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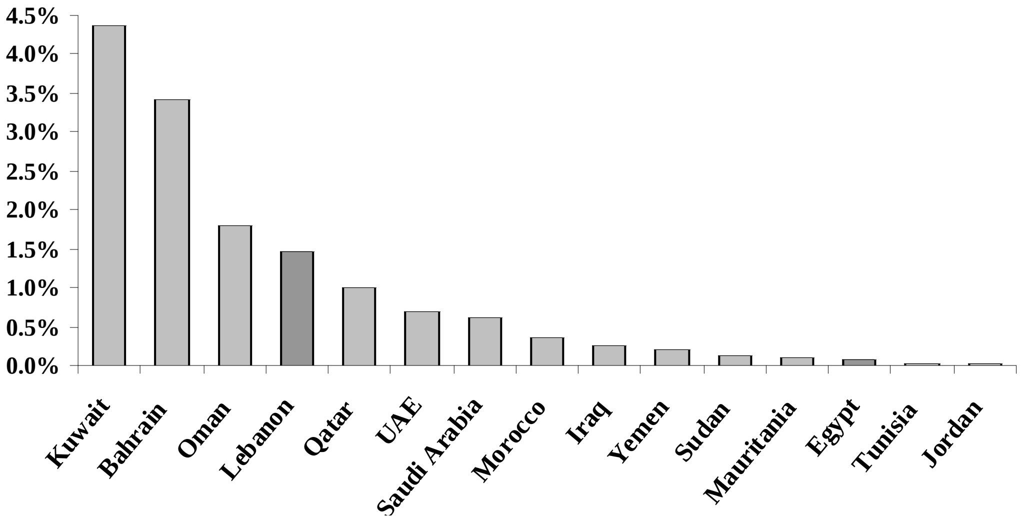
LEBANON THIS WEEK

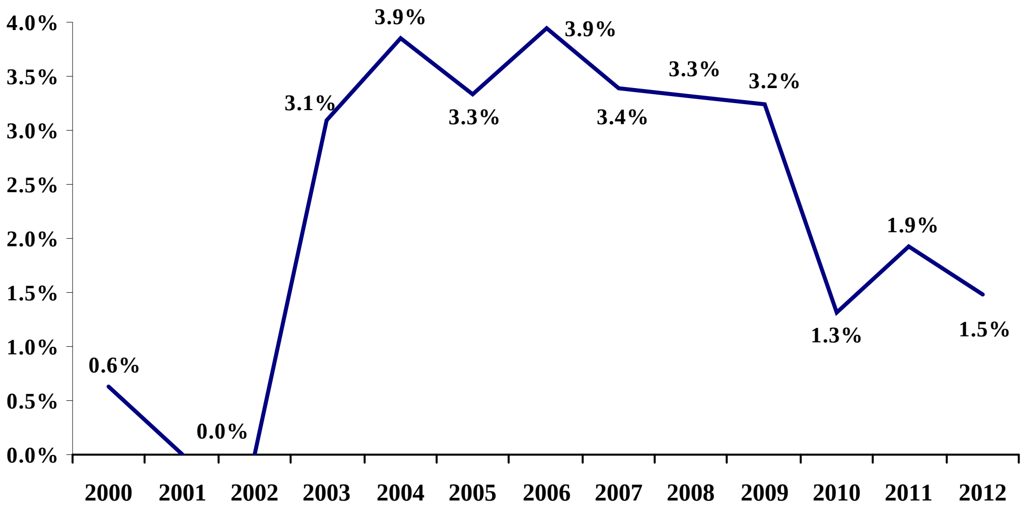
In This Issue

Charts of the Week

Foreign Direct Investment Outflows from Arab Countries in 2012 (% of GDP)



Foreign Direct Investment Outflows from Lebanon (% of GDP)



Source: UNCTAD, International Monetary Fund, Byblos Bank

Quote to Note

"Inadequate supply of infrastructure."

The most problematic factor for doing business in Lebanon, according to respondents to the World Economic Forum's 2013-14 survey on economic competitiveness in 148 countries

Number of the Week

$31.3bn: The Central Bank of Lebanon's gross foreign currency reserves at the end of July 2013

Economic Indicators

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

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

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

Capital Markets

Most Traded Stocks on BSE	Last Price ($)	% Change*	Total Volume	Weight in Market Capitalization
Solidere "A"	10.75	(1.56)	109,891	10.39%
Solidere "B"	10.72	(2.55)	29,392	6.73%
Byblos Common	1.51	2.03	36,853	5.25%
Byblos Pref. 08	100.00	0.00	250	1.93%
Byblos Pref. 09	100.00	0.00	520	1.93%
BLOM GDR	8.50	0.00	0	6.07%
BLOM Listed	8.25	0.00	0	17.14%
Audi GDR	6.29	0.00	0	6.20%
Audi Listed	6.12	(0.65)	1,135	20.69%
HOLCIM	14.31	(8.74)	225	2.70%

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

Sovereign Eurobonds	Coupon %	Mid Price $	Mid Yield %
Apr. 2014	7.375	101.88	3.91
Jan. 2015	5.875	102.25	4.08
Apr. 2015	10.00	109.13	3.99
Jan. 2016	8.500	107.75	4.92
Mar. 2017	9.000	110.25	5.72
Nov. 2018	5.150	97.75	5.66
Apr. 2021	8.250	108.75	6.75
Nov. 2026	6.600	95.75	7.10

Source: Byblos Bank Capital Markets

	Sep 16-20	Sep 9-13	% Change	Aug 2013	Aug 2012	% Change
Total Shares Traded	186,866	541,522	(65.49)	1,136,561	2,124,597	(46.50)
Total Value Traded	$1,859,851	$5,214,380	(64.33)	$13,445,987	$25,488,402	(47.25)
Market Capitalization	$10.35bn	$10.41bn	(0.56)	$10.40bn	$10.10bn	2.94

Source: Beirut Stock Exchange (BSE)

Lebanon in the news

Surveyed economists expect real GDP growth of 1.6% in 2013

Bloomberg's first survey of economists and analysts about the outlook on the Lebanese economy indicates that real GDP growth is expected to reach 1.6% on average in 2013, and to rise to 3.3% in 2014 and 3.8% in 2015. The individual forecasts of growth rates for 2013 ranged between zero percent and 2%. The consensus forecast among 55.6% of participants is that real GDP would grow by 2% this year. The survey's results displayed a median real GDP growth figure of 2% for this year. The survey's results are based on the opinions of nine economists and analysts based in Lebanon and abroad. Bloomberg conducted the poll during the September 15-18, 2013 period and will update it on a quarterly basis.

Also, participants forecast Lebanon's inflation rate at 5.3% on average for 2013, and expected it to gradually decrease to 4.3% in 2014 and 3.5% in 2015. The opinions of polled economists' differed drastically on the direction of consumer prices in 2013 with expectations ranging between 3% and 8%; while 62.5% of participants agreed that the inflation rate will be 5% or above for this year. The poll's results revealed a median inflation rate of 5% for 2013.

In parallel, surveyed economist forecast Lebanon's fiscal deficit at 9.2% of GDP on average this year, and to narrow to 8.8% of GDP in 2014 and 8% of GDP in 2015. Also, 83.3% of participants expected the fiscal deficit to reach 9% of GDP or more this year, with opinions ranging between deficits of 7.9% of GDP and 10.2% of GDP in 2013. The median for the fiscal deficit came at 9.1% of GDP for this year.

Further, the polled economists projected the current account deficit to reach 15.3% of GDP, on average, this year and to narrow to 13.8% of GDP in 2014 and 13.7% of GDP in 2015. Also, 62.5% of those polled expect the current account deficit to reach 16% of GDP or above in 2013, with expectations ranging from deficits of 12% of GDP to 16.3% of GDP this year. The poll's results show that the median current account deficit would be 16% of GDP in 2013.

Occupancy rate at Beirut hotels at 58%, room yields down 30% in first half of 2013

Ernst & Young's benchmark survey of the Middle East hotel sector indicated that the average occupancy rate at hotels in Beirut was 58% in the first half of 2013, down from 65% in the same period last year and compared to a rate of 67.3% in 16 Arab markets. The occupancy rate at Beirut hotels was the third lowest in the region in the covered period, while it was the seventh lowest in the first half of 2012. Cairo and Manama posted the lowest- and second-lowest occupancy rates of 31% and 45%, respectively, in the first half of this year. Occupancy rates at Beirut hotels were 49% in January, 60% in February, 58% in March, 65% in April, 59% in May, and 55% in June 2013, compared to 60% in January, 64% in February, 74% in March, 66% in April, 67% in May, and 59% in June 2012.

Hotel Performance in First Half of 2013

	Occupancy Rate (%)	RevPAR (US$)	RevPAR % change
Dubai	86	245	8.8
Jeddah	80	220	13.4
Makkah	80	171	(0.5)
Abu Dhabi	80	175	10.5
Muscat	73	155	5.7
Madina	73	136	10.4
Hurghada	71	27	57.6
Doha	71	185	0.1
Al Ain	71	99	9.9
Sharm El Shaikh	70	39	27.6
Riyadh	64	145	(0.7)
Amman	63	100	(16.2)
Kuwait	61	185	13.3
Beirut	**58**	**96**	**(29.9)**
Manama	45	96	15.4
Cairo	31	28	(11.3)

Source: Ernst & Young, Byblos Research

Also, the occupancy rate at hotels in Beirut fell by seven percentage points year-on-year, constituting the third steepest decrease among 16 Arab markets, and relative to an average increase of 0.3 percentage points for the region. Amman and Cairo posted the steepest and second-steepest drops of 16 and eight percentage points, respectively, in hotel occupancy rates in the region.

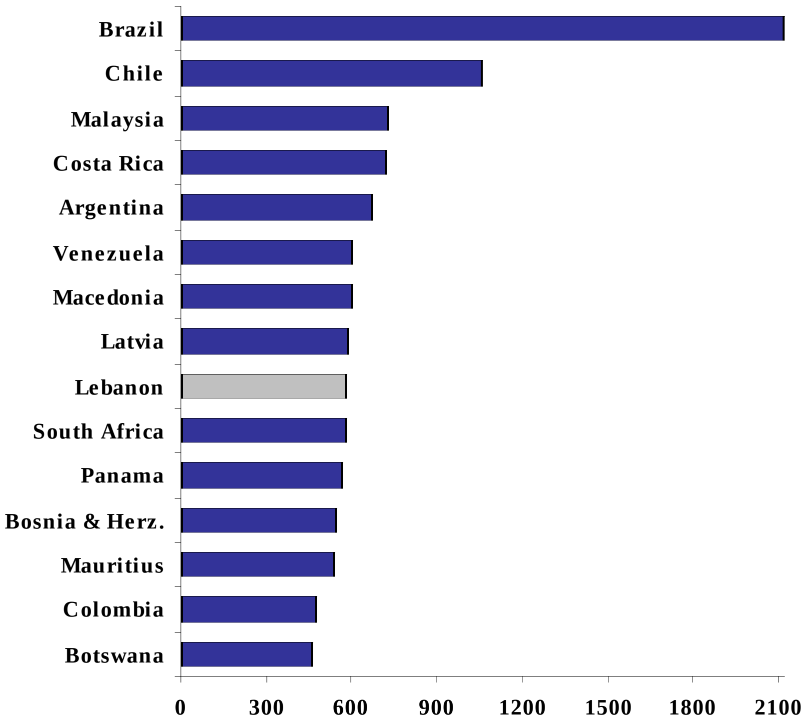
E&Y indicated that the average rate per room at Beirut hotels was $166 in the first half of 2013, ranking the capital's hotels as the 11th most expensive in the region. The average rate per room at Beirut hotels decreased by 21% year-on-year and posted the steepest decrease among all markets in the region.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

Further, revenues per available room (RevPAR) were $96 in Beirut in the first half of the year, down from $137 in the same period last year, and coming in 12th place in the region. Beirut's RevPAR fell by 29.9% year-on-year compared to an increase of 4.1% across the MENA region, and posted the steepest decrease in the region. Beirut posted RevPARs of $82 in January, $97 in February, $93 in March, $106 in April, $98 in May, and $101 in June 2013, compared to $139 in January, $131 in February, $149 in March, $138 in April, $134 in May, and $132 in June 2012. Kuwait City posted the highest average room rate in the region at $299, while Dubai posted the highest RevPAR at $245 and the highest occupancy rate at 86% in the first half of 2013.

Lebanon has 20th highest loan penetration rate in the world, 30th highest deposit penetration rate in 2012

Figures issued by the International Monetary Fund show that there were 313.5 borrowers per 1,000 adults at commercial banks in Lebanon in 2012, constituting a marginal decrease of 0.3% from 314.4 borrowers per 1,000 adults in 2011 and compared to 180 borrowers per 1,000 adults in 2005. The borrowers' penetration rate ranks Lebanon in 19th place among 83 countries with available figures for 2012, in ninth place among 30 upper-middle income countries (UMICs) and in first place among 11 Arab countries. Globally, Lebanon ranked ahead of Macedonia and Thailand, and came behind Latvia and Argentina. It also ranked behind Turkey, Uruguay, Malaysia, Brazil, Chile, Panama, Argentina and Latvia among UMICs. Lebanon's borrowers' penetration rate was higher than the global average penetration rate of 198.8 and the UMIC's rate of 265.4, and was more than twice the Arab region's rate of 125.3 in 2012. Further, there were 576.6 loan accounts per 1,000 adults at Lebanese commercial banks in 2012, up 7.2% from 536 loan accounts per 1,000 adults in 2011 and compared to 273.3 loans accounts per 1,000 adults in 2005. The loan penetration rate ranks Lebanon in 20th place among 91 countries globally with available figures for 2012, in ninth place among 31 UMICs and in first place among Arab countries. Lebanon has a higher penetration rate in this category than the global rate of 342.9 loan accounts per 1,000 adults, the UMICs' average rate of 479.2, and the Arab average penetration rate of 206.5.

Loans Penetration in Top 15 Upper Middle Income Countries (Number of loans per 1,000 adults)



Source: International Monetary Fund, Byblos Research

In parallel, there were 859.9 depositors per 1,000 adults at Lebanese commercial banks in 2012, constituting a drop of 3.4% from 890.1 depositors per 1,000 adults in 2011 and compared to 763.5 depositors per 1,000 adults in 2005. As a result, Lebanon has the 25th highest depositors' penetration rate among 80 countries worldwide with available figures for 2012, the 12th highest among 27 UMICs and the second largest behind only Libya among Arab countries. Globally, Lebanon ranked ahead of Georgia and Argentina, and came behind Samoa and Libya. It also ranked ahead of Argentina and came behind Libya among UMICs. Lebanon's depositors' penetration rate was higher than the global rate of 645.5 depositors per 1,000 adults in 2012, the UMIC's rate of 752.2, and the Arab countries' penetration rate of 499.6. Further, there were 1,469.9 deposit accounts per 1,000 adults at commercial banks in Lebanon in 2012, up 5.7% from 1,391 deposit accounts per 1,000 adults in 2011 and compared to 1,074.4 deposit accounts per 1,000 adults in 2005. As such, Lebanon had the 30th highest deposit account penetration rate among 110 countries globally with available figures for 2012, the 13th highest among 35 UMICs and the second highest behind only Kuwait among Arab countries. Also, Lebanon's deposit account penetration rate was higher than the global rate of 1,170.9, the UMICs' penetration rate of 1,326, and the Arab rate of 803 deposit accounts per 1,000 adults last year.

Also, there were 1,087,163 borrowers and 1,999,222 loan accounts at commercial banks in Lebanon at the end of 2012. In addition, resident private sector loans were equivalent to 88.1% of GDP. As result, Lebanon's resident private sector loans-to-GDP ratio was the 30th highest among 177 countries globally, the seventh largest among 50 UMICs and the highest among Arab countries.

Further, there were 2,981,519 depositors and 5,096,841 deposit accounts at commercial banks in Lebanon in 2012. In addition, resident private sector deposits were equivalent to 235% of GDP in 2012. Lebanon's resident private sector deposits-to-GDP ratio was the fourth highest among 177 countries globally, the second largest among 50 UMICs and the highest among Arab countries.

Lebanon ranks 38th globally, fifth in Arab world in economic freedom

The Fraser Institute's Index of Economic Freedom for 2013 ranked Lebanon in 38th place among 152 countries and in fifth place among 14 Arab economies. It also ranked in sixth place among 40 Upper Middle Income Countries (UMICs) included in the survey. Lebanon came in 34th place globally, in fifth place regionally and in seventh place among UMICs in 2012.

The index measures the degree to which a country's policies and institutions are supportive of economic freedom. The index includes 42 variables that are divided into five broad factors of economic freedom that are the Size of Government, the Legal System & Property Rights, Access to Sound Money, Freedom to Trade Internationally, and the Regulation of Credit, Labor & Business.

Globally, Lebanon had a higher level of economic freedom than the Bahamas, France and Iceland and a lower level than the Slovak Republic, Rwanda and Luxembourg. Also, the Lebanese economy was less free than only the economies of Mauritius, Chile, Jordan, Peru and Lithuania among UMICs; and came behind only the UAE, Bahrain, Jordan and Qatar among Arab countries. Lebanon received a score of 7.41 points on a scale of zero to 10, down from 7.44 points in 2012. Lebanon's score was below the average score of the Gulf Cooperation Council economies of 7.55 points, but higher than the Arab average of 7.03 points, the global average of 6.82 points, the UMICs' average score of 6.73 points and the non-GCC Arab countries' average score of 6.63 points.

Economic Freedom Index 2013

	Overall Score	Arab Rank	Global Rank
UAE	8.07	1	5
Bahrain	7.93	2	8
Jordan	7.81	3	13
Qatar	7.62	4	23
Lebanon	**7.41**	**5**	**38**
Oman	7.31	6	46
Kuwait	7.22	7	55
Saudi Arabia	7.14	8	60
Tunisia	6.87	9	81
Morocco	6.56	10	98
Mauritania	6.42	11	105
Egypt	6.36	12	108
Yemen	6.31	13	116
Algeria	5.32	14	143

Source: Fraser Institute, Byblos Research

Lebanon ranked second globally behind only Madagascar on the Size of Government category, which indicates the level of the country's reliance on the political process to allocate resources, goods and services. Lebanon's performance on this category reflects a low level of government consumption as a share of total private and public expenditures, and low marginal tax rates.

Further, Lebanon ranked ahead of Luxembourg and Romania and came behind Norway and Australia on the Access to Sound Money category, which reflects the consistency of monetary policy with long-term price stability and the ease of using other currencies via domestic and foreign bank accounts. Lebanon ranked behind only Peru among UMICs, and came first among Arab countries. Lebanon's performance reflects low and stable inflation rates, and the absence of regulations that limit the ability to use alternative currencies.

In parallel, Lebanon ranked ahead of Kenya and the Philippines and came behind Papua New Guinea and Trinidad & Tobago on the Legal System & Property Rights category. This category measures the extent to which the government effectively protects property rights. Globally, Lebanon ranked ahead of Kenya and the Philippines and came behind Papua New Guinea and Trinidad & Tobago. Also, Lebanon ranked ahead of Mexico and Gabon and came behind Peru and Serbia among UMICs; while it ranked ahead of only Egypt, Yemen and Algeria in the Arab world. The survey noted that countries with major deficiencies in this category are unlikely to prosper regardless of their performance in the other four categories.

Also, Lebanon ranked ahead of Mexico and Cambodia and came behind Zambia and Tunisia on the Freedom to Trade Internationally category, which measures the impact of tariffs, quotas, hidden administrative restraints, and controls on exchange rates and capital on international trade. Globally, Lebanon ranked ahead of Mexico and Cambodia and came behind Zambia and Tunisia. Also, Lebanon ranked ahead of Mexico and Botswana and came behind Tunisia and Brazil among UMICs; while ranked ahead of just Morocco, Yemen, Mauritania, Egypt and Algeria in the region.

The Fraser Institute is a Canada-based independent research organization whose mission is to study and measure the impact of competitive markets and government intervention on the welfare of individuals. The 2013 survey is based on figures for end-2011, while the 2012 survey is based on updated figures for 2010.

Components of the 2013 Economic Freedom Index for Lebanon

Category	Global Rank	Arab Rank	UMIC Rank	Lebanon Score	Global Avge Score	Arab Avge Score	UMIC Avge Score
Size of Government	2	1	1	8.95	6.42	6.69	6.43
Access to Sound Money	30	1	2	9.37	8.07	8.04	7.97
Regulation of Credit, Labor & Business	83	9	20	6.96	7.02	7.10	6.85
Freedom to Trade Internationally	81	9	24	7.06	7.04	7.20	7.04
Legal System & Property Rights	103	11	30	4.70	5.56	6.09	5.37

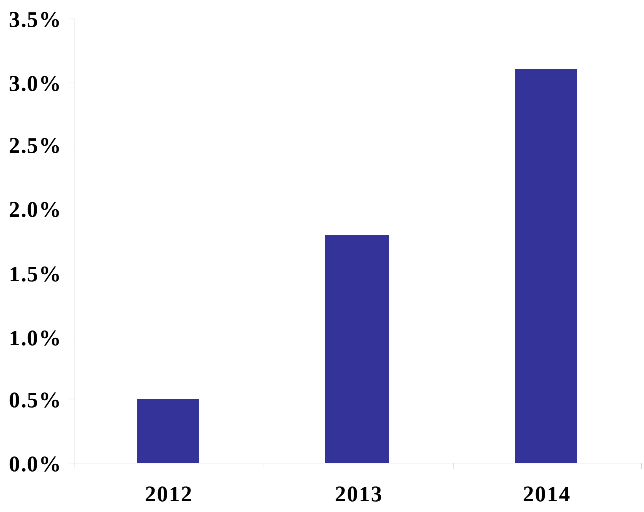
Source: Fraser Institute, Byblos Research

Output losses from Syrian conflict up to $7.5bn between 2012 and 2014

The World Bank estimated Lebanon's economic output losses from the Syrian conflict at $1.1bn in 2012, $2.5bn in 2013 and $3.9bn in 2014, for a total loss of $7.5 billion during the three-year period. It said that the Syrian crisis has adversely affected investor and consumer confidence, adding that the conflict's impact is most significant on the trade and tourism sectors.

It pointed out that the Syrian conflict is negatively affecting Lebanon's structurally weak public finances. It estimated foregone public revenues to total $1.5bn during the 2012-14 period due to the direct impact of the conflict on key economic sectors such as tourism, and the indirect impact through weaker economic activity. Also, it estimated public spending to rise by an additional $1.1bn between 2012 and 2014 due to the increase in demand for public services from the rising number of Syrian refugees. As such, it expected the fiscal deficit to widen by an additional $2.6bn during the 2012-14 period. It estimated total forgone revenues from the conflict's spillovers at 3.4% of GDP and the conflict-related rise in spending at 2.4% of GDP during the 2012-14 period, leading to an additional cumulative rise in the fiscal deficit of 5.8% of GDP. It considered that the wider fiscal deficit and the lower economic growth have reversed the significant drop in the debt level between 2006 and 2011. It noted that the public debt ratio increased in 2012, constituting the first rise since 2006 and expected it to maintain its upward trend in 2013 and 2014.

Stabilization Needs (% of GDP)



Source: World Bank, Byblos Research

In parallel, it estimated the aggregate cost of the Syrian crisis on healthcare, education and social safety nets at $308m to $340m between 2012 and 2014. It estimated the impact on healthcare services at between $92m and $113m during the covered period. It said the conflict is weighing on Lebanon's healthcare system through increased demand for health services, rising unpaid commitments of the Public Health Ministry to contracted hospitals, and shortages in specialists and nurses, among others. Further, it estimated the fiscal impact on education at between $194m and $214m during the 2012-14 period. It indicated that the Education Ministry provided open access to refugees in the public school system and that it accommodated 40,000 refugees at public schools in 2012 for a budgetary cost of $29m. It expected 90,000 refugees to enroll in the coming academic year and anticipated that the number of refugees enrolled in public schools to reach between 140,000 and 170,000 by 2014. Also, it anticipated that the influx of Syrian refugees to increase labor supply by between 30% and 50%, which would adversely affect the labor market in the context of subdued economic activity.

In parallel, it estimated the cost of the Syrian crisis on infrastructure at between $589m and $684m between 2012 and 2014. It calculated the fiscal cost on the electricity sector at between $310m and $440m, the burden on water & sanitation at between $340m and $375m, the cost on solid waste management & municipal services at $193m and $206m, and that on transportation at between $246m and $525m. It estimated the increase in electricity demand due to the rising number of Syrian refugees at 213 megawatts in 2013 and at between 251 megawatts and 362 megawatts in 2014.

Stabilization Needs (US$m)

Category	2012	2013	2014
Health	38	177	216
Education	97	183	348
Employment & Livelihoods	-	-	166
Poverty & Social Safety Nets	23	67	85
Electricity	39	214	57
Water & Sanitation	5	89	246
Solid Waste Management & Minicipal Services	4	48	141
Transportation Infrastrcuture	0	43	203

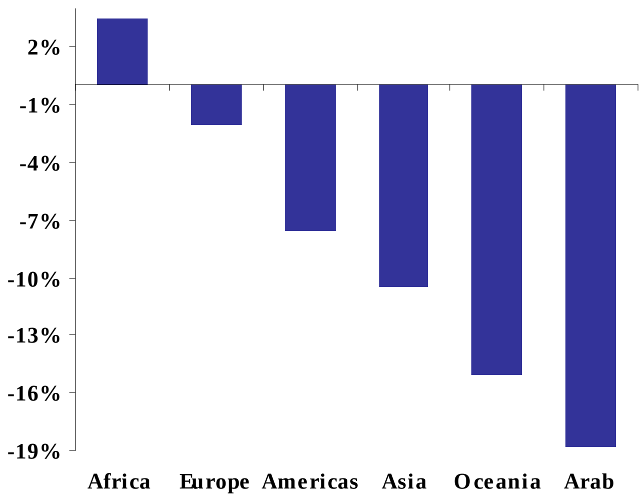
Source: World Bank, Byblos Research

Lebanon in the News

Number of tourists down 10% in first eight months of 2013

The number of incoming tourists to Lebanon totaled 891,079 in the first eight months of 2013, constituting a decrease of 9.7% from 986,649 tourists in the same period last year and a decline of 20.9% from 1,126,755 tourists during the first eight months of 2011. European tourists accounted for 35% of total visitors in the first eight months of the year and were followed by visitors from Arab countries with 30.6%, the Americas with 16.8%, Asia with 9.2%, Africa with 4.9%, and Oceania with 3.4%. Also, tourists from Iraq accounted for 10.3% of visitors in the first eight months of 2013, followed by visitors from France with 9.7%, the United States with 8.4%, Jordan with 6.2%, Canada with 5.8%, and Germany with 4.9%. The number of Arab tourists declined by 18.8% year-on-year in the first eight months of 2013, followed by visitors from Oceania with a 15% decrease, Asia (-10.5%), the Americas (-7.6%), and Europe (-2%), while the number of visitors from Africa increased by 3.5%. Further, the number of tourists from the UAE declined by 70.3% annually, followed by Saudi Arabia with a 49.4% decrease, Kuwait (-34.3%), Jordan (-14.3%), the United States (-8.9), Turkey (-8.1%), Canada (-6.5%), Egypt (-5.6%), Italy (-5.5%), Venezuela (-4.2%), Brazil (-2.1%), England (-2%), France (-1.3%), Germany (-1.1%), and Sweden (-0.6%). In parallel, the number of tourists from Iraq rose by 8.8% annually. Incoming tourists totaled 1.37 million in 2012, down 17.5% year-on-year and constituting the fourth steepest decline in the world.

Number of Tourist Arrivals in First Eight Months *



** year-on-year percentage change*

Source: Ministry of Tourism, Byblos Research

Central Bank working on economic stimulus package for 2014

Central Bank Governor Riad Salamé announced that the Central Bank is preparing another fiscal stimulus package for 2014 to support the domestic economy. But he noted that the package will be less than the $1.46bn in financial facilities provided to Lebanese banks earlier this year. He said that the smaller financial package reflects the need to contain inflation rates and preserve the stability of the currency and interest rates. He pointed out that commercial banks in Lebanon have so far used 75% of the available financial facilities this year. He noted that the new package will consist of rolling over the remaining amount of the existing facilities and to add new amounts. But he said that the decision about the size of the upcoming package will be made at the end of the year and will be contingent on the targeted inflation level and the stability of the country. He forecast the average inflation rate at less than 4% this year, in line with the Central Bank's targeted level.

In parallel, he said that the exposure of Lebanese banks to Syria fell to $1bn currently from around $5bn at the beginning of the crisis in March 2011. He anticipated that Lebanese banks would not be affected during the remainder of the year and in 2014 in case of further deterioration of the political situation in Egypt and from the financial and economic crisis in Cyprus. Further, Governor Salamé said that the substantial level of the public debt remains a concern. He considered it essential to have a government that can implement the necessary measures to contain the increase in the debt level.

Number of real estate transactions down 5% in first eight months of 2013

Figures released by the Ministry of Finance indicate that the total number of real estate transactions reached 43,883 in the first eight months of 2013, constituting a decrease of 4.6% from 46,011 deals in the same period last year, and compared to an annual decline of 9.5% in the first eight months of 2012 and a drop of 13.1% year-on-year in the same period of 2011. Also, the aggregate value of real estate transactions totaled $5.3bn in the first eight months of 2013, constituting an increase of 3.9% from $5.1bn in the same period last year. The values of real estate deals were $6.38bn and $5.23bn in the first eight months of 2010 and 2011, respectively. In parallel, the average value per real estate transaction increased by 9% year-on-year to $121,049 in the first eight months of 2013, relative to an average value of $111,101 in the same period of 2012 and $102,908 in the first eight months of 2011.

Value of cleared checks up 2%, returned checks down 2% in first seven months of 2013

The value of cleared checks reached $42bn in the first seven months of 2013, constituting an increase of 1.8% year-on-year, compared to a marginal decrease of 0.1% in the same period of 2012 and an increase of 2.9% in the first seven months of 2011. The value of cleared checks in Lebanese pounds rose by 13.6% annually to the equivalent of $9.7bn in the first seven months of 2013, while the value of cleared checks in US dollars regressed by 1.3% to $32.3bn. The dollarization rate of cleared checks decreased to 76.9% from 79.3% in the same period of the previous year. Also, the value of returned checks in domestic and foreign currency declined by 1.5% to $876m in the first seven months of 2013, relative to a rise of 7.6% in the same period of 2012 and a decrease of 4.2% in the first seven months of 2011. In parallel, the number of cleared checks totaled 7.7 million checks in the first seven months of 2013, up 2% from the same period last year. Also, the number of returned checks totaled 155,000 checks, down by 4.9% from 163,000 in the same period of 2012.

Consumer Price Index up 1.3% annually in August 2013

The Central Administration of Statistics' Consumer Price Index increased by 1.3% in August 2013 from August 2012. The cost of education increased by 14.6%, followed by prices of alcoholic beverages & tobacco (+9.1%), restaurants & hotels and recreation & entertainment (+5.1% each), food and non-alcoholic beverages (+2.4%), miscellaneous goods & services (+2%), healthcare (+1.9%), and furnishings & household equipment (+1.8%); while prices of clothing & footwear fell by 10% and transportation costs decreased by 2.5%. Further, the cost of water, electricity, gas & other fuels, housing, and communication remained unchanged year-on-year.

The Consumer Price Index posted a marginal increase of 0.2% in August 2013 from July 2013. The cost of transportation rose by 1.4%, followed by prices of food and non-alcoholic beverages (+0.8%), water, electricity, gas & other fuels (+0.7%), healthcare and miscellaneous goods & services (+0.5% each), alcoholic beverages & tobacco (+0.3%), recreation & entertainment and restaurants & hotels (+0.1% each); while prices of clothing & footwear fell by 3.5% .Further, the cost of housing, communication, education, and furnishings & household equipment remained unchanged month-on-month.

The CAS resumed the calculation of the CPI in June 2013 after a five-month suspension that was caused by a political decision by the Council of Ministers. It said that it did not collect prices in the first five months of 2013, which resulted in the lack of data for the CPI series during those months. As such, it calculated the average prices of all products collected in 2012 in order to account for temporarily missing prices, seasonal unavailability, and permanently missing items. It then used these averages to calculate the index results for June 2013 onwards.

New industrial licenses up 17% in first half of 2013

Figures released by the Ministry of Industry show that the ministry issued 210 new licenses for industrial establishments in the first half of 2013, constituting an increase of 16.7% from 180 licenses in the same period last year. The ministry granted 26 licenses in January, 13 in February, 44 in March, 41 in April, 30 in May and 56 in June 2013. Construction & investment licenses accounted for 36.7% of new licenses in the first half of the year, followed by construction licenses with 23.3%, licenses for the transfer of previously-acquired licenses with 21.4% and investment licenses with 7.6%.

Further, Mount Lebanon attracted 123 new licenses in the first half of 2013, or 58.6% of the total, followed by the Bekaa with 31 (14.8%), North Lebanon with 19 licenses (9%), Nabatieh with 17 (8.1%), South Lebanon with 15 licenses (7.1%) and Beirut with five (2.4%). Also, the food processing sector accounted for 59 licenses, followed by construction materials with 36 licenses, metal products & electrical appliances with 21 licenses, the furniture & wood industry with 15 licenses, primary metals with 13 licenses, and chemicals, rubber & plastics, and mining & quarrying products with 12 licenses each.

Central Bank to reduce holdings of Eurobonds

In the monthly meeting between the Central Bank and the Association of Banks in Lebanon (ABL), Governor Riad Salamé indicated that the Central Bank will continue to sell its holdings of Eurobonds in order to increase its foreign exchange reserves that are crucial for the stability of the currency. He added that the Bank will allow commercial banks that are willing to subscribe to 10-year and 12-year Lebanese-pound denominated Treasury bills to finance the subscription through their holdings of Certificate of Deposits issued by the Bank and through their deposits at the Bank in order to avoid a tightening of local currency liquidity.

Further, Governor Salamé indicated that the Central Bank has implemented three measures to stimulate private sector activity. First, he considered that the financial facilities that the Bank provided to commercial banks earlier this year were efficient and that they helped real GDP to grow by more than 2%. Second, he noted that the Bank authorized commercial banks to invest in technology start-ups that would constitute a key economic driver in coming years. Third, he pointed out that the Bank allowed the extension of the maturity of subsidized loans to a maximum of 10 years from 7 years. He added that the measure would not affect the estimated value of the subsidy prior to the extension.

In parallel, the ABL and Governor Salamé discussed Circular 330 issued on August 20, 2013 that obliges banks to verify that loans extended to build a house prior to August 5, 2013 and that are subject to freed reserve requirements are in line with the new guidelines, and to settle all discrepancies before the end of the year. The new guidelines stipulate that the house should be the primary residence of the loan's beneficiary and that the beneficiary is not allowed to sell the built house before seven years from the approval of the loan. The circular stipulates that the built house would be presented as collateral for the loan as long as the bank benefits from the reduction in reserve requirements. The modifications also prohibit the loan's beneficiary to use the house as collateral for another loan or to increase the loan's amount at a later stage. The ABL asked the Central Bank to exempt commercial banks from applying the new guidelines retroactively, as it would be difficult for banks to amend the previously signed contracts with their clients. But Governor Salamé insisted that the new measures would be applied retroactively, as loans extended to build a house should be treated similar to loans extended to buy a house. He considered that exempting previously extended loans to build a house from the new guidelines would increase the risk in the real estate market.

Fiscal deficit up 68% to $1.9bn in first half of 2013 when assuming $599.1m in telecom revenues

Figures released by the Finance Ministry show that the fiscal deficit reached $1.9bn in the first half of 2013 and widened by 67.6% from $1.1bn in the same period last year. The deficit was equivalent to 28.1% of total budget and Treasury expenditures compared to 18.3% of overall spending in the first half of 2012. Overall government expenditures reached $6.8bn, up 9% year-on-year, while total revenues decreased by 4.2% to $4.9bn. Budgetary expenditures rose by 3.8% to $5.3bn and included $941.8m in transfers to Electricité du Liban and $296.2m in outlays from previous years, while budget revenues decreased by 5.7% to $4.6bn. Tax revenues declined by 4% year-on-year to $3.6bn, of which 30%, or $1.1bn, were in VAT receipts that fell by 3.3% from the first half of 2012. Tax revenues accounted for 78.5% of budgetary revenues and for 74.1% of total Treasury and budget receipts. The Finance Ministry is basing its monthly fiscal results on the Telecommunications Ministry's estimate of telecom receipts that reached $599.1m in the first half of 2013, rather than on the Treasury actually receiving the funds from the Telecom Ministry. On a cash basis for the two compared periods, public revenues decreased by 2.5% year-on-year; while the fiscal deficit rose by 35.8% to $2.5bn, equivalent to 37% of expenditures.

The distribution of other tax revenues shows that receipts from taxes on income, profits & capital gains decreased by 3.5% to $1.1bn in the first half of 2013; customs revenues regressed by 2.6% year-on-year to $706.7m; revenues from property taxes fell by 9.1% to $365.3m; revenues from taxes on goods & services declined by 3.2% to $151.4m; and other tax receipts, mainly stamp fees, decreased by 4.4% to $152.7m. Further, the distribution of income tax revenues shows that taxes on profits accounted for 51.7% of total income tax receipts, followed by the tax on interest deposits with 18.8%, the tax on wages & salaries with 18% and the capital gains tax with 9.9%. Income from taxes on wages & salaries improved by 16% and the tax on interest increased by a marginal 0.2%; while the tax on profits decreased by 6% and income from capital gains tax declined by 23%.

Also, the distribution of property taxes shows that revenues from real estate registration fees decreased by 10.4% to $244.8m and revenues from inheritance tax decreased by 20% to $40.2m, while receipts from built property taxes rose by 2.5% to $80.4m. In parallel, non-tax budgetary revenues regressed by 11.9% to $985.8m, with revenues from government properties dropping by 14.4% to $738.8m and administrative fees & charges decreasing by 4.3% to $192.1m. Based on the ministry's assumption, receipts from telecom services accounted for 81.1% of income from government properties and for 60.8% of non-tax revenues.

Debt-servicing cost increased by 0.5% year-on-year to $1.9bn in the first half of 2013. It accounted for 28.4% of total expenditures and for 36% of budgetary spending, and absorbed 39.5% of overall revenues and 41.8% of budgetary receipts. Interest payment on domestic debt regressed by 3.9% year-on-year to $1.1bn, while interest disbursement on foreign debt rose by 9.9% to $744.6m. Repayment of principal on foreign debt fell by 14.2% to $77.1m. Excluding debt servicing, the primary budget balance posted a surplus of $1.2bn, or 22.2% of budget expenditures compared to a surplus of $1.6bn, or 32.2% of budget spending in the same period last year. The overall primary balance posted a surplus of $16.5m or 0.2% of spending, relative to a surplus of $772.5m or 12.5% of total expenditures in the same period of 2012.

Fiscal Results in First Half of 2013

	Including Assumed Telecom Receipts	**Excluding Assumed Telecom Receipts***
	US$m	**US$m**
Budget revenues	4,585	3,986
Tax revenues	3,599	3,599
Non-tax revenues	985.8	386.7
of which Telecom revenues	*599.1*	-
Budget expenditures	5,318	5,318
Budget Surplus/Deficit	**(732.7)**	**(1,332)**
In % of budget expenditures	*(13.8%)*	*(25%)*
Budget Primary Surplus	**1,182**	**583.3**
In % of budget expenditures	*22.2%*	*11%*
Treasury receipts	269.4	269.4
Treasury expenditures	1,435	1,435
Total Revenues	4,854	4,255
Total Expenditures	6,753	6,753
Total Deficit	**(1,899)**	**(2,498)**
In % of total expenditures	*(28.1%)*	*(37%)*
Total Primary Surplus/Deficit	**16.5**	**(582.6)**
In % of total expenditures	*0.2%*	*(8.6%)*

** Cash basis*

Source: Ministry of Finance, Byblos Research

Corporate Highlights

Crédit Libanais issues preferred shares

Crédit Libanais sal, one of Lebanon's top 10 banks, announced that it is increasing its Tier One capital by issuing preferred shares for a total issuance of $100m. The Series 2013 Preferred Shares is non-cumulative, perpetual and redeemable. Its issue price is $100 per share of which LBP11,000 ($7.3) is par value and the remaining $92.7 constitute the issue premium. Preferred Shares Series 2013 are subject to a call option by the bank starting in five years and annually thereafter, and pays an annual dividend of 7% per share pro rated to reflect the remaining period from the issue date to end-2013. The dividends are subject to a 10% withholding tax, with the bank reimbursing half of the tax to shareholders. The Bank currently does not intend to list the Series 2013 Preferred Shares on the Beirut Stock Exchange or any other stock market.

Crédit Libanais posted unaudited consolidated net profits of $33.9m in the first half of 2013, constituting a decrease of 4.8% from the same period last year. Total assets reached $8bn at end-June 2013, constituting a 1.5% rise from end-June 2012; while loans & advances to customers increased by 14.1% year-on-year to $2.4bn. Customer deposits totaled $6.77bn at end-June, constituting a growth of 7% from a year earlier.

IBL's net profits up 1% to $24.4m in first half of 2013

IBL Bank sal announced unaudited consolidated net profits of $24.4m in the first half of 2013, up 6.4% from the same period last year. Net operating income grew by 14.4% year-on-year to $47.3m, with net interest income decreasing by 21.4% to $23.6m and net fees & commissions receipts increasing by 91.8% to $3.4m. Non-interest income accounted for 51.7% of total income, up from 31.4% in the first half of 2012; with net fees & commissions representing 13.4% of non-interest earnings. Further, the bank's interest margin was 1.07% in the first half of 2013 relative to 1.55% in same period of 2012, and its net spread declined to 1.06% from 1.52% in the same period last year. Total operating expenditures increased by 20.2% to $18.8m, with staff expenses growing by 10.4% to $10.6m. Also, the bank's return on average assets reached 1.09% in June 2013 on an annualized basis, relative to 1.16% a year earlier; while its return on average equity was 15.1% on an annualized basis relative to 15.3% in June 2012. The cost-to-income ratio increased to 38.5% in the first half relative to 35.8% in the same period last year.

In parallel, total assets reached $4.6bn at end-June 2013, constituting a 4.4% rise from end-2012 and a 11.4% increase from a year earlier; while loans & advances to customers, excluding loans & advances to related parties, grew by 0.6% in the first half of the year to $861.4m. Also, customer deposits, excluding deposits to related parties, totaled $4.1bn at end-June, reflecting growth of 4% from end-2012 and a rise of 12.7% from a year earlier. The loans-to-deposits ratio decreased to 21.2% at end-June 2013 from 22.5% a year earlier.

Credit Financier Invest announces dividends for 2012

The Ordinary General Assembly of Credit Financier Invest sal held on August 21, 2013 approved a gross dividend distribution of LBP1.25bn, or $829,187, to common shareholders for 2012. The dividends distribution is equivalent to LBP1,000 ($0.66) per share and to a payout ratio of 61%. The dividends will be paid net of a 10% withholding tax. Credit Financier Invest posted audited net profits of $1.4m in 2012, constituting an increase of 62.4% from $0.8m in 2011. Its total assets reached $16m at end-2012, constituting an increase of 1.7% from $15.7m at end-2011; while its shareholders' equity was $6.65m at end-2012 relative to $5.2m at the end of 2011. The firm is one of 53 financial institutions operating in Lebanon.

Assurex's general company investments up 25% to $19m in 2012

Assurex Insurance and Reinsurance sal released its audited balance sheet that shows total assets of $60.3m at the end of 2012, constituting an increase of 37.2% from $43.9m at end-2011. On the assets side, general company investments totaled $19.3m and increased by 25.4% from a year earlier. They included $1.8m in fixed income investments that declined by 4.7% annually; as well as $2.1m in blocked bank deposits and deposits with maturity of more than three months, of which $2m were blocked in favor of the Economy Ministry as guarantees; and $12.8m in cash and cash equivalent. Also, reinsurance share in technical reserves for the life and non-life categories amounted to $0.6m and $7.4m, respectively, constituting a decrease of 57.9% and an increase of 37%, respectively.

On the liabilities & shareholder equity's side, technical reserves for the life segment decreased by 22.3% year-on-year to $2.6m, while technical reserves for the non-life category reached $26.2m at end-2012 and increased by 7.9% from a year earlier. Non-life technical reserves included unearned premium reserves of $18.2m that rose by 6.2%, outstanding claims reserves of $6.6m that increased by 23.3% year-on-year, and $0.2m in reserves incurred but not reported that regressed by 32.8% year-on-year. Shareholders' equity totaled $23.6m at end-2012, up by 146% from a year earlier. Further, provisions for risks and charges reached $0.6m and increased by 36% from a year earlier.

Al-Bayan magazine's annual survey of the insurance sector in Lebanon ranked Assurex in 20th and 11th place in 2012 in terms of life and non-life premiums, respectively. The firm's life premiums reached $1.9m and non-life premiums amounted to $28.3m, constituting a decrease of 11.8% and an increase of 4.8%, respectively. It had a 0.5% share of the life market and a 3% share of the local non-life market.

Corporate Highlights

Lebanon & Gulf Bank's profits at $11.2m in first half of 2013

Lebanon & Gulf Bank sal, one of Lebanon's top 13 banks, announced unaudited consolidated net profits of $11.2m in the first half of 2013, up 41.9% from the same period last year. Net operating income rose by 24.6% year-on-year to $26.5m, with net interest income increasing by 57.3% to $19.9m and net fees & commissions receipts rising by 15% to $4.4m. Non-interest income accounted for 39.5% of total income, up from 40.4% in the first half of 2012, with net fees & commissions representing 33.9% of non-interest earnings down from 44.6% in the first half of 2012. Further, the bank's interest margin was 1.67% in the first half of 2013 relative to 1.18% in the same period last year; while its spread increased to 1.62% from 1.13% in the first half of 2012. Total operating expenditures increased by 15.5% to $14m, with staff expenses increasing by 6.8% to $7.6m. Also, the bank's return on average assets reached 0.91% in June 2013 on an annualized basis, relative to 0.71% a year earlier; while its return on average equity was 10.9% relative to 8.5% in June 2012. The cost-to-income ratio regressed to 42.4% in the first half from 56.9% in the same period last year.

In parallel, total assets reached $2.5bn at end-June 2013, constituting an increase of 5.2% from end-2012 and a growth of 9.7% from a year earlier; while loans & advances to customers, excluding loans & advances to related parties, increased by 5.2% from end-2012 and by 22% year-on-year to $956.3m. Also, customer deposits, excluding deposits to related parties, totaled $2.2bn at end-June, growing by 4.5% from end-2012 and by 9.3% from a year earlier. The loans-to-deposits ratio increased to 42.6% at end-June 2013 from 38.1% a year earlier.

North Assurance's shareholders' equity up 8% to $10m in 2012

North Assurance sal released its audited balance sheet that shows total assets of $27.1m at the end of 2012, up 15.6% from $23.5m at end-2011. On the assets side, general company investments totaled $17.1m and increased by 7.6% from a year earlier. They included $9.9m in land and real estate investments that rose by 52.6% annually; as well as $1.9m in blocked bank deposits and deposits with maturity of more than three months, all of which were blocked in favor of the Economy Ministry as guarantees; and $4.1m in cash and cash equivalents. Also, reinsurance share in technical reserves for the life and non-life categories amounted to $0.5m and $1.2m, respectively, constituting increases of 9.7% and 21% respectively.

On the liabilities & shareholders' equity side, technical reserves for the life segment increased by 4.8% year-on-year to $0.6m, while technical reserves for the non-life category reached $12.7m at end-2012 and rose by 1.7% from a year earlier. Non-life technical reserves included unearned premium reserves of $8.9m that declined by 4.7%, outstanding claims reserves of $2.4m that increased by 29.8% year-on-year, and $1.1m in premium deficiency reserves that remained unchanged from a year earlier. Shareholders' equity totaled $9.6m at end-2012, up by 8.2% from a year earlier. Further, provisions for risks and charges reached $0.2m and increased by 35.4% from a year earlier.

Al-Bayan magazine's annual survey of the insurance sector in Lebanon ranked North Assurance in 27th and 24th place in 2012 in terms of life and non-life premiums, respectively. The firm's life premiums reached $0.6m, unchanged from a year earlier; while its non-life premiums amounted to $10.1m, constituting an increase of 2.2% year-on-year. It had a 0.2% share of the life market and a 1.1% share of the local non-life market.

Ratio Highlights

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

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

Risk Outlook

Lebanon	Sep 2011	Aug 2012	Sep 2012	Change*	Risk Level
Political Risk Rating	55.5	53.5	53.5	▼	High
Financial Risk Rating	33.5	35.0	35.0	▲	Low
Economic Risk Rating	24.0	34.0	34.0	▲	Moderate
Composite Risk Rating	56.5	61.2	61.2	▲	Moderate

Regional Average	Sep 2011	Aug 2012	Sep 2012	Change*	Risk Level
Political Risk Rating	59.3	59.7	59.3	↔	High
Financial Risk Rating	42.3	41.2	41.7	▼	Very Low
Economic Risk Rating	36.9	36.3	36.2	▼	Low
Composite Risk Rating	69.2	68.6	68.5	▼	Moderate

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

Ratings & Outlook

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

Source: Rating agencies

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

Source: Rating agencies

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