \$895m in the first half of 2012, down 57.3% from \$2.1bn in the same period of 2011. The outstanding value of outwards bills for collection reached \$462.7m at end-June 2012 relative to \$504.1m at the end of December 2011 and \$435.3m at end-June 2011.

Slow construction and public work activity in second quarter of 2012

The Central Bank's quarterly business survey indicated that construction activity continued to be slow during the second quarter of 2012, as the balance of opinions stood at -10, compared to -16 during the preceding quarter and -7 during the same quarter of 2011. The balance of opinions about construction activity was the lowest in the South at -44, followed by the Bekaa at (-32), Beirut & Mount Lebanon (-26) and the North (+58). The business survey reflects the opinions of enterprise managers on the evolution of their businesses, in order to depict the evolution of a number of key economic variables. The balance of opinions for public works stood at +6 in the second quarter of 2012 compared to -33 in the preceding quarter and -28 in the same quarter of 2011. Opinion about the level of public works was the lowest in the Bekaa at -42, followed by Beirut & Mount Lebanon (-31), the South (-20) and the North (+15).

In parallel, the balance of opinions for the portfolio of projects dropped to -14 relative to -7 during the preceding quarter and remained unchanged from the same quarter of 2011. The balance of opinions on the portfolio of projects was the worst Beirut & Mount Lebanon at -30, followed by the South (-19), the Bekaa (-18) and the North (+47). Also, the balance of opinions for general construction activity was -3 during the second quarter of 2012, compared to -21 in the preceding quarter and -9 in the same quarter of 2011. Further, the balance of opinion for construction costs reached +38, up from +34 in the preceding quarter and compared to +35 in the second quarter of 2011. The balance of opinions is the difference between the proportion of surveyed managers who consider that there was an improvement in a particular indicator and the proportion of those who reported a decline in the same indicator.

Construction and Public Work Activity: evolution of opinions				
Aggregate results	Q2-09	Q2-10	Q2-11	Q2-12
General activity	16	15	-9	-3
Construction	16	20	-7	-10
Public work	4	5	-28	6
Portfolio of projects	12	16	-14	-14
Construction costs	28	41	35	38
Investments (% of yes)	46%	43%	35%	36%

Source: Central Bank Business Survey in second quarter 2012

New car sales up 13% in January 2013

Figures released by the Association of Automobile Importers in Lebanon (AIA) indicate that a total of 2,358 new passenger cars were sold in January 2013, constituting an increase of 13.4% from the 2,080 cars sold in the same month last year and a rise of 21.3% from the 1,944 cars sold in January 2011. Korean cars accounted for 42.7% of total sales, followed by European automobiles with a 25.3% share, Japanese cars with 24%, American vehicles with 6.3%, and Chinese cars with 1.7%. Chinese cars posted the highest growth in sales with a 192.9% rise year-on-year, followed by Japanese cars with an 18.2% increase, American cars with a 12.9% rise, Korean cars with an 11.5% growth, and European cars with a 7.8% increase. Kia was the leading brand in the Lebanese market with 538 cars sold in the first month of 2013, followed by Hyundai with 468 cars sold, Nissan with 326, Toyota (125), Renault (101), Volkswagen (78), and Chevrolet (66). In parallel, a total of 145 new commercial vehicles were sold in January 2013, up 79% from the 81 vehicles sold in the same month last year, but down 16.7% from the 174 vehicles sold in January 2011.

Abraaj Capital to sell stake in Spinneys Group

The Dubai-based private equity firm Abraaj Capital Ltd intends to sell its stake in the Middle-Eastern supermarket chain Spinneys, which has eight outlets in Lebanon and is also present in Egypt, Qatar and the UAE. Abraaj Capital acquired a 46% stake from the UAE-based Cupola Investment in 2004 for \$27.1m. Cupola Investment, which previously owned 100% of the Spinneys Group, currently holds a 35% stake and the remainder 19% stake is held by a range of investors. Spinneys re-launched its operations in Lebanon in 1998 with the opening of a supermarket in the Dbayeh area north of Beirut. It has other supermarkets in Tripoli, Jbeil, Saida, Tyre as well as in the Achrafieh and Jnah areas of Beirut. It opened its largest and most recent outlet last year in the Hazmieh suburb of Beirut. The Spinneys chain in Lebanon is managed by Gray MacKenzie Retail sal.

CMA CGM finalizes financial restructuring plan

The Lebanese-owned and France-based container shipping group CMA CGM announced that it has finalized its financial restructuring plan that was launched last year. The firm said that it has agreed with its creditors to restructure its debt. It noted that the agreement provides for a new covenant package that takes into account the industry's volatility and includes a partial refinancing of a credit line maturing in 2013 through new secured term loans of €80m with a maturity of more than 3 years. Also, it pointed out that it has finalized a binding agreement with the French Fonds Stratégique d'Investissement (FSI), France's sovereign wealth fund. The agreement stipulates that FSI will subscribe to convertible bonds worth \$150m, which will give the fund a 6% stake in the firm upon conversion. Also, the company announced that the Turkish Yildirim Group subscribed to convertible bonds worth \$100m that will give it a 4% stake in CMA CGM upon conversion. Also, it noted that it divested a 49% stake in its Terminal Link port unit for €400m to Hong Kong-based China Merchants Holdings International, as part of an asset disposal program imposed by its banks. The firm indicated that the finalization of the debt restructuring, combined with the new equity injection from FSI and the Yildirim Group, as well as the partial sale of Terminal Link, would allow it to operate in a more resilient and flexible financial structure and would support an initial public offering.

In November 2012, CMA CGM announced that it has reached a deal 'in principle' with its 72 creditor banks over the restructuring of \$4.6bn worth of debt. It said that it will divest some of its assets as part of negotiations with its creditors, including the sale and lease-back of around 100 vessels. Also, the Saadé family agreed in October 2012 to dilute its stake to 70% in a deal to inject \$250m into the group. CMA CGM's total debt stood at \$5.7bn at end-September 2012, including \$1.1bn in outstanding bonds. Rating agencies have downgraded CMA CGM's ratings because of the company's financial difficulties. CMA CGM group is the third largest container shipping company in the world with a turnover of \$16bn in 2012. It operates a fleet of 410 vessels and serves more than 400 ports around the world.

Fitch Ratings affirms MetLife ratings

Fitch Ratings affirmed the long-term Issuer Default Rating (IDR) of insurance provider MetLife at 'A' and its short-term IDR at 'F1' with a 'stable' outlook. It said that the ratings' affirmation reflects the company's strong balance sheet fundamentals, excellent financial flexibility, and very strong market positions in several major insurance product lines and markets. It attributed MetLife's strong balance sheet fundamentals to its strong risk-adjusted capitalization, favorable liquidity profile, and good asset quality. It added that the firm benefits from significant competitive advantages due to its large-scale, very strong brand name, and large and diverse distribution capabilities. It noted that MetLife's acquisition of American Life Insurance Company (ALICO) has significantly strengthened and diversified the former's international operations, and increased earnings generated from protection products and international markets. MetLife ALICO is the largest provider of life insurance products in Lebanon. The firm's life premiums reached \$72.1m and non-life premiums amounted to \$24.6m in 2011, constituting increases of 2% and 10.8%, respectively. It had a 19.5% share of the life market and a 2.8% share of the local non-life market. In parallel, Fitch expressed caution about MetLife's financial leverage and above-average exposure to the variable annuity business, as well as from macroeconomic challenges linked to the current low global interest rate environment. It anticipated that the current low interest rate environment would limit the firm's ability to grow earnings. But it noted that the company's extensive interest-rate hedging program would help mitigate the impact on earnings over the medium-term. Further, it attributed the firm's equity market exposure to its investment in alternative investments, and rapid growth in its variable annuity business. It noted that the hedging of variable annuity risk requires the company to make assumptions that may prove inaccurate. It warned that deviations from pricing and hedging assumptions would have a significant negative impact on MetLife's capital and earnings in a severe and unexpected scenario.

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