



# LEBANON THIS WEEK

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Lebanon ranks 94th globally, 10th among Arab countries in ICT readiness

Real GDP growth forecast revised downward to 1.4% for 2013

Airport passengers up 10% in first quarter of 2013

Number of tourists down 13% in first two months of 2013

Balance of payments posts surplus of \$291m in first two months of 2013

Room rates at Beirut hotels post fourth steepest drop worldwide, steepest drop in Arab world

Residential buildings represent 79% of new construction permits in 2012, units of 200 sqm or less account for 69% of the total

Labor market faces challenges of slow pace of job creation, low participation rate and skills gap

Net public debt at \$50bn at end-February 2013

Lebanon and Libya sign economic cooperation agreement

**Corporate Highlights** .....10

Car sales up 1% in first quarter of 2013

Commercial banks' assets reach \$154bn at end-February 2013

Bank Audi's dividend payout ratio at 43.5% for 2012

Solidere's stock price has 40% upside

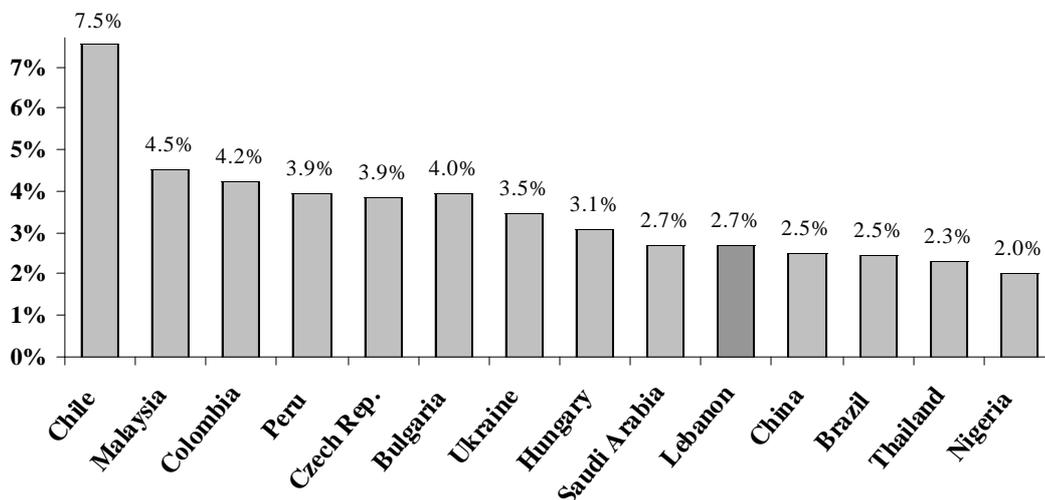
BBAC's net income up 9% to \$42m in 2012

First National Bank's profits up 19.6% to \$19.6m in 2012

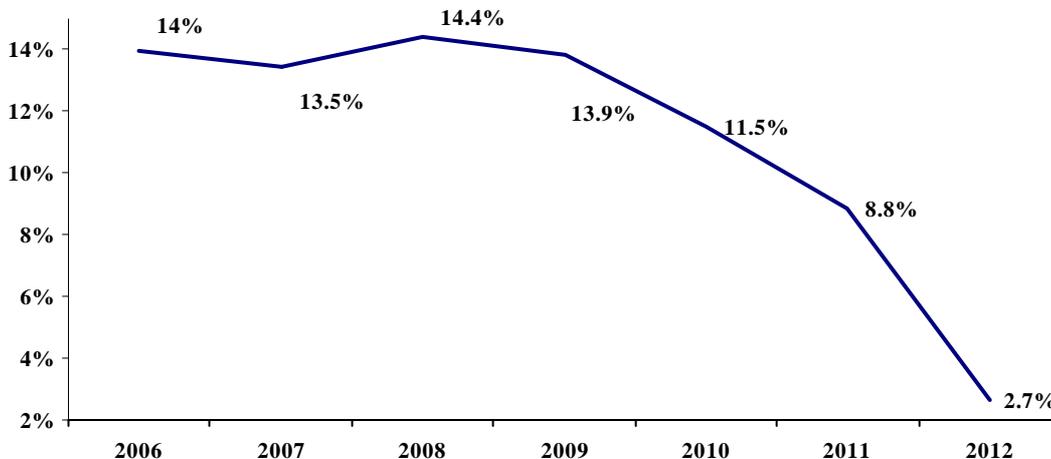
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## Charts of the Week

FDI inflows to Select Emerging Markets in 2012 (% of GDP)



Foreign Direct Investments in Lebanon (% of GDP)



Source: Institute of International Finance, Byblos Bank

## Quote to Note

"The decelerated growth and political drift have combined to put a halt to fiscal consolidation efforts."

*Moody's Investors Service, on the deterioration of public finances in 2012*

## Number of the Week

**145:** Lebanon's rank among 167 countries in terms of the government's functioning, according to the Economist Intelligence Unit's Democracy Index for 2012

## Economic Indicators

<b>\$m (unless otherwise mentioned)</b>	<b>2010</b>	<b>Dec 11</b>	<b>2011</b>	<b>Oct 12</b>	<b>Nov 12</b>	<b>Dec 12</b>	<b>% Change*</b>
Exports	4,256	338	4,276	441	364	381	12.72
Imports	17,956	1,665	20,170	1,774	1,604	1,871	12.37
Trade Balance	(13,700)	(1,327)	(15,894)	(1,333)	(1,240)	(1,490)	12.28
Balance of Payments	3,326	692	(1,996)	(97)	179	312	(54.90)
Checks Cleared in LBP	13,519	1,370	14,251	1,353	1,287	1,337	(2.37)
Checks Cleared in FC	53,925	5,091	57,852	4,732	4,676	4,670	(8.27)
Total Checks Cleared	67,444	6,461	72,103	6,085	5,963	6,007	(7.02)
Budget Deficit/Surplus	(2,894)	(391.00)	(2,342)	(617.49)	(807.69)	(441.24)	12.85
Primary Balance	1,231	(73.00)	1,662	(215.20)	(369.47)	(174.33)	138.81
Airport Passengers	5,512,435	445,968	5,596,034	470,190	412,595	495,760	11.16
<b>\$bn (unless otherwise mentioned)</b>	<b>Dec 2010</b>	<b>Dec 11</b>	<b>Sep 12</b>	<b>Oct 12</b>	<b>Nov 12</b>	<b>Dec 12</b>	<b>% Change*</b>
BdL FX Reserves	28.60	30.82	29.99	29.46	29.79	29.97	(2.76)
<i>In months of Imports</i>	<i>19.46</i>	<i>18.51</i>	<i>18.41</i>	<i>16.61</i>	<i>18.57</i>	<i>16.02</i>	<i>(13.46)</i>
Public Debt	52.59	53.66	56.07	56.60	57.55	57.69	7.51
Net Public Debt	45.01	46.37	47.83	48.35	48.87	49.12	5.93
Bank Assets	128.93	140.58	148.36	149.38	150.38	151.88	8.04
Bank Deposits (Private Sector)	107.20	115.72	121.75	122.60	123.13	125.00	8.02
Bank Loans to Private Sector	34.93	39.38	42.29	42.76	42.94	43.45	10.34
Money Supply M2	39.40	38.90	41.81	42.31	42.67	43.17	10.97
Money Supply M3	92.15	97.23	101.50	102.43	102.89	104.01	6.97
LBP Lending Rate (%)	7.91	7.38	7.30	7.31	7.11	7.07	(31b.p.)
LBP Deposit Rate (%)	5.68	5.63	5.43	5.43	5.38	5.41	(22b.p.)
USD Lending Rate (%)	6.74	7.02	7.16	7.15	7.09	6.87	(15b.p.)
USD Deposit Rate (%)	2.80	2.83	2.83	2.87	2.85	2.86	3b.p.
%* Change in CPI**	6.19	4.27	8.26	8.86	9.48	6.36	209b.p.

\* Year-on-Year; \*\* Consumer Price Index

Note: b.p. i.e. basis point

Sources: ABL, BdL

## Capital Markets

<b>Most Traded Stocks on BSE</b>	<b>Last Price (\$)</b>	<b>% Change*</b>	<b>Total Volume</b>	<b>Weight in Market Capitalization</b>
Solidere "A"	13.41	1.75	323,852	12.13%
Solidere "B"	13.39	1.83	89,981	7.87%
Byblos Common	1.68	1.82	919,934	5.46%
Byblos Pref. 08	102.50	0.00	2,000	1.85%
Byblos Pref. 09	102.90	(2.09)	6,250	1.86%
BLOM GDR	8.95	1.94	25,500	5.98%
BLOM Listed	8.25	0.36	14,375	16.04%
Audi GDR	6.97	(0.29)	15,165	6.43%
Audi Listed	6.50	(1.52)	102,170	20.56%
HOLCIM	15.00	0.00	0	2.65%

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

<b>Sovereign Eurobonds</b>	<b>Coupon %</b>	<b>Mid Price \$</b>	<b>Mid Yield %</b>
June 2013	8.625	101.19	1.77
Apr. 2014	7.375	105.00	2.25
Jan. 2015	5.875	103.50	3.78
Apr. 2015	10.00	112.00	3.78
Jan. 2016	8.500	110.00	4.59
Mar. 2017	9.000	114.25	4.96
Nov. 2018	5.150	99.75	5.20
Apr. 2021	8.250	114.00	6.02
Nov. 2026	6.600	101.75	6.41

Source: Byblos Bank Capital Markets

	<b>Apr 8 -12</b>	<b>Apr 2 - 5</b>	<b>% Change</b>	<b>Mar 2013</b>	<b>Mar 2012</b>	<b>% Change</b>
<b>Total Shares Traded</b>	1,506,973	405,612	271.53	4,985,295	5,403,251	(7.74)
<b>Total Value Traded</b>	\$9,948,029	\$4,035,651	146.50	\$31,728,425	\$31,890,556	(0.51)
<b>Market Capitalization</b>	\$11.06bn	\$11.02bn	0.31	\$10.90bn	\$10.84bn	0.55

Source: Beirut Stock Exchange (BSE)



### Consumer confidence in Lebanon stagnates at near record low in second half of 2012

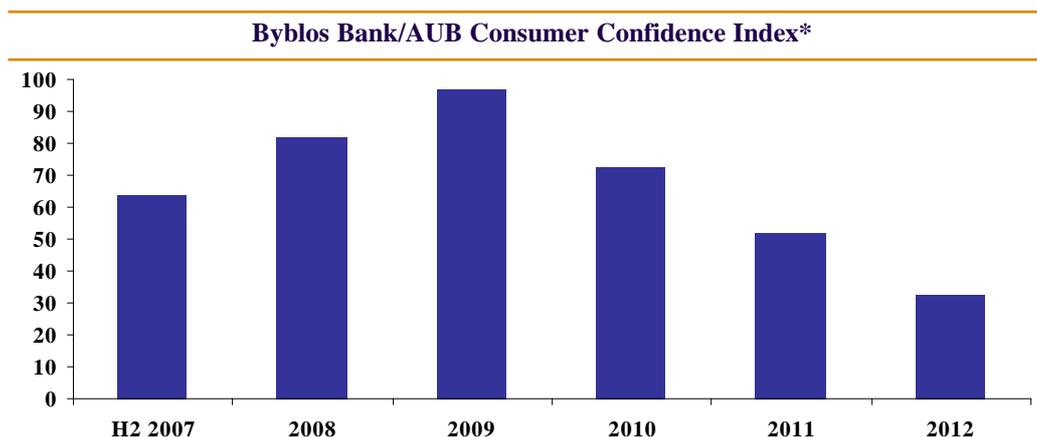
The level of consumer confidence in Lebanon remained low in the second half of 2012, as reflected by the results of the Byblos Bank/AUB Consumer Confidence Index for the third and fourth quarters of the year. The index reached 46.5 in the July 2012 survey, regressed to 27.2 in August 2012, and increased to 38.8 in September 2012. The index regressed in the fourth quarter of 2012, as it reached 30.7 in the October 2012 survey, constituting a decrease of 21% from the previous month, then it declined by 1% to 30.4 in November 2012 and improved by 4.9% to 31.9 in December 2012. The Byblos Bank/AUB Consumer Confidence Index's outcome for August 2012 posted the second-lowest level since the start of the index's calculation in July 2007. The index averaged 37.5 in the third quarter of 2012, the fourth-lowest quarterly reading since the start of the index's calculation. Also, it averaged 31 in the fourth quarter of 2012, constituting its second-lowest reading in 22 quarters. As a result, the Byblos Bank/AUB Consumer Confidence Index posted an average monthly reading of 34.2 during the second half of 2012, the index's second-lowest level on a semi-annual basis.

The analysis of the results indicates that domestic political tensions, repeated security breaches, the resurfacing of political assassinations and assassination attempts, lax public health safety, the slow-moving decision-making process within public institutions, in addition to the direct and indirect spillovers from the crisis in Syria were the main factors affecting the confidence of Lebanese consumers during the second half of 2012. The counterfeit medicine scandal, the rolling electricity blackouts and the protracted issue of the public-sector salary scale also affected consumer sentiment. The lone event that had a positive but brief impact on consumer sentiment was the resumption of the National Dialogue among political parties after an 18-month interruption, and the subsequent issuance of a comprehensive statement, the Baabda Declaration, which pledged to address citizens' concerns.

The Byblos Bank/AUB Present Situation Index and the Byblos Bank/AUB Expectations Index moved in the same direction during the third quarter of 2012. Also, both indices moved in the same direction in the last three months of 2012, except for the month of November, where the indices moved in opposite directions. Both the Present Situation Index and the Expectations Index posted their second-lowest readings in 22 quarters in the fourth quarter of 2012, which reflected the deterioration of confidence in current as well as in future conditions. The Expectations Index was lower than the Present Situation Index during the third and fourth quarters of 2012, which shows that Lebanese consumers were more pessimistic about the future than they were about present circumstances. Also, near-term expectations of consumers were lower than their views of their current conditions during the third and fourth quarters of 2012, unlike the results over the July 2007-December 2011 period.

The results also revealed that male consumers posted a relatively higher level of confidence than their female counterparts; while consumers who are 60 years old and above displayed a higher level of confidence than other age brackets during the second half of 2012. Also, consumers with household income above \$2,000 per month consistently had a higher level of confidence than those earning less. Moreover, students and private sector employees posted a higher level of confidence than the self-employed, the unemployed and public sector employees in the third quarter; while the self-employed and private sector employees posted a higher level of confidence than the unemployed, students and public sector employees in the fourth quarter of 2012. In addition, consumers in Mount Lebanon posted the highest confidence level across administrative districts, or *mohafaza*, in the second half of the year, followed by consumers in Beirut, the North, the South and the Bekaa. Further, Druze consumers displayed the highest level of confidence among religious affiliations in the second half of 2012, and were followed by Christian, Sunni, and Shiite consumers.

The Byblos Bank/AUB Consumer Confidence Index is a measure of the sentiment and expectations of Lebanese consumers towards the economy and their own financial situation, in line with leading consumer confidence indices worldwide. It is composed of two sub-indices, the Byblos Bank/AUB Present Situation Index, which covers the current economic and financial conditions of Lebanese consumers, and the Byblos Bank/AUB Expectations Index, which addresses their outlook over the coming six months. In addition, the data segregates the index based on age, gender, income, profession, administrative district, and religious affiliation. The index has been calculated on a monthly basis since July 2007, with January 2009 as its base month. It is based on a nationally representative survey of 1,200 face-to-face interviews with adult males and females living throughout Lebanon.



\* Monthly average index for the period

Source: Byblos Research and AUB, based on surveys conducted by Statistics Lebanon

### Lebanon ranks 95th globally, 13th in MENA region in country risk

In its quarterly survey of the country risk of 184 countries, *Euromoney* magazine ranked Lebanon in 95th place worldwide and in 13th place among 22 countries in the Middle East & North Africa region in the first quarter of 2013. Also, Lebanon came in 32nd place among 51 upper middle income countries (UMICs) included in the survey. Lebanon's global rank improved in the first quarter from 100th place in the fourth quarter of 2012 and 98th place in third quarter of 2012, but regressed from 94th place in the second quarter of 2012, and from 91st place in the first quarter of 2012. Also, Lebanon's regional rank was unchanged from the second, third and fourth quarters of last year. The survey evaluates individual country risk by assigning a weighting to six categories that cover Political Risks, Economic Performance, Access to Bank Finance & Capital Markets, Debt Indicators, Credit Ratings, and Structural Assessments.

Globally, Lebanon had a lower country risk level than that of Tanzania, Ecuador and Saint Vincent & Grenadines, and a higher risk level than that of Serbia, Algeria and Mongolia. It also ranked ahead of Ecuador and behind Serbia among UMICs.

Lebanon's rank on the Access to Bank Finance & Capital Markets category improved by 33 spots from the preceding quarter and its rank on the Credit Ratings category improved by two spots quarter-on-quarter. Also, its rank on the Political Risks category retreated by six spots from the fourth quarter of 2012, its rank on the Structural Assessments category regressed by five spots and its rank on the Economic Performance category declined by two spots. Lebanon's rank on the Debt Indicators category remained unchanged from the preceding quarter.

In parallel, Lebanon received a score of 38.45 points, constituting an increase of 4.6% from 36.75 points in the fourth quarter of 2012, a rise of 2.2% from 37.63 points in the third quarter, a drop of 2.4% from 39.41 points in the second quarter, a fall of 0.3% from 38.58 points in the first quarter of 2012 and a decrease of 10% from 42.67 points in the fourth quarter of 2011. Lebanon's score came below the Gulf Cooperation Council (GCC) countries' average score of 66.98 points, the MENA average of 43.28 points and the UMICs average score of 43.14 points. Also, its score came below the global average score of 42.97 points and the Arab average score of 42.45 points, but was above the average score of non-GCC Arab countries of 31.13 points.

Lebanon's score on the Access to Bank Finance & Capital Markets' category rose by 155.3% from the last quarter of 2012. Its score remained unchanged on the Credit Ratings and on the Debt Indicators categories. Lebanon's score on Political Risks category declined by 2.6% from the fourth quarter of 2012, that on the Economic Performance category dropped by 1.9% quarter-on-quarter and that on Structural Assessments category declined by 1.1% from the preceding quarter.

Lebanon ranked ahead of Moldova and behind Azerbaijan globally, while it came ahead of Algeria and behind Bahrain regionally on the Political Risks category. Also, it ranked ahead of Croatia and behind Mongolia worldwide, and came ahead of Jordan and behind Morocco regionally in terms of Economic Performance. Further, Lebanon ranked ahead of Namibia and behind Uruguay globally, and came ahead of Saudi Arabia and behind Bahrain regionally on the Structural Assessments category. Finally, Lebanon ranked ahead of Guinea and behind Turkey globally, and came ahead of Iraq and behind Turkey regionally on the Debt Indicators category.

### MENA Countries Rankings & Scores

	Score	MENA Rank	Global Rank
Qatar	72.61	1	18
Kuwait	71.93	2	21
Oman	68.29	3	26
UAE	67.23	4	28
Saudi Arabia	67.02	5	29
Israel	64.28	6	33
Turkey	56.88	7	46
Bahrain	54.81	8	56
Morocco	47.01	9	71
Jordan	45.34	10	76
Tunisia	43.87	11	79
Algeria	38.77	12	93
<b>Lebanon</b>	<b>38.45</b>	<b>13</b>	<b>95</b>
Egypt	30.87	14	134
Iraq	29.46	15	138
Yemen	28.09	16	143
Libya	26.72	17	147
Iran	24.43	18	150
Sudan	23.12	19	155
Mauritania	23.10	20	156
Syria	22.80	21	160
Djibouti	7.050	22	181

Source: *Euromoney*, *Byblos Research*

### Country Risk Indicators for Lebanon - First Quarter 2013

	Weighting (%)	Score	MENA Rank	Global Rank	MENA Avg Score	Global Avg Score
Political Risk	30	11.04	12	118	12.55	13.96
Economic Performance	30	13.68	12	93	14.11	13.41
Structural Assessments	10	5.38	9	62	4.53	3.98
Debt Indicators	10	3.09	8	138	4.80	4.19
Credit Rating	10	1.46	12	107	3.23	3.16
Access to Bank Finance & Capital Markets	10	3.83	11	92	4.07	4.36

Source: *Euromoney*, *Byblos Research*

### **Political uncertainties are main downside risk to hydrocarbon licensing round**

Business Monitor International indicated that the significant preliminary interest in Lebanon's first licensing round for offshore oil and gas exploration and production is a positive sign for the country's nascent energy sector, and reinforces the broad confidence in the country's potential hydrocarbon resources. It noted that the pre-qualifying stage drew strong interest from some of the sector's largest international players such as the United States' Exxon Mobil and Chevron, Italy's Eni, Brazil's Petrobras, Anglo-Dutch's Royal-Dutch Shell, and India's Oil & Natural Gas Corporation. It said that the Petroleum Administration will announce the list of pre-qualified firms on April 18 and will start accepting bids on May 2nd of this year as per the timeline previously announced by the government. But it noted that Lebanon will not sign exploration and production sharing contracts before February 2014.

BMI considered that domestic political uncertainties constitute the main downside risk to the current licensing round. It indicated that the ongoing political transition at the Cabinet level has resulted in uncertainties over the authority of the caretaker government to approve exploration and production sharing contracts. It added that the uncertainty over the time needed to form a new Cabinet raises the risk that the licensing round would face further delays and that the development of the sector would continue to be deferred. The government's timeline stipulates that companies will have six months from May 2, 2013 to prepare their files, and need to submit their offers by November 2013. The ministry expects 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. Also, the ministry expected the exploration process to take up to 18 months from the contracts' signing date, and estimated that drilling would begin by the end of 2015, followed by the development phase in 2016 and production thereafter.

### **Standard & Poor's affirms sovereign ratings, outlook 'negative'**

Standard & Poor's affirmed Lebanon's long- and short-term foreign and local currency sovereign credit ratings at 'B/B' and maintained the 'negative' outlook on the long-term ratings. It also affirmed the country's transfer and convertibility assessment at 'BB-' and the recovery rating at '4'. It attributed the 'negative' outlook to significant ongoing domestic political risks, as well as to the low prospects for economic, fiscal and external improvement in the absence of a solution to the Syrian conflict and of a major political breakthrough similar to the Doha Accord of 2008.

Further, the agency indicated that the ongoing Syrian conflict did not substantially weaken the security situation and policy-making in Lebanon last year, nor did it undermine confidence in the banking sector, two factors that contributed to the ratings' affirmation. It considered that the swift designation of a new Prime Minister will help defuse tension in the near-term. It said that the ratings are supported by a large and stable resident and non-resident depositor base, which finances most of the government's borrowing needs. It added that the ratings are constrained by a divisive political environment and a high public debt burden. It noted that public finances deteriorated significantly in 2012 with the primary balance turning into deficit for the first time since 2006, the deficit widening by 3.4% of GDP to 9.4% of GDP, and the debt-to-GDP ratio resuming its growth after a steady decline over the previous five years. It pointed out that the absence of an official budget since 2005 has diminished the accountability, predictability and flexibility of fiscal policy. It projected the fiscal deficit at about 8% of GDP in 2013, assuming that the government will either raise additional revenues to match the cost of the salary-scale adjustment, or eliminate the increase altogether.

The agency indicated that the Syrian crisis has depressed Lebanon's main growth engines such as the tourism sector, the financial industry and other high-end services. It claimed that domestic demand was supported last year from the influx of middle- and upper-class Syrian families as well as from the rise in public-sector wages and pensions. But it noted that these factors were one-off growth stimulants that are not likely to be repeated this year. It cautioned that a prolonged period of government formation would undermine growth.

S&P said that Lebanon's banking system is a key rating strength for the sovereign and expected the sector to remain strong and to be little-affected by domestic political developments. But it noted that the banks have shifted into a net external debtor position since 2011, as they have had to finance part of Lebanon's high current account deficits and because they have reduced their exposure to Syria. S&P indicated that it would downgrade the ratings in case the government implements the planned public-sector wage increase without offsetting revenue measures, or if the Syrian conflict significantly affects investor confidence in Lebanon.

### **Launch of bid for offshore LNG import terminal**

The Ministry of Energy & Water launched a bid for the construction of an offshore Liquefied Natural Gas (LNG) import terminal. It said that the Floating Storage Regasification Unit would be used to store imported LNG and would provide natural gas to the Deir Ammar power plant, which currently runs on gas oil. It noted that the use of LNG would decrease the Deir Ammar plant's energy requirements by up to \$200m per year. The ministry expected 30 companies to apply for the bid to build the terminal, or for the import of LNG, or for both the construction phase and the import of LNG.

### Lebanon ranks 94th globally, 10th among Arab countries in ICT readiness

The World Economic Forum/INSEAD Business School's Networked Readiness Index for 2013 ranked Lebanon in 94th place among 144 countries worldwide and in 10th place among 14 Arab countries. Lebanon also came in 30th place among 40 upper-middle income countries (UMICs) included in the survey. In comparison, Lebanon came in 95th place globally, in 11th place regionally, and in 27th place among UMICs in the 2012 survey. The index reflects the factors driving networked readiness, which is the capacity of countries to fully benefit from new information and communication technologies (ICT) in their competitiveness strategies and their citizens' daily lives. The index is a composite of four sub-indices that cover the environment for ICT, the readiness of a society to use ICT, the actual usage by the main stakeholders, and the impact that ICT generates on the economy and society.

Globally, Lebanon ranked ahead of Ghana, Botswana and Liberia while it came behind Ecuador, Kenya and El Salvador. Lebanon received a score of 3.53 points, constituting a marginal increase from 3.49 points in 2012. Its score came lower than the global average of 3.97 points, the Arab average of 3.88 points, and the UMIC's average of 3.84 points. But it was better than the non-GCC average of 3.26 points.

Lebanon ranked ahead of Greece, Uganda and Romania, and came behind Italy, Albania and India on the Environment Sub-Index. This category measures the friendliness of a country's market and regulatory framework to support high levels of ICT uptake and the development of entrepreneurship and innovation. Regionally, Lebanon ranked ahead of just Egypt, Libya, Mauritania, Yemen and Algeria. It also ranked ahead of Romania and behind Costa Rica among UMICs.

Also, Lebanon ranked ahead of Zimbabwe, Morocco and Ecuador, and came behind Cape Verde, Macedonia and the Philippines on the Readiness Sub-Index. This category measures the degree of a society preparedness to make good use of an affordable ICT infrastructure and digital content. Regionally, Lebanon ranked ahead of just Morocco, Algeria, Yemen, Libya and Mauritania. It also ranked ahead of Ecuador and behind Macedonia among UMICs.

Further, Lebanon came ahead of Botswana, Senegal and Namibia, and ranked behind Ukraine, Cape Verde and Guyana on the Usage Sub-Index. This category assesses the efforts of individuals, businesses, and the government to increase their capacity to use ICT, as well as their actual use in their day-to-day activities with other agents. Regionally, Lebanon ranked ahead of just Libya, Mauritania, Algeria and Yemen. It also ranked ahead of Botswana and behind Peru among UMICs.

Finally, Lebanon came ahead of Mozambique, Nicaragua and Cameroon, and ranked behind Benin, Bolivia and Uganda on the Impact Sub-Index. This category was added this year to the index and measures the broad economic and social impacts accruing from ICT to boost competitiveness and well-being. It also reflects the transformation towards an ICT- and technology-savvy economy and society. Regionally, Lebanon ranked ahead of just Mauritania, Libya, Algeria and Yemen. It also ranked ahead of Libya and behind Latvia among UMICs. Finland had the highest networked readiness globally, while Burundi was the least ready worldwide.

#### Networked Readiness Index 2013

	Score	Arab Rank	Global Rank
Qatar	5.10	1	23
UAE	5.07	2	25
Bahrain	4.83	3	29
Saudi Arabia	4.82	4	31
Oman	4.48	5	40
Jordan	4.20	6	47
Kuwait	3.94	7	62
Egypt	3.78	8	80
Morocco	3.64	9	89
<b>Lebanon</b>	<b>3.53</b>	<b>10</b>	<b>94</b>
Algeria	2.78	11	131
Libya	2.77	12	132
Mauritania	2.71	13	135
Yemen	2.63	14	139

Source: World Economic Forum, Byblos Research

#### Lebanon's Rankings & Scores on the Components of the Networked Readiness Index 2013

	Global Rank	Arab Rank	UMIC Rank	Lebanon Score	Global Avge Score	Arab Avge Score	UMIC Avge Score
<b>Environment</b>	<b>86</b>	<b>9</b>	<b>25</b>	<b>3.74</b>	<b>4.03</b>	<b>3.98</b>	<b>3.87</b>
Political and regulatory environment	133	12	37	2.76	3.86	3.71	3.60
Business and innovation environment	35	6	4	4.73	4.21	4.25	4.13
<b>Readiness</b>	<b>86</b>	<b>9</b>	<b>27</b>	<b>4.29</b>	<b>4.43</b>	<b>4.39</b>	<b>4.47</b>
Infrastructure and digital content	88	9	32	3.27	4.01	3.80	3.87
Affordability	95	11	30	4.12	4.74	4.88	4.86
Skills	28	3	2	5.49	4.55	4.49	4.67
<b>Usage</b>	<b>98</b>	<b>10</b>	<b>32</b>	<b>3.21</b>	<b>3.78</b>	<b>3.73</b>	<b>3.60</b>
Individual usage	63	7	16	3.70	3.59	3.75	3.46
Business usage	116	10	33	3.02	3.65	3.34	3.36
Government usage	134	10	37	2.90	4.11	4.10	3.98
<b>Impact</b>	<b>116</b>	<b>10</b>	<b>35</b>	<b>2.86</b>	<b>3.63</b>	<b>3.40</b>	<b>3.41</b>
Economic impacts	102	8	31	2.85	3.43	3.01	3.13
Social impacts	120	10	35	2.86	3.84	3.79	3.68

Source: World Economic Forum, Byblos Research



### **Real GDP growth forecast revised downward to 1.4% for 2013**

HSBC Bank revised downward its real GDP growth forecast for Lebanon to 1.4% in 2013 from a previous estimate of 2%, and compared to growth of 4.3% for the Middle East & North Africa and of 2.3% for the region's non-oil producers. Lebanon's projected growth rate for 2013 would make it the slowest economy among 14 countries in the MENA region, along with Egypt with a projected growth level of 1.4% for the fiscal year ending in June 2013.

HSBC said that available data points to poor domestic demand and still subdued services exports, which would make 2013 the third consecutive year of weak economic growth. It expected the economic outlook to remain tied to developments in Syria. It noted that FDI inflows to Lebanon retreated, tourism receipts fell, the budget and external account deficits widened, and economic growth slowed last year. It added that Lebanon's public finances have started to worsen as the fiscal deficit widened to 9.3% of GDP last year from 5.9% of GDP in 2011, and the primary balance posted a deficit for the first time in many years. It projected the fiscal deficit to remain wide at 7.5% of GDP in 2013.

In parallel, it pointed out that Lebanon is the only country among regional oil-importers, which include Egypt, Morocco and Tunisia, that did not approach the International Monetary Fund in the last two years for assistance and is the only country to post an increase in its foreign exchange reserves. It noted that Lebanon's large stock of foreign exchange reserves, supported by remittances and deposit inflows from the Lebanese Diaspora, makes it unlikely that its external current account position would come under pressure. Further, it said that the government is unlikely to face challenges to fund its budget deficit, given the ongoing growth of non-resident deposits and the banking system's appetite for government debt. But it cautioned from the shift in the country's fiscal trend, as well as from recent developments that would threaten the confidence of Lebanon's risk tolerant remitters, depositors and investors.

In parallel, HSBC expected household consumption in Lebanon to grow by 2.5% in 2013, up from 2% in 2012, constituting the lowest growth rate in household consumption in the region. Also, it expected Lebanon to post a gross saving ratio of 8.5% of GDP this year, up from 6.5% of GDP, but still the lowest such ratio in the region and relative to a ratio of 13.6% of GDP for non-oil producers in the region. It also projected Lebanon's total investment to remain stagnant this year relative to a contraction of 1% in 2012, better than only Egypt in the region with a contraction of 4.3% for FY 2012/13. It forecast real private sector credit growth in Lebanon at 2% in 2013, unchanged from 2012, and compared to a contraction of 4.8% for the region's non-oil producers. Further, it forecast the Central Bank's reserves to reach 15.7 months of imports in 2013, up marginally from 15.4 months of imports in 2012, and to post the fourth highest level in the region behind Algeria at 41.2 months of imports, Saudi Arabia at 35.5 months of imports and Iraq at 21.8 months of import cover.

### **Airport passengers up 10% in first quarter of 2013**

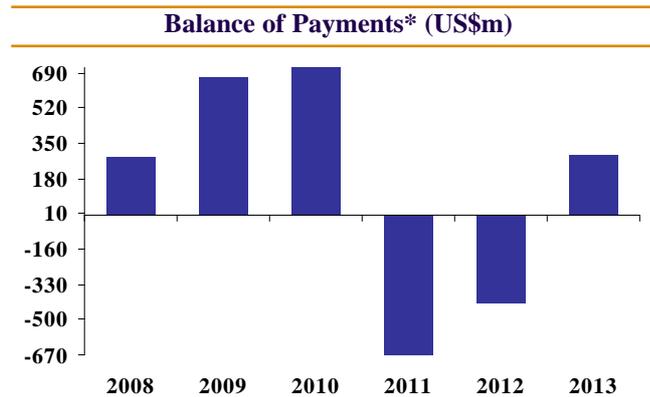
Figures released by the Hariri International Airport (HIA) show that the number of airport passengers (arrivals, departures, transit) totaled 1,370,863 in the first quarter of 2013, constituting an increase of 10.3% from the same quarter last year. The total number of arriving passengers grew by 6.2% year-on-year to 631,505 in the first quarter of 2013, compared to an annual rise of 21.5% in the same quarter of 2012 and a drop of 4.4% year-on-year in the first quarter of 2011. Also, the number of departing passengers rose by 16.3% year-on-year to 735,081 in the first quarter of 2013, relative to an annual increase of 21.5% in the same quarter of 2012 and a decline of 5.7% year-on-year in the first quarter of 2011. In parallel, the airport's aircraft movements dropped by 4% to 14,175 take-offs and landings in the first quarter of 2013, compared to an annual rise of 2.9% in the same quarter of 2012 and a drop of 1.3% year-on-year in the first quarter of 2011. The HIA processed 22,961.2 metric tons of cargo in the first quarter of 2013 that consisted of 22,773.9 tons of freight and 187.3 tons of mail.

### **Number of tourists down 13% in first two months of 2013**

The number of incoming tourists to Lebanon totaled 168,471 in the first two months of 2013, constituting a decrease of 12.9% from 193,383 tourists in the same period last year and a decline of 17.8% from 204,979 tourists during the first two months of 2011. Arab tourists accounted for 38% of total visitors in the first two months of the year, and were followed by visitors from Europe with 31.7%, the Americas with 13%, Asia with 9.8%, Africa with 5%, and Oceania with 2.4%. Also, tourists from Iraq accounted for 11.2% of visitors during the first two months of 2013, followed by visitors from France with 8.2%, Jordan with 7.7%, the United States with 6.4%, Egypt with 5.4%, and Saudi Arabia with 5.2%. The number of Arab tourists decreased by 25.2% year-on-year, tourists from Africa dropped by 6.9%, those from Oceania declined by 5.8%, visitors from Asia regressed by 5.4%, and those from Europe fell by 2.4%, while the number of American tourists was almost unchanged. Further, the number of tourists from the UAE declined by 72.9% annually, followed by Saudi Arabia with a 52.3% decrease, Kuwait (-36.3%), Jordan (-14.3%), and Egypt and Italy (-10.4% each). In parallel, the number of tourists from Sweden rose by 26.1% annually, followed by those from Germany with a 10.2% rise, Venezuela (+8.9%), and Iraq (+7.5%); while the number of tourists from each of Brazil and Canada was unchanged in the covered period. Incoming tourists totaled 1.37 million in 2012, down 17.5% year-on-year.

### Balance of payments posts surplus of \$291m in first two months of 2013

Central Bank figures show that Lebanon's balance of payments posted a surplus of \$290.8m in the first two months of 2013 compared to a deficit of \$423.9m in the same period last year. The balance of payments posted a deficit of \$91.7m in February compared to a surplus \$382.5m in January 2013 and a deficit of \$134.1m in February 2012. The February 2013 deficit was caused by a deficit of \$1.1bn in the net foreign assets of banks and financial institutions and a surplus of \$1bn in those of the Central Bank. The cumulative surplus over the first two months of 2013 was caused by a surplus of \$2.2bn in the central banks' net foreign assets and was partly offset by a deficit of \$1.9bn in those of banks and financial institutions. The balance of payments posted deficits of \$1.54bn in 2012 and \$2bn in 2011 and surpluses of \$3.3bn in 2010 and \$7.9bn in 2009.



*\*in first two months of each year*

*Source: Central Bank of Lebanon*

### Room rates at Beirut hotels post fourth steepest drop worldwide, steepest drop in Arab world

A survey by hotel reservation portal HotelsCombined indicated that room rates at hotels in Beirut averaged \$130.4 per night in the three-month period between December 2012 and February 2013, constituting a decrease of 24.2% from \$172.1 between December 2011 and February 2012. The average room rates at Beirut hotels posted the fourth steepest annual decline among 299 cities globally and the steepest drop among hotels in 27 Arab cities. The decline in Beirut hotels' room rates was slower than only in Minsk in Belarus (-26.4%), Kiev in Ukraine (-26.3%) and Menorca in Spain (-32.1%). In comparison, the average room rates at hotels in the Arab cities increased by 8.1% annually to \$151 during the covered three months from \$139.7 between December 2011 and February 2012. Also, the average hotel room rate worldwide grew by 3.6% annually to \$118.3 during the covered period from \$114.1 between December 2011 and February 2012.

Further, room rates at Beirut hotels were the 84th most expensive globally. They were more expensive than hotel room rates in Ko Phi Phi Don in Thailand (\$130.3), Stockholm in Sweden (\$130) and York in England (\$129.5), and less expensive than hotel room rates in Venice in Italy (\$131.3), Tel Aviv in Israel (\$131.6) and Lyon in France (\$131.7). Also, the average rate of hotel rooms in Beirut was the 14th most expensive among Arab cities during the covered period. It was more expensive than hotel room rates in Aqaba (\$127.9), Alexandria (\$111.4), Amman (\$109.1), Sharm el-Sheikh (\$105), Cairo (\$98.5), Marrakech (\$98), Sharja (\$97.1), Casablanca (\$93.7), Hurgada (\$91.6), Fez (\$77.5), Agadir (\$77.2), Hammamet (\$53.9) and Sousse (\$46.4). HotelsCombined is a global hotel price comparison website that allows travelers to find the best prices from all the best travel sites in one search. Hotel Price Trends are based on the top 300 destinations searched and booked on HotelsCombined.com

### Residential buildings represent 79% of new construction permits in 2012, units of 200 sqm or less account for 69% of the total

Figures released by the Order of Engineers of Beirut show that the surface area of newly-issued construction permits reached 8,484,575 square meters in 2012, constituting a decrease of 4.8% from 8,911,244 square meters in 2011. The surface area of newly-issued construction permits for residential buildings was 6,713,944 square meters last year and accounted for 79.1% of the total, followed by commercial buildings with 844,864 square meters (10%), building used for activities related to the industrial and agricultural sectors with 397,301 square meters (4.7%), general service buildings such as hospitals and schools with 288,909 square meters (3.4%), general purpose buildings with 135,798 square meters (1.6%), and buildings for hotel and tourism related-activities with 103,759 square meters (1.2%).

The surface area of newly-issued construction permits in Mount Lebanon was 5,437,095 square meters last year and accounted for 64.1% of total registered new area in 2012, followed by the South with 933,647 square meters (11%), Beirut with 893,692 square meters (10.5%), the Bekaa with 705,132 square meters (8.3%), Nabatieh with 386,858 square meters (4.6%), and the North with 128,151 square meters (1.5%).

The distribution of the surface area of newly-issued construction permits for residential buildings shows that Mount Lebanon accounted for 62.9% of total residential buildings, followed by the South with 12.7%, Beirut with 10.1%, the Bekaa with 8%, Nabatieh with 5.1% and the North with 1.3%. Also, there were 22,108 residential units last year, of which 71.2% were ordinary residential buildings, 10% were ordinary residential complexes, 6.6% were individual houses, 5% were luxurious residential buildings, 4.1% were villas and 3% were luxurious residential complexes. In parallel, residential units with surface areas ranging between 101 and 150 square meters accounted for 45% of total new residential units in 2012, followed by units with surface areas ranging from 151 sqm to 200 sqm with 24.4%, those with areas between 201 sqm to 300 sqm with 10.8%, units below 100 sqm with 6.8%, individual houses with 6.6%, villas with 4.1%, units whose surface areas are between 301 to 400 sqm with 1.6%, and units whose size is above 400 sqm with 0.7%.

### **Labor market faces challenges of slow pace of job creation, low participation rate and skills gap**

The World Bank considered that the labor market in Lebanon faces four main problems that consist of the slow pace of job creation, with the majority of jobs created being in low productivity sectors; a low participation rate, with high unemployment levels and long unemployment periods; low levels of education of the labor force with gaps in terms of technical, cognitive and non-cognitive skills; and a large share of the labor force in the informal sector.

It indicated that the level of economic growth over the past decade did not lead to the creation of enough jobs. It said that Lebanon's real GDP grew by 3.7% per year between 1997 and 2009, while the employment level increased by 1.1% annually. It anticipated that 23,000 Lebanese will enter the labor market each year over the next 10 years. As such, it estimated that the economy would need to create more than six times the number of jobs it is currently creating in order to be able to absorb new entrants. It added that the economy created on average 3,400 new jobs per year between 2004 and 2007.

Further, it said that only 47% of the working age population participates in the labor market, with 70% consisting of working-age men and 24% of working-age women. Also, the distribution of the labor force in the country in 2010 shows that 29% of the labor force are formal wage employees, 19% are wage employees in the informal sector, 31% are low-skilled self-employed, 5% are high skilled self-employed, 5% are employers, and 11% are unemployed. It added that the unemployment rate is 34% among those between 15 and 24-year old, 11% for those between 25 and 34 year-old, but it declines to 6% or less for those 35 years of age or older.

It estimated that low-productivity services, which include wholesale & retail trade, repair of motor vehicles, transportation & storage, accommodation & food service activities, and real estate activities, employ 35% of workers; while the public administration employs 30% of wage employees. Further, high productivity services which include ICT, finance & insurance, and professional, scientific and technical fields, employ 14% of the total; while manufacturing accounts for the remaining 11%. Also, 80% of employees in high productivity services hold university degrees, two-thirds of workers in low productivity services have a secondary education or less, and the majority of public administration employees have a higher education. It noted that 61% of the self employed in the country are in low-productivity sectors and 3% of them are in high productivity sectors.

In parallel, it said that fresh graduates and the unemployed require a long period of time to find a job in Lebanon. It estimated the average length of unemployment in Lebanon at close to one year, with an average of 13 months for men and 10.8 months for women. It also estimated the average length of the unemployment period for first-time job seekers with no formal education at 16 months and for workers with tertiary education at 10 months. It noted that graduates from top universities find jobs relatively easily.

In parallel, the World Bank considered that there are frequent gaps between the skills that employers require and those that job seekers have. It noted that Lebanese entering the labor market with university or vocational training diplomas do not have the necessary technical, cognitive and non-cognitive skills. It estimated that 41% of employees consider that they have skills that do not match at all or only somewhat match those required by the job. Further, it said that the labor market in Lebanon is characterized by the high prevalence of informal employment and relative low transitions to formal employment. It noted that around 50% of employees and self-employed are in the informal sector, and that the transition rate from informal wage employment or self-employment to formal employment is very low.

#### **Distribution of Employment among Wage Employees**

Low Productivity Services	35.4%
Public Administration/Education/Health	29.0%
High Productivity Services	14.3%
Manufacturing	11.3%
Construction	3.5%
Agriculture, forestry & fishing	1.2%
Electricity, water & gas	0.9%
Mining & quarrying	0.7%
Other	3.8%

*Source: World Bank, Byblos Research*

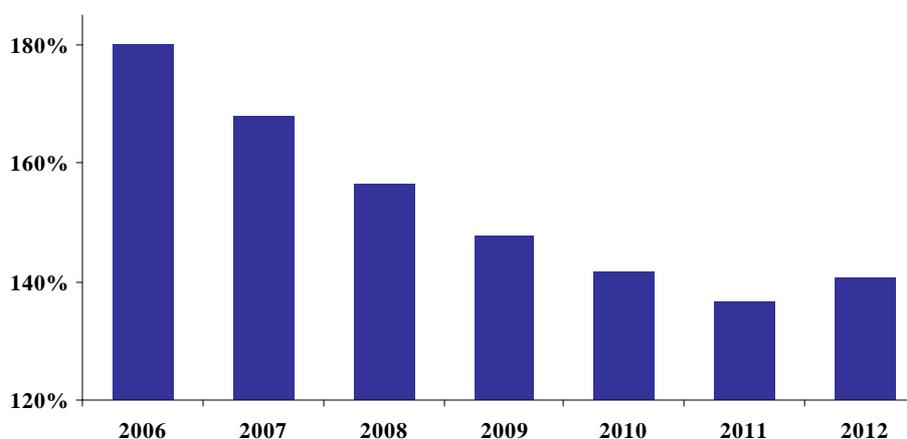
### Net public debt at \$50bn at end-February 2013

Lebanon's gross public debt reached \$58.1bn at the end of February 2013, constituting a rise of 0.7% from the end of 2012 and an increase of 7.6% from end-February 2012. Domestic debt totaled \$33.6bn at end-February, rising by 0.8% from end-2012 and increasing by 1.9% annually; while external debt stood at \$24.5bn, up by 0.5% from end-2012 and by 16.5% from a year earlier. Local currency debt accounted for 57.8% of gross public debt at end-February 2013 compared to 61.1% a year earlier, while foreign currency-denominated debt represented 42.2% of the total at the end of February relative to 38.9% a year earlier. The weighted interest rate on outstanding Treasury bills was 6.55%, while the weighted interest rate on Eurobonds was 6.67% at the end of February. Further, the weighted life on Eurobonds was 5.90 years, while that on Treasury bills was 1,078 days.

Commercial banks accounted for 52.2% of the local public debt at the end of February 2013 compared to 50% a year earlier. They were followed by the Central Bank with 31.3%, down from 34.3% at end-February 2012; while public agencies, financial institutions and the general public accounted for 16.6% of local debt compared to 15.7% at end-February 2012. Eurobond holders, foreign private sector loans and special T-bills in foreign currencies accounted for 89.7% of the external debt, followed by multilateral institutions with 5.4%, foreign governments with 4.3%, and Paris II loans with 0.6%. Net public debt, which excludes the public sector's deposits at the Central Bank and at commercial banks from overall debt figures, increased annually by 6.9% to \$50bn. In parallel, the gross market debt accounted for about 64% of total public debt. Gross market debt is the total public debt less the portfolios of the Central Bank, the National Social Security Fund, bilateral and multilateral loans, as well as Paris II and Paris III related debt.

In parallel, the Ministry of Finance is planning to issue a \$1.1bn dual-tranche Eurobond. The first series consists of reopening and increasing by \$600m an existing bond that matures on January 7, 2023, while the second series consists of reopening and increasing by \$500m an existing bond that matures on November 29, 2023. The issuance will increase the outstanding size of debt maturing in 2023 to \$1.1bn and that maturing in 2027 to \$1bn. The ministry selected Fransa Invest Bank, Standard Chartered Bank and Natixis, the investment management and financial services arm of France's second largest bank Groupe BPCE, as the joint bookrunners on the deal.

Gross Public Debt in Lebanon (% of GDP)



Source: Institute of International Finance, Byblos Research

### Lebanon and Libya sign economic cooperation agreement

The Beirut & Mount Lebanon Chamber of Commerce, Industry & Agriculture signed a cooperation agreement with its Libyan counterpart to promote trade and economic relations between the two countries. The agreement stipulates the collaboration of both countries in all fields of economic activity such as industry and trade. In addition, the two sides would develop a program and necessary mechanisms to generate a communication network between members of both chambers, provide essential information to companies and institutions, offer trade facilitations for deal making and stimulate mutual economic endeavors. Further, both countries would exchange information on laws and on legislation governing their economic activities as well as on available business opportunities and on potential areas for cooperation.

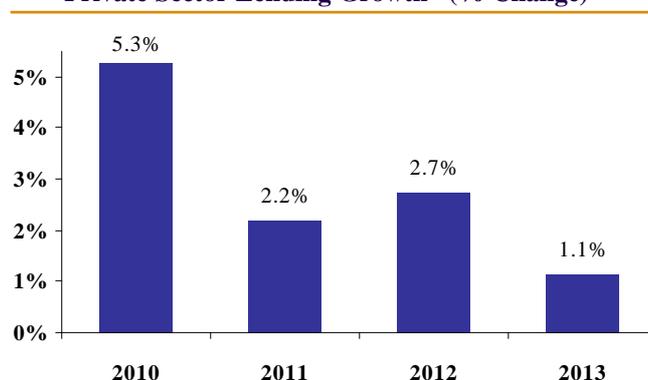
### Car sales up 1% in first quarter of 2013

Figures released by the Association of Automobile Importers in Lebanon (AIA) indicate that a total of 7,484 new passenger cars were sold in the first quarter of 2013, constituting an increase of 1.2% from 7,392 cars sold in the same quarter last year. Korean cars accounted for 48.2% of total sales, followed by Japanese cars with a 22.6% share, European automobiles with 20.8%, American vehicles with 6.5%, and Chinese cars with 1.8%. Chinese cars posted the highest growth in sales with a 191.5% rise year-on-year, followed by Korean cars with an 8% increase. In parallel, Japanese cars posted the biggest contraction in sales with an 11.6% drop year-on-year, followed by American cars with a 6.1% decline, and European cars with a 0.7% decrease. Kia is the leading brand in the Lebanese market with 2,092 cars sold in the first quarter of 2013, followed by Hyundai with 1,519, Nissan with 846 cars sold, Toyota (401), Chevrolet (259), Volkswagen (206), and Renault (194). In parallel, a total of 444 new commercial vehicles were sold in the first quarter of 2013, down 23.2% from the 578 vehicles sold in the same quarter last year, but up 0.5% from the 442 vehicles sold in the first quarter of 2011.

### Commercial banks' assets reach \$154bn at end-February 2013

The consolidated balance sheet of commercial banks operating in Lebanon shows that total assets reached \$154bn at the end of February 2013, constituting an increase of 1.4% from the end of 2012 and a rise of 6.8% from end-February 2012. Private sector deposits totaled \$126.3bn, increasing by 1% from end-2012 and by 7.6% from end-February 2012. Deposits in Lebanese pounds reached \$44.6bn and rose by 1.5% from end-2012 and by 10.6% from end-February 2012; while deposits in foreign currencies totaled \$81.7bn and increased by 0.8% from end-2012 and by 6% from a year earlier. Non-resident foreign currency deposits totaled \$21.1bn at the end of February 2013, up by 1.8% from the end of 2012 and by 11.3% year-on-year. Total non-resident deposits reached \$24.5bn at the end of February 2013 and grew by 1.9% from end-2012 and by 12.1% from a year earlier. Total private sector deposits increased by \$744.9m in February and by \$557.9m in January 2013, compared to rises of \$725.3m in February and \$976m in January 2012. In parallel, deposits of non-resident banks reached \$6.4bn at the end of February 2013 and increased by 8.1% from end-2012 but declined by 4.6% from a year earlier. The dollarization rate of deposits reached 64.6% at the end of February 2013 relative to 64.8% at end-2012 and 65.6% a year earlier. Further, the average deposit rate in Lebanese pounds reached 5.46% at end-February 2013 relative 5.47% a year earlier; while the same rate in US dollars was 2.94%, up from 2.87% in February 2012.

### Private Sector Lending Growth\* (% Change)



\*in first two months of each year

Source: Association of Banks in Lebanon, Byblos Research

Loans to the private sector totaled \$43.9bn, constituting an increase of 1.1% from end-2012 and a rise of 8.7% from a year earlier. Lending to the resident private sector totaled \$38.3bn and increased by 1.2% from end-2012 and by 10.8% year-on-year, while credit to the non-resident private sector reached \$5.6bn and increased by 0.5% from end-2012 and regressed by 3.9% from end-February 2012. The dollarization rate in private sector lending regressed to 77.5% at end-February 2013 from 78.5% a year earlier. The average lending rate in Lebanese pounds was 7.47% in February 2013 compared to 7.07% a year earlier, while the same average in US dollars was 7.05% compared to 7.13% in February 2012. In addition, claims on non-resident banks reached \$13.5bn at end-February 2013, posting a decrease of 6.5% from end-2012 and a decline of 10.3% from a year earlier. Claims on the public sector stood at \$32.2bn, constituting an increase of 3.6% from end-2012 and a rise of 10.9% year-on-year. The ratio of private sector loans-to-deposits in foreign currencies stood at 41.7%, well below the Central Bank's limit of 70%, and compared to 41.2% a year earlier. In parallel, the same ratio in Lebanese pounds was 22.1%, up from 21.6% at the end of February 2012. The ratio of total private sector loans to deposits was 34.8% at the end of February compared to 34.4% a year earlier. The banks' aggregate capital base stood at \$12.6bn, unchanged month-on-month but increased by 17% from \$10.8bn in February 2012.

### Bank Audi's dividend payout ratio at 43.5% for 2012

Bank Audi announced that its Ordinary General Assembly held on April 8, 2013 approved the distribution of dividends for 2012. The bank will pay \$163.1m to the holders of common shares and preferred shares, equivalent to a 43.5% payout ratio. The bearers of common shares will receive a total of \$139.9m, equivalent to \$0.4 per share or LBP603 per share. Also, the bank will pay \$0.775 per share to the holders of Preferred Shares Series D, \$6 per share to the holders of Preferred Shares Series E, and \$4 per share to the holders of Preferred Shares Series F. The dividends will be paid starting April 10, 2013 net of a 5% withholding tax.

### **Solidere's stock price has 40% upside**

FFA Private Bank sal issued an "Overweight" recommendation on the listed shares of Solidere sal, the Lebanese Company for the Development and Reconstruction of the Beirut Central District. It estimated the stock's fair value price at \$17 per share, implying a 40% upside from its April 2, 2013 closing price. It noted that Solidere's recent share performance has reflected the deterioration of investor sentiment due to the rise in political uncertainties and weaker market conditions in Lebanon and the region, including spillover risks from Syria. It noted that the stock's performance in the short- to medium-term would reflect the company's slower operations due to uncertain economic and political conditions. But it forecast an upside potential due to the firm's strong track record, attractive profit margins, and ongoing revenue diversification strategy to offset its reduced land bank.

FFA expected Solidere's revenue to decrease by 54.6% to \$138m in 2012, but to increase to \$144m in 2013 and to \$248m in 2014. Further, it projected the company's net income to decline from \$159m in 2011 to \$41m in each of 2012 and 2013, but to increase to \$113m in 2014. Therefore, it forecast Solidere's price-to-earnings ratio to rise from 11.8x in 2011 to 46.6x in 2012 and 46.8x in 2013, and to decline to 16.9x in 2014. Also, it projected Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA) to decline by 74.2% to \$48m in 2012, but to recover systematically to \$52m in 2013 and \$138m in 2014. As such, it forecast the Enterprise Value-to-EBITDA ratio to substantially rise to 52.5x in 2012 and 50x in 2013, but to ease to 19.1x in 2014. In parallel, it estimated Solidere's earnings per share to decrease to \$0.26 in each of 2012 and 2013, from \$1.03 in 2011.

In parallel, it expected the company's revenue breakdown to change in 2012 and in coming years, reflecting a drop in land sales earnings from 80% of the total in 2011 to 41% of total revenues in each of 2012 and 2013, and to 60% of the total in 2014. Further, FFA anticipated revenues from leased properties to rise from 16% of the total in 2011 to 37% of total revenues in each of 2012 and 2013, and to 26% of aggregate receipts in 2014.

### **BBAC's net profits up 9% to \$42m in 2012**

The Bank of Beirut and the Arab Countries (BBAC) sal, one of Lebanon's top 10 banks, announced unaudited consolidated net profits of \$41.8m in 2012, up 8.5% from \$38.5m in 2011. Net operating income grew by 19.4% year-on-year to \$118.2m, with net interest income increasing by 25.7% to \$83.7m and net fees & commissions receipts rising by 9% year-on-year to \$17.3m. Non-interest income accounted for 27.6% of total income, down from 30.3% in 2011; with net fees & commissions representing 54.2% of non-interest earnings. Further, the bank's interest margin was 1.87% in 2012 relative to 1.62% in 2011, and its net spread rose to 1.81% from 1.57% in the preceding year. Total operating expenditures increased by 28% to \$67.1m, with staff expenses growing by 10.4% to \$32m. Also, the bank's return on average assets reached 0.90% in 2012 relative to 0.91% in the preceding year, while its return on average equity was 11.94% compared to 12.27% in 2011. The cost-to-income ratio decreased to 58.1% in 2012 relative to 54.9% in 2011. In parallel, total assets reached \$4.9bn at end-2012, constituting a 13.3% rise from end-2011; while loans & advances to customers, excluding related parties' lending, grew by 11.2% in 2012 to \$1.2bn. Also, customer deposits totaled \$4.2bn at the end of 2012, constituting a growth of 12% from a year earlier. The loans-to-deposits ratio increased to 27.9% at end-2012 from 28.2% at the end of 2011.

### **First National Bank's profits up 19.6% to \$19.6m in 2012**

First National Bank sal, one of Lebanon's top 12 banks, announced unaudited consolidated net profits of \$19.6m in 2012, constituting an increase of 19.6% from 2011. Net operating income grew by 16.5% year-on-year to \$61.2m, with net interest income increasing by 26% to \$55.4m and net fees & commissions receipts decreasing by 23.9% to \$1.7m year-on-year. Non-interest income accounted for 12.6% of total income, down from 15.3% in 2011; with net fees & commissions representing 20.4% of non-interest earnings. Further, the bank's interest margin was 1.86% last year relative to 1.72% in 2011, while its net spread rose to 1.82% from 1.68% in the previous year. Total operating expenditures increased by 19.3% to \$38.5m, with staff expenses increasing by 11.5% to \$21.2m. Also, the bank's return on average assets reached 0.63% in 2012 relative to 0.61% in the previous year, while its return on average equity was 9.52% compared to 8.79% in 2011. The cost-to-income ratio decreased to 59.7% last year from 60.7% in 2011. In parallel, total assets reached \$3.4bn at the end of 2012, constituting a 19.9% rise from end-2011; while loans & advances to customers, excluding loans & advances to related parties, grew by 10.9% from end-2011 to \$839.1m. Also, customer deposits, excluding deposits from related parties, totaled \$2.6bn at end-2012, constituting an increase of 15.2% from end-2011. The loans-to-deposits ratio regressed to 32.3% at end-2012 from 33.6% a year earlier.

## Ratio Highlights

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

\* Change in basis points 11/12

Source: Association of Banks in Lebanon, Institute of International Finance, International Monetary Fund, Ministry of Finance, Byblos Research Calculations

Note: M2 includes money in circulation and deposits in LBP, M3 includes M2 plus Deposits in FC and bonds

## Risk Outlook

Lebanon	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



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