

LEBANON THIS WEEK

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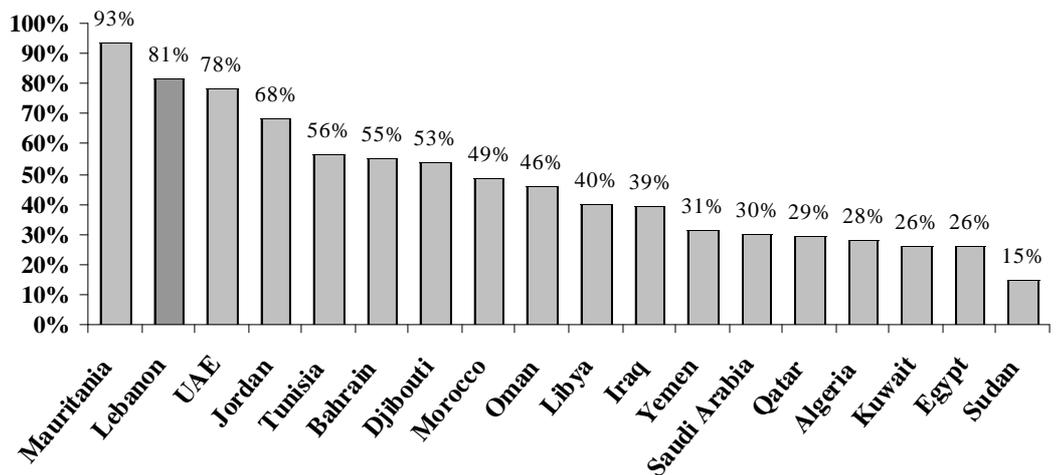
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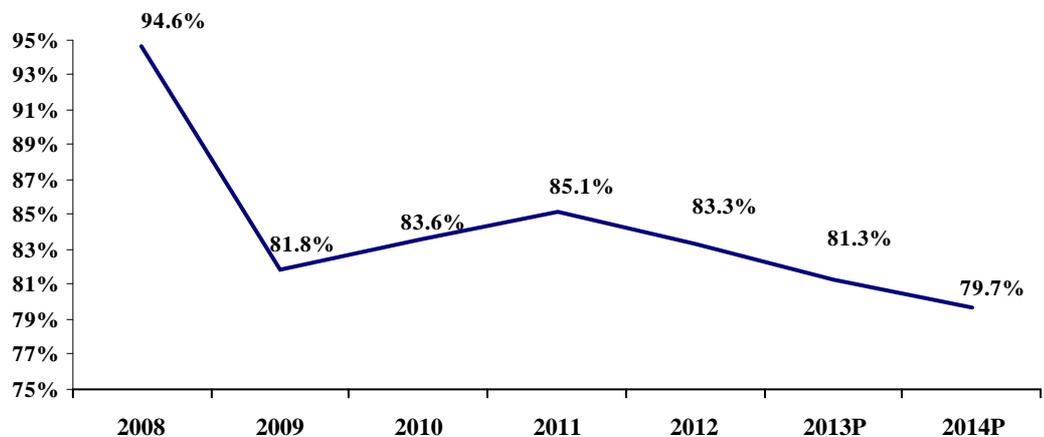
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Charts of the Week

Projected Imports of Goods & Services to Arab Countries in 2013 (% of GDP)



Imports of Goods & Services to Lebanon (% of GDP)



Source: International Monetary Fund - May 2013, Byblos Bank

Quote to Note

"Such a weak national accounting framework is extremely unusual globally, especially given Lebanon's level of development."

The World Bank, on the poor quality of Lebanon's national accounts in terms of data compilation, timeliness and frequency

Number of the Week

5,000: Number of French companies present in Lebanon, according to H.E. Mr. Patrice Paoli, Ambassador of France in Lebanon

Economic Indicators

\$m (unless otherwise mentioned)	2011	Mar 12	2012	Jan 13	Feb 13	Mar 13	% Change*
Exports	4,276	377	4,486	405	381	406	7.69
Imports	20,170	1,723	21,281	1,871	1,791	2,076	20.49
Trade Balance	(15,894)	(1,346)	(16,795)	(1,241)	(1,410)	(1,670)	24.07
Balance of Payments	(1,996)	51	(1,538)	383	(92)	(353)	n/a
Checks Cleared in LBP	14,251	1,191	14,976	1,305	1,213	1,286	7.98
Checks Cleared in FC	57,852	4,843	56,044	4,637	4,353	4,472	(7.66)
Total Checks Cleared	72,103	6,034	69,787	5,942	5,566	5,758	(4.57)
Budget Deficit/Surplus	(2,342)	(312.40)	(3,925)	(17.78)	(279.91)	(484.90)	55.22
Primary Balance	1,662	133.00	(109.87)	200.38	(130.10)	(75.10)	n/a
Airport Passengers	5,596,034	432,817	5,960,414	463,972	402,517	502,923	16.20

\$bn (unless otherwise mentioned)	Dec 2011	Mar 12	Dec 12	Jan 13	Feb 13	Mar 13	% Change*
BdL FX Reserves	30.82	30.99	29.97	30.96	30.34	30.36	(2.03)
<i>In months of Imports</i>	<i>18.51</i>	<i>17.99</i>	<i>16.02</i>	<i>18.81</i>	<i>16.94</i>	<i>14.62</i>	<i>(18.69)</i>
Public Debt	53.66	54.12	57.69	58.04	58.08	57.75	6.71
Net Public Debt	46.37	46.95	49.12	49.55	49.95	50.07	6.65
Bank Assets	140.58	144.73	151.88	153.11	153.97	155.44	7.40
Bank Deposits (Private Sector)	115.72	118.22	125.00	125.55	126.30	128.11	8.37
Bank Loans to Private Sector	39.38	41.00	43.45	43.72	43.95	44.70	9.02
Money Supply M2	38.90	40.04	43.17	43.28	43.62	43.76	9.29
Money Supply M3	97.23	98.94	104.01	104.13	104.71	105.85	6.98
LBP Lending Rate (%)	7.38	7.16	7.07	7.32	7.47	7.28	12b.p
LBP Deposit Rate (%)	5.63	5.46	5.41	5.43	5.46	5.44	(2b.p)
USD Lending Rate (%)	7.02	7.06	6.87	6.98	7.05	6.95	(11b.p)
USD Deposit Rate (%)	2.83	2.83	2.86	2.88	2.94	2.97	14b.p
%* Change in CPI**	4.27	5.10	4.68	4.32	3.66	9.17	407b.p

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

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

Sources: ABL, BdL

Capital Markets

Most Traded Stocks on BSE	Last Price (\$)	% Change*	Total Volume	Weight in Market Capitalization
Solidere "A"	11.26	(1.40)	104,686	10.82%
Solidere "B"	11.15	(0.62)	3,838	6.96%
Byblos Common	1.54	1.99	11,200	5.32%
Byblos Pref. 08	100.00	0.00	15,370	1.92%
Byblos Pref. 09	100.50	0.00	0	1.93%
BLOM GDR	8.65	0.00	0	6.14%
BLOM Listed	8.25	(0.60)	30,000	17.04%
Audi GDR	6.20	0.00	0	6.08%
Audi Listed	6.10	1.67	63,114	20.50%
HOLCIM	14.81	0.00	0	2.78%

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

Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
Apr. 2014	7.375	102.88	3.31
Jan. 2015	5.875	102.50	4.11
Apr. 2015	10.00	110.25	3.89
Jan. 2016	8.500	108.75	4.73
Mar. 2017	9.000	113.00	5.06
Nov. 2018	5.150	100.00	5.15
Apr. 2021	8.250	112.25	6.22
Nov. 2026	6.600	100.00	6.60

Source: Byblos Bank Capital Markets

	July 15-19	July 8-12	% Change	June 2013	June 2012	% Change
Total Shares Traded	246,590	5,866,719	(95.80)	3,583,569	6,244,741	(42.61)
Total Value Traded	\$5,148,164	\$12,757,734	(59.65)	\$35,442,686	\$60,044,043	(40.97)
Market Capitalization	\$10.41bn	\$10.39bn	0.20	\$10.24bn	\$10.07bn	1.65

Source: Beirut Stock Exchange (BSE)



Beirut ranks 46th globally in house prices, 66th in rental yield, and 16th in prices relative to rent

The Global Property Guide's annual report on real estate investment trends around the world indicated that Beirut ranked in 46th place among 94 markets globally in 2012 and in second place in the Arab world in terms of the price of a 150 square meters apartment. Beirut ranks in 37th place in terms of the price of such apartments when excluding microstates and small islands. Globally, the price of a 150 sqm apartment in Beirut was \$3,591 per square meter, higher than prices in Auckland in New Zealand, Saint Kitts and Ljubljana in Slovenia, and lower than prices in the Bahamas, in Antigua and in Malta's Valletta. The Guide noted that the price of a square meter in Central Beirut currently ranges between \$4,200 and \$6,800 compared to \$1,200 in 2004. It added that gross rental yields in Beirut have dropped significantly in the past six years from 10% to 11% to between 2.7% and 3.5% currently. It warned that high prices and low yields trends are unlikely to be sustainable.

The report offers the tools needed by foreign and non-resident investors to buy income-generating property overseas. It said that only resale apartments and houses are included in the survey. The properties surveyed have to be in excellent condition, have good facilities, and have been refurbished or redecorated within the past five years. The Global Property Guide's valuation data is based on upper end apartments in prestigious areas that appeal to foreign investors or renters. It said that figures for Beirut cover the areas of Achrafieh, Ain El Mreisseh, Ain El Tineh, Clemenceau, Hamra, Manara, Raouche, Sanayeh, the Beirut Central District, Ramlet El Baida, Verdun, and Saifi.

Beirut ranked in 66th place in 2012 among 83 markets globally and in last place among five Arab markets in terms of Gross Rental Yield (GRY), which is the annual rent relative to the house price. Beirut would have the 59th highest GRY globally when excluding microstates and small islands. The survey said the GRY is the return-on-investment before taxes, maintenance fees and other costs, and is a key figure for investors. Globally, Beirut's GRY was higher than in Saint Lucia, Prague and Limassol, and slightly lower than in Moscow, Toronto and Vienna. Beirut's GRY was 3.62% in 2012, significantly lower than the Arab average of 6.8%. The survey downgraded Lebanon's GRY to the 'very poor' category in 2012 from the 'poor' category in 2011. It was the only Arab market in this category.

Further, Beirut ranked in 16th place among 83 markets globally and in first place in the region in terms of the price of an apartment relative to its rent, or the Price-to-Rent ratio. Beirut's Price-to-Rent ratio would be the 13th highest globally when excluding microstates and small islands. The ratio reflects the years of rent that are required to buy a property, and is typically used for measuring the under-valuation or overvaluation of real estate prices. Globally, Beirut had the same ratio as Prague and Saint Lucia, had a higher ratio than Toronto, Moscow and Luxembourg, and a lower ratio than London, Limassol and Tel Aviv. Lebanon's price-to-rent ratio was 28, higher than the Arab average of 16.4, and indicating that it takes 28 years of rent to recover the purchase price of a 150 sqm apartment in Beirut.

Also, Beirut ranked in 48th place among 83 markets globally and in second place among five Arab markets in terms of the Rent-per-Month of a 150 sqm apartment. Beirut would rank in 41st place globally on this indicator when excluding microstates and small islands. Globally, monthly rents in Beirut were more expensive than in Nairobi in Kenya, in Trinidad and in Managua in Nicaragua, and were less costly than in Panama City, Prague and Saint Kitts. Beirut's rent-per-month was \$1,623 for a 150 sqm apartment, higher than the Arab average of \$1,579 per month.

Further, Lebanon ranked in fourth place among nine Arab markets in terms of Roundtrip Transaction Cost, which reflects all costs of buying and reselling a residential property, expressed as a percentage of the property value. Such costs include registration costs, real estate agents' fees, legal fees and sales and transfer taxes. Roundtrip transaction costs in Lebanon reached 11.57% compared to the regional average of 7.9%. The cost of buying a property in Lebanon was lower than only in Jordan (15.24%), Morocco (12.13%) and Egypt (11.74%), but came higher than in Tunisia (7.1%), the UAE (5.05%), Bahrain (5%), Oman (3.01%) and Qatar (0.25%).

Finally, Lebanon ranked in second place among five Arab countries in terms of the cost of a typical upscale housing unit of 100 sqm relative to the country's GDP per capita, or the house price-to-income ratio. The price of a 100 sqm upscale apartment in Lebanon is equivalent to 34.29 times the country's GDP per capita, which is higher than in Jordan (29.19 times), Egypt (28.44 times) and the UAE (6.02 times), and is only lower than in Morocco at 66.45 times. In comparison, the region's average house price-to-income ratio is 32.88.

City	Gross Rental Yield (%)	Price-to-Rent ratio	Buying Price* US\$/sqm	Rent* US\$/month	Roundtrip Cost (%)
Cairo	9.40	11	831	977	11.74
Amman	8.18	12	1,326	1,356	15.24
Dubai	6.63	15	4,010	2,660	5.05
Marrakesh	6.09	16	2,101	1,280	12.13
Beirut	3.62	28	3,591	1,623	11.57
Tel Aviv	3.32	30	8,258	2,742	9.57

*150 sqm apartment

Source: Global Property Guide, Byblos Research



Lebanon's CDS spreads widen by 14.5% in second quarter of 2013

Figures released by CDS and bond pricing firm S&P Capital IQ CDS show that average spreads on 5-year credit default swaps (CDS) for Lebanon ended the second quarter of 2013 at 478.6 basis points, widening by 60.6bps from 418 bps at the end of the first quarter, by 37.6bps from 441bps at the end of the fourth quarter of 2012, by 29.6bps from 449bps at the end of the third quarter, and by 0.6bps from 478bps at the end of the second quarter of 2012. The spreads fluctuated between 408bps and 432bps in April and May 2013. But they started to widen at the beginning of June to reach 514bps on the 25th of the month before narrowing again and ending the quarter at 478.6bps.

The firm noted that Lebanon's 5-year CDS spreads were the eighth widest among 70 countries during the second quarter of the year. They were tighter than only Argentina with 3,155.5bps, Cyprus (1,245.1bps), Venezuela (1,010.6bps), Greece (986.1bps), Egypt (881.1bps), Pakistan (843.3bps), and Ukraine (812.8bps). It said that Lebanon's CDS spreads widened by 14.5% from the preceding quarter.

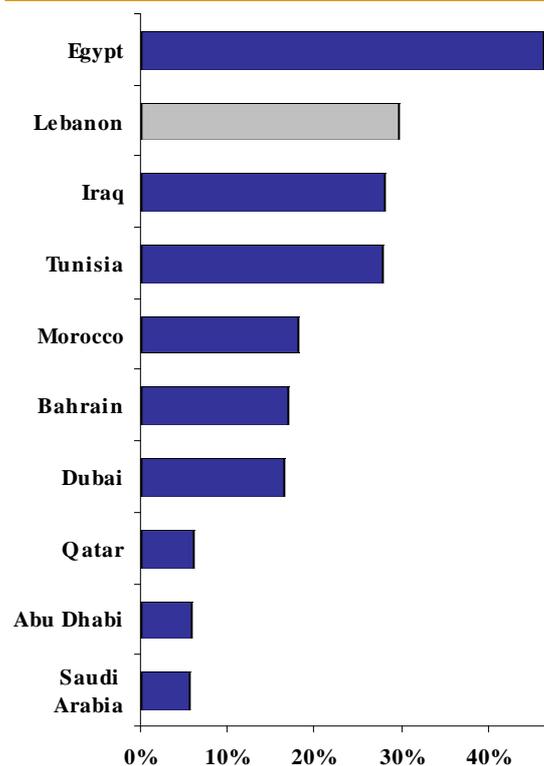
Further, S&P Capital IQ CDS indicated that Lebanon ended the second quarter of 2013 with a five-year cumulative probability of default (CPD) of 29.6%, constituting an increase from 26.3% at the end of the first quarter, as well as from 27.5% at the end of the fourth quarter of 2012, 27.9% at the end of third quarter, and 29.4% at the end of the second quarter of 2012. It said the CPD quantifies the probability of an issuer being unable to honor its debt obligations over a given time period. It added that the CPD is a function of the market's recovery level, which varies according to several factors and distance to default. It calculates the CPD using an industry standard model and proprietary credit data.

Lebanon's CPD at the end of June 2013 shows that Lebanese debt was the ninth riskiest globally, but it was less risky than the debt of Argentina (81.6%), Cyprus (65.5%), Venezuela (51.4%), Greece (48.6%), Egypt (46.4%), Pakistan (45.8%), Ukraine (44.3%), and Portugal (30.3%). Norway, Sweden and Finland had the lowest CPDs among the 70 sovereigns covered in the survey, with rates of 1.6%, 1.9% and 2.3%, respectively.

Number of tourists down 13% in first half of 2013

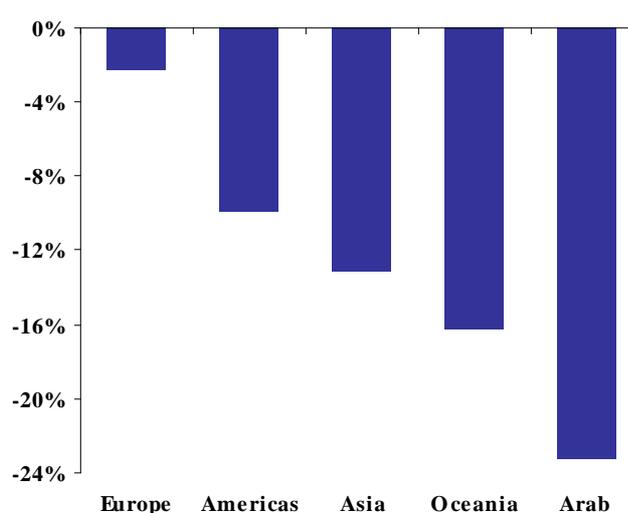
The number of incoming tourists to Lebanon totaled 623,864 in the first half of 2013, constituting a decrease of 12.7% from 714,549 tourists in the same period last year and a decline of 19.4% from 774,214 tourists during the first half of 2011. European tourists accounted for 33.3% of total visitors in the first half of the year, and were followed by visitors from Arab countries with 32.5%, the Americas with 15.8%, Asia with 9.9%, Africa with 5.1%, and Oceania with 3.3%. Also, tourists from Iraq accounted for 10.3% of visitors in the first half of 2013, followed by visitors from France with 8.4%, the United States with 7.9%, Jordan with 6.4%, Canada with 5.4%, and Egypt with 5.2%. The number of Arab tourists declined by 23.2% year-on-year in the first half of 2013, followed by visitors from Oceania with a 16.2% decrease, Asia (-13.1%), the Americas (-9.9%), Europe (-2.3%) and Africa (-1.2%). Further, the number of tourists from the UAE declined by 74.8% annually, followed by Saudi Arabia with a 53.5% decrease, Kuwait (-38.1%), Jordan (-17.8%), the United States (-11.2%), Canada (-9.1%), Turkey (-8.9%), Italy (-6.4%), Venezuela (-6.1%), Egypt (-4.2%), Brazil (-3.7%), England (-3%), Sweden (-1.4%), France (-1.2%) and Germany (-1%). In parallel, the number of tourists from Iraq rose by 8.5% annually. Incoming tourists totaled 1.37 million in 2012, down 17.5% year-on-year.

Cumulative Probability of Default at end-June 2013



Source: S&P Capital IQ CDS, Byblos Research

Number of Tourist Arrivals in First Half of 2013*



* year-on-year percentage change

Source: Ministry of Tourism, Byblos Research

One third of Lebanese would like to emigrate, 71% cite financial reasons

A survey commissioned by the Qatar-based Arab Center for Research & Policy Studies indicated that 33% of respondents in Lebanon would like to immigrate to another country. The percentage of participants who are willing to emigrate from Lebanon was the second highest among 14 Arab economies covered in the survey, and came lower than Sudan only where 54% of participants expressed a desire to emigrate from their country. In comparison, 22% of respondents in the Arab region said they would like to emigrate from their respective countries.

Also, 71% of Lebanese respondents cited the desire to improve their financial situation as the main reason for willing to emigrate, while 24% of respondents want to emigrate because of domestic insecurity. Also, 2% of Lebanese said they are willing to emigrate because of political reasons, and 1% of them want to leave the country for family reasons. In comparison, 78% of survey participants in the region cited the desire to improve their financial situation as the main reason for emigration, followed by domestic insecurity (10%), political reasons (4%) and education (2%).

Further, 15% of Lebanese who would like to emigrate cited Canada as their preferred destination, 14% named the United States and 12% chose Europe in general, while 11% specified France and 8% named Germany. Also, 14% of Lebanese who desire to leave did not specify their emigration destination. In comparison, 16% of respondents in the Arab world named Europe as their main emigration destination, 12% cited Saudi Arabia, 10% chose the United States, 9% selected France and 7% specified each of the UAE and Canada. Also, 11% of respondents in the region who desire to leave did not specify a destination.

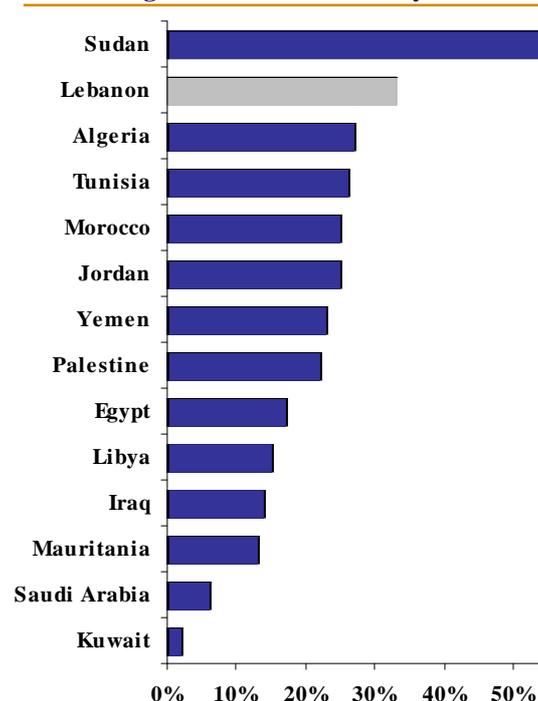
The survey was conducted in 14 Arab countries through face-to-face interviews between July 2012 and March 2013 as part of the Arab Center for Research & Policy Studies' 2012/13 Arab Opinion Index. It covered a sample of 21,350 respondents in Algeria, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Morocco, Mauritania, Palestine, Saudi Arabia, Sudan, Tunisia, and Yemen. Lebanon's survey was conducted by opinion polling firm Statistics Lebanon. Surveyed countries represent 89% of the total population of the Arab region.

Fiscal deficit to remain wide in the absence of an effective policy response to economic challenges

Business Monitor International projected Lebanon's fiscal deficit to narrow to 8.6% of GDP in 2013 and 8.1% of GDP in 2014 from 9.1% of GDP in 2012. It added that the government will miss its target deficit of 7.3% of GDP for 2013 due to lower than-expected spending cuts and revenue collection. It expected Lebanon's public finances to improve after 2014 as it considered that regional tensions would ease and the government would be able to implement structural economic reforms. But it noted that the fiscal deficit will remain elevated and will average 7.8% of GDP during the 2013-17 period relative to an average deficit of 8.5% between 2007 and 2012. It said that Lebanon's fiscal deficit increased by 68% to \$3.9bn last year from \$2.3bn in 2011, while the primary budget balance shifted to a deficit of 0.3% of GDP from a surplus of 4.3% of GDP in 2011, constituting the first primary deficit since 2006. It attributed the widening of the deficit mainly to the cost-of-living adjustment in public sector wages. It noted that personnel cost rose by 21.5% to LBP6.7 trillion last year due to a 15.5% increase in public-sector wages and a 35% rise in retirement benefits. On the expenditures side, it said that the 2013 revised draft budget cut spending to LBP21.2 trillion from LBP22.8 trillion in the original budget and relative to spending of LBP20.1 trillion in 2012. But it noted that such cuts are not likely to take place in the coming quarters due to Parliamentary elections scheduled in November 2014 and high domestic political instability. It forecast total spending to increase by 6.1% in nominal terms this year. Also, BMI expected further increases in wages this year. It said that the Cabinet approved an across-the-board adjustment to the salary scale of public sector employees as well as wide-scale tax and fee increases in order to finance it. But it expected the proposed revenue measures to fall short of the total cost of \$1.2bn, which would widen the fiscal deficit by an additional 1.1% of GDP.

On the revenue side, it considered that total revenues are not likely to increase substantially due to the weak domestic environment and high political instability, and expected such revenues to grow by 6.9% in nominal terms this year. It said that Lebanon's macro-economic environment will remain weak due to the lack of an effective policy response to the country's economic problems and the ongoing conflict in Syria, which would depress revenue growth. It projected real GDP growth at 1.7% in 2013 and 3.3% in 2014 relative to growth of 1.2% in 2012. It indicated that the government will not be able to implement significant tax increases or improve tax collection given the highly divided nature of Lebanon's political system. In parallel, BMI expected that the government will not have difficulties in financing its deficit. It said that local banks continue to hold the majority of the public debt stock and have been resilient in the face of internal and external shocks. But it cautioned from an increase in the cost of financing over the medium-term. It anticipated the debt level to remain high over the medium-term given the large fiscal deficit.

% of respondents who would like to emigrate to another country



Source: Arab Center for Research & Policy Studies

Lebanon ranks 142nd globally, 16th in MENA region on peace index

The 2013 Global Peace Index ranked Lebanon in 142nd place among 162 countries globally and in 16th place among 22 countries in the Middle East & North Africa region. It also ranked Lebanon in 40th place among 43 upper-middle income countries (UMICs) included in the survey. Lebanon ranked in 136th place among 158 countries globally and in 16th place among 22 countries regionally in the 2012 survey. The GPI ranks countries by their 'absence of violence', using metrics that combine both internal and external factors. The index is based on 22 qualitative and quantitative indicators and is a composite of two sub-indices that measure internal peace, which carries a weight of 60%, and external peace that has a weight of 40%. Countries with the lowest scores are considered the most peaceful. The index was developed by the Economist Intelligence Unit and the Institute for Economics and Peace.

Globally, Lebanon is considered to be more peaceful than South Sudan, Burundi and Libya, and less peaceful than India, Myanmar and Georgia. It is also considered to be more peaceful than Libya, Israel, Yemen, Sudan, Iraq and Syria in the MENA region. The survey placed Lebanon in the 'low' state of peace category, along with Libya, Israel and Yemen from the region.

Lebanon received a score of 2.58 points, worse than the global average of 2.06 points, the UMIC average of 2.07 points and the MENA average score of 2.31 points. In nominal terms, Lebanon's score worsened by 0.139 points year-on-year and posted the seventh steepest deterioration globally. In percentage terms, Lebanon's score deteriorated by 5.7% year-on-year and posted the 10th steepest deterioration globally, along with Kenya.

In parallel, the GPI's six-year trend shows that Lebanon's nominal score improved by 0.098 points between 2008 and 2013, constituting the 17th best improvement globally. The improvement in Lebanon's score was larger than that of Poland (0.083), Qatar (0.08) and Mauritius (0.075) and smaller than that of Ecuador (0.109), Serbia (0.11) and Guyana (0.12).

Also, its score improved by 4% in the covered period, constituting the 19th best improvement in percentage terms globally, along with Iraq. In parallel, the survey estimated spending on violence containment in Lebanon at 6% of GDP in 2012, constituting the 62nd highest such ratio globally. Also, spending on violence containment in Lebanon was the seventh lowest in the region, similar to that in Egypt and the UAE, higher than such spending in Djibouti, Kuwait, Morocco and Turkey with 5% of GDP each, Tunisia with 4% of GDP, and Qatar with 3% of GDP.

Industrial exports up 13% to \$1.2bn in first four months of 2013

Figures released by the Ministry of Industry show that industrial exports totaled \$1.2bn in the first four months of 2013, constituting an increase of 12.9% from \$1bn in the same period last year. Industrial exports reached \$304.3m in April 2013, down by 4.6% from \$318.9m in March 2013 but up by 36.6% from \$222.7m in April 2012. Mineral products accounted for \$238.8m, or 20.5% of total industrial exports in the first four months of the year, followed by base metals & articles of base metals with \$208.1m (17.9%), and machinery & mechanical appliances with \$176.6m (15.2%). Arab countries accounted for 62.8% of total industrial exports in April, followed by Asian countries with 12.9%, European economies with 10.7% and African countries with 10.2%. In parallel, industrial imports reached \$109.1m in the first four months of the year, up 22.1% from \$89.4m in the same period of 2012. Italy was the main source of such imports and accounted for 20% of the total. It was followed by Germany with 16.2% and China with 14.2%. Further, imports of industrial equipment and machinery reached \$33.8m in April 2013, up by 44.3% from \$23.4m in the same month last year. Germany was the main source of imports of industrial equipments and accounted for 25.7% of total imports during the covered month, followed by Italy with 20.1% and China with 9.8%.

Global Peace Index Rankings & Scores 2013

	Score	MENA Rank	Global Rank
Qatar	1.48	1	19
UAE	1.68	2	36
Kuwait	1.71	3	37
Oman	1.81	4	45
Jordan	1.86	5	52
Morocco	1.90	6	57
Djibouti	1.92	7	63
Tunisia	2.01	8	77
Bahrain	2.11	9	95
Saudi Arabia	2.12	10	97
Egypt	2.26	11	113
Algeria	2.28	12	119
Mauritania	2.33	13	122
Turkey	2.44	14	134
Iran	2.47	15	137
Lebanon	2.58	16	142
Libya	2.60	17	145
Israel	2.73	18	150
Yemen	2.75	19	152
Sudan	3.24	20	158
Iraq	3.25	21	159
Syria	3.39	22	160

Source: EIU, Institute for Economics and Peace

European Union supports public finance management and tax administration

The European Union and the Ministry of Finance signed a €2.8m twinning project to improve the performance of public financial management in Lebanon, increase the budget's transparency, improve the budget's execution and forecasting, and enhance the control of public expenditures. The project, named Institutional Capacity Development and Reorganization of the Ministry of Finance of Lebanon, will be implemented by the ministry's Directorate General over a period of 30 months. The program will be managed by ADETEF, the international technical assistance consultant agency and operator for the French ministries of Economy, Finance, Industry and Sustainable Development; along with the Italian Ministry of Economy & Finance.

Also, the EU and the Finance Ministry launched officially on June 18th a €1.85m twinning project between the Directorate General of Finance and its French counterpart to support Lebanon's tax administration. The project aims to improve the performance and security of the country's tax administration and enhance tax collection through administrative reforms, greater transparency, and efficient communication with citizens. The implementation of the project, named Modernizing the Administrative and Operational Capacity of the Tax Administration, started effectively in March 2013 and is expected to take 18 months for completion.

In parallel, the Council for Development & Reconstruction and the Italian government signed a joint declaration to support the environment and culture in Lebanon. The declaration stipulates that Italy would provide a grant to fund the Technical Assistance Unit of the €2.3m Lebanon Environmental Pollution Abatement project, which is a joint program with the World Bank. Also, the Italian government would provide funding in support of the National Museum in Beirut.

Car sales up 1.5% in first half of 2013

Figures released by the Association of Automobile Importers in Lebanon (AIA) indicate that a total of 17,110 new passenger cars were sold in the first half of 2013, constituting an increase of 1.5% from 16,850 cars sold in the same period last year. Korean cars accounted for 47.9% of total sales, followed by Japanese cars with a 24.5% share, European automobiles with 20.2%, American vehicles with 5.6%, and Chinese cars with 1.8%. Chinese cars posted the highest growth in sales with a 105.3% rise year-on-year, followed by Korean cars with a 6.3% increase, and European cars with a 5.5% rise. In parallel, Japanese cars posted a 10.5% contraction in sales year-on-year, followed by American cars with a 6.9% decrease. Kia is the leading brand in the Lebanese market with 4,733 cars sold in the first half of 2013, followed by Hyundai with 3,455 cars sold, Nissan with 2,218 cars, Toyota (805), Chevrolet (516), Renault (468) and Volkswagen (404). In parallel, a total of 1,185 new commercial vehicles were sold in the first half of 2013, up 2.2% from the 1,160 vehicles sold in the same period last year, and up by 8.9% from 1,088 vehicles sold in the same period of 2011.

The AIA indicated that more than 90% of new cars sold during the covered period were small automobiles that cost about \$11,000 each. It noted that the trend towards buying smaller cars is due to the high prices of gasoline, the lack of proper public transportation, and fierce competition among car dealers. It added that this translates into lower sales figures and, consequently, a decline in dealers' income.

Emirates Lebanon Bank's net profits up 6% to \$15m in 2012

Emirates Lebanon Bank sal posted audited consolidated net profits of \$14.8m in 2012, constituting an increase of 5.6% from \$14m in 2011. Net operating income grew by 5.2% year-on-year to \$39m, with net interest income rising by 4.8% to \$29.5m and net fees & commission income increasing by 21.1% year-on-year to \$8.4m. Operating expenditures rose by 9.3% year-on-year to \$22.3m in 2012, with staff expenses increasing by 15.5% to \$14.4m. The cost-to-income ratio increased to 56.3% in 2012 from 55% a year earlier. In parallel, total assets reached \$1.45bn at end-2012, constituting a 7.6% rise from a year earlier; while loans & advances to customers decreased by 3.2% year-on-year to \$569.8m. Also, customer deposits totaled \$1.1bn at end-2012, and increased 6.7% from a year earlier. The bank's total shareholders' equity grew by 44.6% year-on-year to \$268.5m at end-2012. Emirates Lebanon Bank's shareholders are Bank of Sharjah PSC that has a 67.3% stake, EL Capital FZC that holds a 20% share, and BNPI Paris with a 12.7% stake.

BML's profits down 8% to \$5.7m in 2012

Banque Misr Liban sal (BML), one of the smaller banks in Lebanon, announced audited consolidated net profits of \$5.7m in 2012, down 8% from \$6.1m in 2011. Net operating income rose by 10.3% year-on-year to \$26.5m in 2012, with net interest income increasing by 3.7% to \$19.7m and net fees & commissions receipts rising by 16.8% to \$2.8m. Total operating expenditures increased by 18.7% to \$19.4m, with staff expenses increasing by 20.4% to \$10.9m. The cost-to-income ratio rose to 71.2% in 2012 from a ratio of 65.9% in 2011. In parallel, total assets reached \$1.1bn at end-2012, constituting a 13.3% increase from \$952.4m at end-2011; while loans & advances to customers, excluding loans & advances to related parties, increased by 28% year-on-year to \$170.1m. Also, customer deposits, excluding deposits to related parties, totaled \$861.9m at end-2012, growing by 13.4% from a year earlier. The bank's total shareholders' equity grew by 3.6% year-on-year to \$95.3m at end-2012.

HSBC Bank Middle East's ratings affirmed, outlook 'stable'

Fitch Ratings affirmed HSBC Bank Middle East's (HBME) long-term Issuer Default Rating (IDR) at 'AA-' with a 'stable' outlook. It also affirmed HBME's short-term IDR at 'F1+' and Viability Rating (VR) at 'bbb'. It said that the bank's ratings reflect the extremely high probability of support that would receive from its parent HSBC Holdings, in case of need. It attributed the ability and willingness of HSBC Holdings to support HBME to the latter's strategic importance to the group. Further, it pointed out that HBME's VR is constrained by its higher borrower concentration, high non-performing loans (NPLs) and renegotiated loan book. But it noted that the VR is supported by the bank's solid regional franchise, diversified and good earning capabilities, strong liquidity position and the current repositioning towards higher quality lending. It added that the bank's capitalization level is satisfactory despite being lower than its UAE peers. It expected HBME's revenue growth to remain challenging due to fewer lending opportunities in the UAE, one of its main markets in the region. It noted that the bank's net income fell by 15.5% in 2012, mainly driven by the decline in net interest margins due to the continued low interest rate environment, strong competition, and two large acquisitions. It forecast HBME's asset quality to gradually improve this year, in line with the recovery in the UAE economy. But it cautioned from higher borrower concentrations and the future performance of the renegotiated loan book. Further, it said that the bank's funding and liquidity position is strong, as it is predominantly funded by customer deposits and has one of the lowest loans-to-deposits ratio in the UAE.

HBME is a wholly-owned subsidiary of HSBC Holdings. It operates through a network of branches and affiliates in 13 countries in the region that include Lebanon, Jordan, the UAE, Oman, Bahrain, Qatar, Kuwait, Pakistan, and the Palestinian Territories. HSBC was established in Lebanon in 1946 and operates in the country through three branches located in the Beirut area.

Ciments Blancs approves dividends for 2012

The Ordinary General Assembly of Société Libanaise des Ciments Blancs sal held on May 22, 2013 approved a gross dividend distribution of LBP3.5bn, or \$2.3m, to common shareholders for 2012, which is equivalent to LBP389.47 (\$0.26) per share and to a payout ratio of 91%. The dividends will be paid starting on July 26, 2013 net of a 5% withholding tax. Ciments Blancs, which is an affiliate of HOLCIM Liban, posted net profits of \$2.6m in 2012, constituting an increase of 8.3% from net earnings of \$2.4m in 2011. The company generated total sales of \$14.5m last year compared to \$13.9m in 2011. The firm's total assets reached \$20.2m at the end of 2012, decreasing by 0.6% from \$20.3m at end-2011. Ciments Blancs has 6 million bearer shares and 3 million nominal shares listed on the Beirut Stock Exchange. The firm's bearer share price closed at \$3.23 on July 19th, constituting a decrease of 0.9% from end-2012; while its nominal share price closed at \$3.24, down 1.8% from end-2012.

Ratings on Arab Bank affirmed, outlook 'negative'

Standard & Poor's affirmed the 'BB-/B' long- and short-term counterparty credit ratings of the Jordan-based Arab Bank Plc and its foreign branches. But it downgraded the long- and short-term counterparty credit ratings of Europe Arab Bank and Arab Bank Australia to 'BB+/B' from 'BBB/A-2'. It noted that the outlook on all the ratings is 'negative'. It also downgraded the group's anchor to 'bb' from 'bb+' and its credit profile to 'bb+' from 'bbb'. The bank is present in Lebanon through Arab Bank sal, a direct branch of the group's main operating entity Arab Bank Plc.

The agency said its rating actions follow its assessment of the wider implications of the deterioration in sovereign creditworthiness in some MENA countries where the bank operates, and the resulting economic challenges for the Arab Bank Group. It noted that industry risks for Jordanian banks have increased, while Jordan's deteriorating creditworthiness is adversely affecting the banking industry. Further, the agency reduced its assessment of the group's business position to "strong" from "very strong", reflecting the group's operations in high-risk MENA countries. It expected the operating environment and credit conditions in several MENA countries, particularly in Jordan and Egypt, to remain challenging for the group's business and financial profiles. It anticipated that the group will continue to face difficulties in expanding its business in the MENA region, which accounts for around 50% of its consolidated assets. It said that the rise in political and economic risks in the region have reduced the group's diversification benefits and weighed on its business profile.

Arab Bank sal was established in 1930 and has 12 branches across Lebanon. It declared audited net profits of \$16.3m in 2012 for its consolidated operations in Lebanon, constituting an increase of 1.2% from \$16.1m in 2011. Total assets reached \$1.56bn at end-2012, almost unchanged from a year earlier; while loans & advances to customers, excluding loans & advances to related parties, increased by 4.4% year-on-year to \$625.2m. Also, customer deposits, excluding deposits to related parties, totaled \$1.3bn at end-2012, growing by 2.3% from a year earlier. The loans-to-deposits ratio rose to 46.7% at end-2012 from 45.8% a year earlier. Provisions for risks and charges rose by 20.2% year-on-year to \$9.8m in 2012.

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	Negative	B2		Stable
Fitch Ratings	B	B	Stable	B		Stable
Standard & Poor's	B	B	Negative	B	B	Negative
Capital Intelligence	B	B	Stable	B	B	Stable

Source: Rating agencies

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

Source: Rating agencies

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