



LEBANON THIS WEEK

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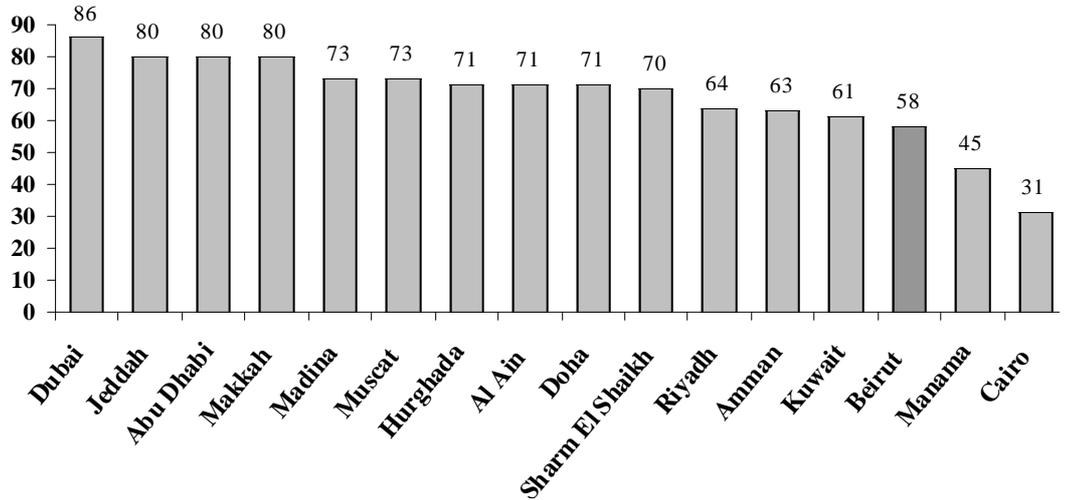
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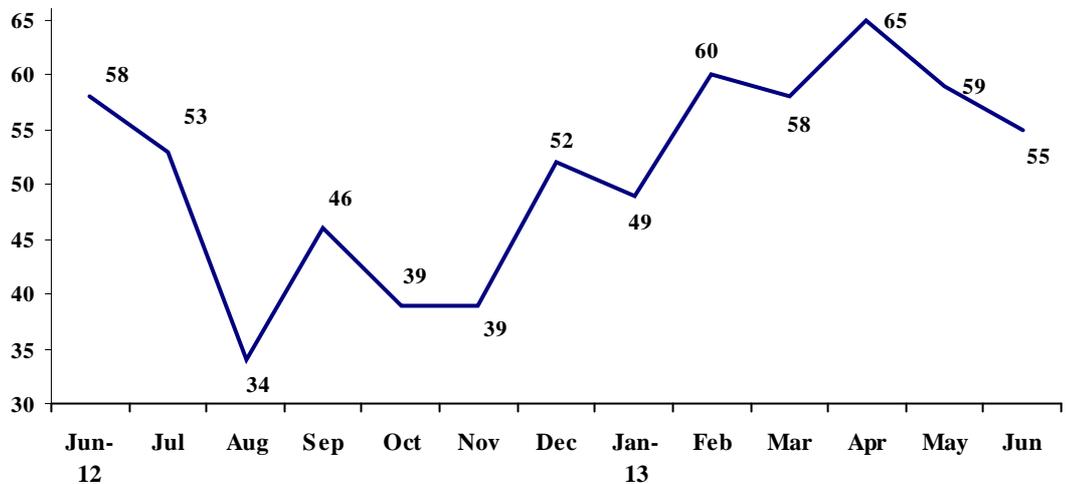
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Charts of the Week

Occupancy Rate at Hotels in Arab Cities in the First Half of 2013 (%)



Occupancy Rates at Hotels in Beirut (%)



Source: Ernst & Young, Byblos Bank

Quote to Note

"Even prior to the Syrian crisis, Lebanon's electricity sector had insufficient installed capacity, low efficiency, high losses and inadequate infrastructure, resulting in poor reliability, inadequate levels of supply and extensive load shedding."

The World Bank, on the prevailing state of the electricity sector in Lebanon

Number of the Week

144: Lebanon's rank out of 148 countries on the level of wasteful government spending, according to the World Economic Forum's Global Competitiveness Index for 2013-14

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
<i>In months of Imports</i>	<i>16.02</i>	<i>17.08</i>	<i>14.62</i>	<i>16.58</i>	<i>17.45</i>	<i>19.41</i>	<i>13.6</i>
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"	11.42	6.23	83,603	10.89%
Solidere "B"	10.28	5.22	20,192	6.99%
Byblos Common	1.51	0.00	58,557	5.18%
Byblos Pref. 08	100.00	0.00	1,550	1.91%
Byblos Pref. 09	100.00	0.00	0	1.91%
BLOM GDR	8.50	0.00	0	5.99%
BLOM Listed	8.25	0.00	3,360	16.91%
Audi GDR	6.49	3.18	602	6.31%
Audi Listed	6.13	0.16	4,400	20.44%
HOLCIM	14.97	4.61	1,064	2.79%

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

Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
Apr. 2014	7.375	101.50	4.51
Jan. 2015	5.875	101.75	4.46
Apr. 2015	10.00	108.25	4.48
Jan. 2016	8.500	107.75	4.89
Mar. 2017	9.000	109.75	5.85
Nov. 2018	5.150	97.25	5.78
Apr. 2021	8.250	108.25	6.83
Nov. 2026	6.600	96.25	7.04

Source: Byblos Bank Capital Markets

	Sep 23-27	Sep 16-20	% Change	Aug 2013	Aug 2012	% Change
Total Shares Traded	175,620	186,866	(6.02)	1,136,561	2,124,597	(46.50)
Total Value Traded	\$1,480,215	\$1,859,851	(20.41)	\$13,445,987	\$25,488,402	(47.25)
Market Capitalization	\$10.49bn	\$10.35bn	1.35	\$10.40bn	\$10.10bn	2.94

Source: Beirut Stock Exchange (BSE)



Lebanon ranks 120th globally, 10th in the Arab world in Government Effectiveness

The World Bank's annual World Governance Indicators for 2012 show that Lebanon's rankings regressed on three out of six governance indicators included in the survey and improved in the other three ones; while its score regressed on four indicators and improved on two others. The results reflect a weak level of governance in Lebanon. The indicators cover 215 countries and territories and are rated on a scale of -2.5 to +2.5, with higher values corresponding to better governance outcomes.

Lebanon ranked in 120th place worldwide and in 10th place among 20 Arab countries in terms of Government Effectiveness. The indicator evaluates the quality of public services and the degree of their independence from political pressures, as well as the quality of policy formulation and implementation and the credibility of the government's commitment to such policies. Globally, Lebanon had a more effective government than Bolivia, Lesotho and Kosovo and a less effective one than Romania, Indonesia and Vietnam. Lebanon's rank regressed by five spots globally and by one spot regionally year-on-year. The results show that Lebanon's score posted the 30th steepest drop globally, and that 57% of countries and territories in the world had a better score than Lebanon on this dimension of governance.

Also, Lebanon ranked in 199th place worldwide and in 15th place among Arab countries in terms of Political Stability. The indicator measures the likelihood of instability, domestic violence and terrorism during the covered year. Globally, Lebanon has a higher level of political stability than just Burundi, the Central African Republic, Iraq, the West Bank & Gaza, Mali, Nigeria, the Democratic Republic of Congo, Sudan, Afghanistan, Yemen, Pakistan, Syria and Somalia. Also, Lebanon was more stable than only Iraq, the West Bank & Gaza, Sudan, Yemen and Syria in the region. Lebanon's global rank improved by two spots and its regional rank remained unchanged year-on-year. Further, 93.8% of countries and territories in the world have a better score than Lebanon on this dimension of governance.

Further, Lebanon ranked in 111th place globally and in 10th place among Arab countries in terms of Regulatory Quality, the measure of market-friendly policies and laws that permit and promote private sector development. Globally, Lebanon ranked ahead of the Dominican Republic and Mongolia, and came behind Burkina Faso and Sri Lanka. Regionally, the regulatory quality in Lebanon was better than in Tunisia, Djibouti, Egypt, Mauritania, Yemen, Iraq, Algeria, Sudan, Syria and Libya. Lebanon's rank regressed by nine spot worldwide and by one spot among Arab countries in 2012. The results show that Lebanon's score posted the second steepest decline globally, and that 52.6% of countries and territories in the world have a better score than Lebanon on this dimension of governance.

Also, Lebanon ranked 154th globally and 12th regionally on the Rule of Law category, an indicator of the extent that citizens have confidence in and abide by the rules of society, and the likelihood of crime and violence. Globally, Lebanon ranked ahead of Djibouti and Nepal and came behind El Salvador and Niger. Regionally, Lebanon came ahead of only Djibouti, Algeria, Mauritania, Syria, Libya, Sudan, Yemen and Iraq. Lebanon's rank regressed by five places worldwide and remained unchanged among Arab countries from the preceding year. In parallel, 72.5% of countries and territories in the world had a better score than Lebanon on this dimension of governance.

Government Effectiveness Rankings & Scores 2012

Country	Score	Arab Rank	Global Rank
UAE	1.14	1	36
Qatar	0.95	2	48
Bahrain	0.54	3	65
Oman	0.26	4	82
Saudi Arabia	0.03	5	90
Tunisia	-0.02	6	94
Jordan	-0.04	7	97
Morocco	-0.04	8	99
Kuwait	-0.08	9	103
Lebanon	-0.34	10	120
Algeria	-0.55	11	139
West Bank/Gaza	-0.75	12	155
Egypt	-0.77	13	157
Mauritania	-0.91	14	171
Djibouti	-1.10	15	180
Iraq	-1.11	16	182
Syria	-1.22	17	189
Yemen	-1.28	18	192
Sudan	-1.46	19	197
Libya	-1.49	20	199

Source: World Bank, Byblos Research

Lebanon's Rankings and Scores on Governance Indicators for 2012

Indicator	Global Rank	Change in Rank	Arab Rank	Lebanon Score	Change in Score	Arab Average Score
Voice & Accountability	139	▲	2	-0.42	▲	-1.03
Political Stability	199	▲	15	-1.65	▼	-0.94
Government Effectiveness	120	▼	10	-0.34	▼	-0.41
Regulatory Quality	111	▼	10	-0.12	▼	-0.35
Rule of Law	154	▼	12	-0.75	▼	-0.36
Control of Corruption	165	▲	15	-0.87	▲	-0.41

Source: World Bank, Byblos Research



Economic slowdown to persist into 2014, public finances to remain under stress

Barclays Capital maintained its projection for real GDP growth in Lebanon at 1.2% in 2013 and reduced its growth forecast to 1.5% in 2014 from a previous projection of 2%. It indicated that the increasingly fragile security situation, the ongoing political deadlock, and the rising number of Syrian refugees are worsening Lebanon's economic outlook and have increased risks to macroeconomic stability. It expected downward pressure on growth to persist, especially as a solution to the Syrian conflict that would stabilize the country and reverse the refugee influx to Lebanon still appears elusive.

It considered that the exacerbation of the Syrian refugee crisis and its increasing impact on the economy are due to the absence of executive decision-making and to the prevailing institutional paralysis resulting from the inability of the political class to form a government. It did not expect this situation to change anytime soon. It noted that domestic demand is slowing down as reflected by several indicators, and that the effect of the Central Bank's stimulus plan of \$1.46bn, equivalent to 3.5% of GDP, remains to be seen. It added that private sector credit growth has rebounded only slightly since May, although about three-quarters of the stimulus package has already been loaned.

In parallel, Barclays indicated that the slowdown in economic activity and the growing refugee crisis are weighing on public finances and, in turn, on fiscal and debt sustainability. It revised its projection for the fiscal deficit to 9.5% of GDP in 2013 from a previous forecast of 9% of GDP. It attributed the revision to a further decrease in public revenues given the policy stalemate in the absence of a government, the prospect of a prolonged conflict in Syria, and the conflict's potential spillovers. It also expected pressure for higher public spending to increase significantly, which would result in a wider fiscal deficit. It anticipated Lebanon's public finances to remain under severe stress in the absence of significant external support from the donor community. It noted that the deterioration in public finances would worsen the debt dynamics and create pressure on the term structure of interest rates. It considered that the disbursement of significant funding from the international community in the short- to medium-term is unlikely, especially in the absence of a capable government. It forecast the fiscal deficit to further widen to 10.1% of GDP in 2014 and for the public debt level to rise to 143% of GDP in 2013 and 145% of GDP in 2014 from 139.5% of GDP in 2012.

Key Macroeconomic Indicators				
	2011	2012e	2013F	2014F
Activity				
Real GDP (% yoy)	1.5	1.5	1.2	1.5
CPI (% average)	5.0	6.6	5.8	4.5
External Sector				
Current account balance (\$bn)	(4.9)	(6.7)	(6.9)	(7.0)
Current account balance (% of GDP)	(12.5)	(16.1)	(15.8)	(15.5)
Net FDI (\$bn)	3.4	1.1	0.5	0.8
Gross external debt (% of GDP)	158.9	162.5	165.0	167.2
Foreign reserves (\$bn)	33.7	37.1	36.5	33.4
Public Sector				
Fiscal balance (% of GDP)	(6.1)	(8.9)	(9.5)	(10.1)
Primary balance (including grants) (% of GDP)	4.3	(0.3)	(1.5)	(1.6)
Gross public debt (% of GDP)	137.4	139.5	143.0	145.0

Source: Barclays Capital, September 2013

Central Bank streamlines hawala transactions

The Central Bank of Lebanon issued Intermediate Circular 337 on September 20, 2013, which amends Basic Circular 111 dated September 24, 2007. The basic circular indicates that only "Category A" money dealers are allowed to transfer cash using "hawala" transactions. It prohibits this category of money dealers to perform any banking transactions as per the Money and Credit Law, mainly receiving deposits, while executing a "hawala" transaction. It also prohibits "Category A" money dealers from executing transactions outside those specified in law 347, such as extending credit and money management, among others. The Central Bank defines the "hawala" system as non-official channels to transfer cash.

Further, the circular limits the maximum amount transferred through a single "hawala" transaction at \$20,000 or its equivalent in other currencies, and the maximum total amount transferred in a single year by a money dealer at less than 10 times its capital. Also, it prohibits money dealers from disbursing the "hawala" through barter, a check, or a bank's transfer. It noted that money dealers should open a sub-account for the execution of clearing transactions with correspondent institutions outside Lebanon.

In parallel, the circular obliged money dealers that execute "hawala" transactions to comply with all laws and circulars issued by the Central Bank, especially through the establishment of anti-money laundering and terrorism financing (AML/TF) procedures and a compliance department.

Lebanon has 14th highest branch penetration rate in the world, 16th highest ATM penetration rate in 2012

Figures issued by the International Monetary Fund show that there were 99.3 branches per 1,000 square kilometers in Lebanon in 2012, constituting a rise of 1.4% from 97.9 branches per 1,000 square kilometers in 2011, and compared to 83.3 branches per 1,000 square kilometers in 2004. As a result, Lebanon had the 14th highest branch penetration rate per 1,000 square kilometers among 177 countries worldwide with available figures for 2012, the third highest among 48 UMICs and the highest among 18 Arab countries. Globally, Lebanon ranked ahead of Cyprus and Switzerland and came behind Aruba and Japan; while it ranked behind only Mauritius and the Maldives among UMICs. Lebanon's branch penetration rate was higher than the global rate of 69.8 branches per 1,000 square kilometers in 2012 and more than four times higher than the UMICs' rate and the Arab countries' rate of 21 and 12.8, respectively. Further, there were 29.3 branches per 100,000 adults in Lebanon in 2012, down 0.9% from 29.6 branches per 100,000 adults in 2011 and compared to 30.8 branches per 100,000 adults in 2004. As such, Lebanon had the 39th highest branch penetration rate per 100,000 adults among 176 countries globally, the 13th highest among 48 UMICs and the highest among Arab countries. Lebanon's branch penetration rate was higher than the global rate of 19.2; the UMICs' penetration rate of 22.9; and more than double the Arab rate of 11.9 per 100,000 adults in 2012.

In parallel, there were 140.1 ATMs per 1,000 square kilometers in Lebanon in 2012, constituting an increase of 8.1% from 129.6 ATM per 1,000 square kilometers in 2011 and compared to 86.1 ATMs per 1,000 square kilometers in 2004. The ATM penetration rate per 1,000 square kilometers ranks Lebanon in 16th place among 167 countries, in third place among 49 upper-middle income countries (UMICs) and in first place among Arab countries. Globally, Lebanon ranked ahead of Antigua & Barbuda and Spain, and came behind Anguilla and Switzerland. It also ranked behind only the Maldives and Mauritius among UMICs.

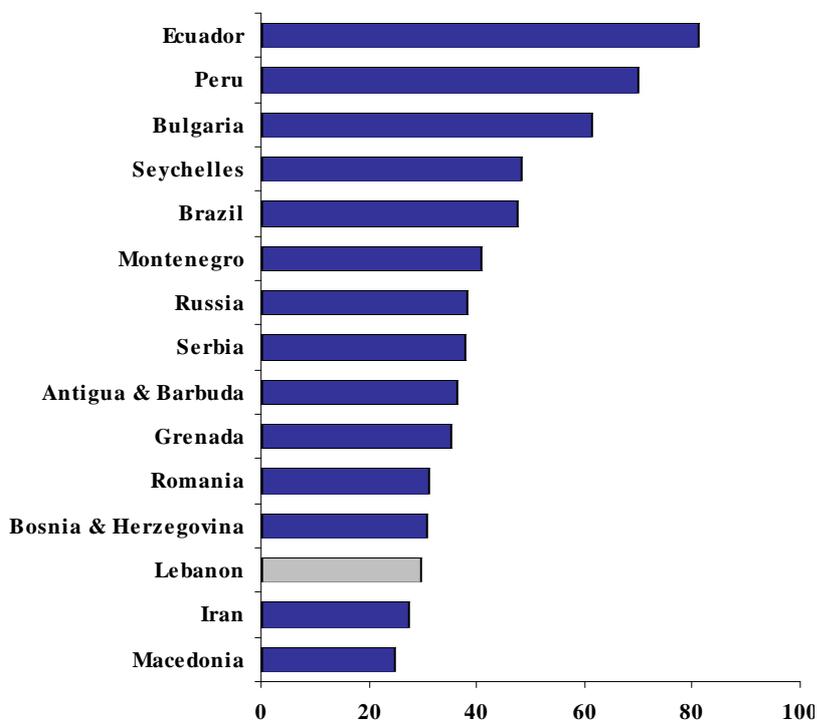
Lebanon's ATM penetration rate was lower than the global average penetration rate of 251 but more than three times higher than the UMIC's rate and the Arab region's rate of 37.2 and 32.5, respectively. Further, there were 41.3 ATMs per 100,000 adults in Lebanon in 2012, up 5.6% from 39.1 ATMs per 100,000 adults in 2011 and compared to 31.9 ATMs per 100,000 adults in 2004. The ATM penetration rate ranks Lebanon in 75th place among 166 countries globally, in 33rd place among 49 UMICs and in fifth place among Arab countries. Lebanon had a lower penetration rate in this category than the global rate of 42.7 and the UMICs' average rate of 49.4, but a higher one than the Arab average penetration rate of 27.8. Also, there were 962 branches in Lebanon in 2012, constituting a rise of 1.5% from 948 branches in 2011 and compared to 799 branches in 2004. As a result, Lebanon had the 66th highest number of branches among 179 countries globally, the 22nd highest among 48 UMICs and the seventh highest among Arab countries.

Customs receipts down 2.7% to \$1bn in first eight months of 2013

Figures released by the Customs Directorate indicated that customs revenues reached \$1bn in the first eight months of 2013, constituting a decrease of 2.7% from \$1.03bn in the same period of 2012. The Port of Beirut continues to be the main point of customs receipts, as it accounted for 88.3% of the total in the covered period, and was followed by the Hariri International Airport with 7.6%, the Port of Tripoli with 3.1%, the Masnaa crossing point with 0.5%, the Port of Saida with 0.3% and the Port of Tyre with 0.2%.

Customs receipts from the value-added tax totaled \$943.5m in the first eight months of 2013, down 5.7% from \$1bn in the same period of 2012. The Port of Beirut accounted for 82.3% of such receipts, and was followed by the Hariri International Airport with 10.9%, the Port of Tripoli with 4%, the Masnaa crossing point with 1.9%, the Port of Saida with 0.6%, the Port of Tyre and the crossing point of Abboudieh with 0.1% each. As such, overall customs receipts reached \$1.9bn in the first eight months, with the Port of Beirut accounting for 85.4% of the total, followed by the Hariri International Airport with 9.2%, the Port of Tripoli with 3.5%, and the Masnaa crossing point with 1.2%. In addition, other entry points represented the balance, with the port of Saida accounting for 0.4%, the port of Tyre for 0.2% and the crossing point of Abboudieh for 0.1%.

Branch Penetration rate in Top 15 Upper Middle Income Countries (Number of branches per 100,000 adults)



Source: International Monetary Fund, Byblos Research

Cost of sending remittances to Lebanon increases in second quarter of 2013

Figures issued by the World Bank show that the cost of sending remittances from the United States to Lebanon reached 10.69% in the second quarter of 2013 for a \$200 transfer, constituting a decline from 10.74% in the first quarter of 2013 and from 10.88% in the third quarter of 2012. Also, the cost of sending \$500 from the U.S. to Lebanon reached 5.79% in the second quarter of 2013 for a \$500 transfer, constituting an increase from 5.27% in the first quarter of 2013 and from 5.21% in the third quarter of 2012. The cost includes the transaction fee and exchange rate margin, and represents the average cost of transferring money through commercial banks and money transfer operators (MTOs). In nominal terms, the cost of sending \$200 and \$500 from the U.S. to Lebanon is \$21.37 and \$28.97, respectively; compared to \$21.5 and \$26.35, respectively, in the preceding quarter.

Also, the cost of sending remittances from Germany to Lebanon reached 17% in the second quarter of 2013 for a transfer of €140, or about \$200, constituting an increase from 16.8% in the second quarter of the year and from 16.5% in the third quarter of 2012. Also, the cost of sending €345, or about \$500, from Germany to Lebanon reached 8.26% in the second quarter of 2013 compared to 8.37% in the first quarter of the year and to 8.31% in the third quarter of 2012. In nominal terms, the cost of sending €140 and €345 from Germany to Lebanon is €23.8 and €28.48, respectively; relative to €23.47 and €28.87, respectively, in the first quarter of the year.

In parallel, Lebanon ranked as the fourth most expensive destination for sending \$200 from the U.S. among 28 countries with available data after Brazil (11.88%), Cape Verde (11.55%) and Thailand (11.19%). It was the seventh most expensive for sending \$500. The data covered 15 countries in Latin & Central America and the Caribbean, seven countries in East and Southeast Asia, and five countries in Africa, in addition to Lebanon in the Middle East. The United States is the sixth largest source of inward electronic cash transfers to Lebanon. Also, Lebanon came as the most expensive destination for sending €345, or about \$500, from Germany among 13 countries with available data.

The World Bank indicated that the average cost to send \$500 in remittances through commercial banks to Lebanon was 8.33% and the average cost through MTOs was 4.53% in the second quarter of 2013. In comparison, the average cost to send \$500 in remittances through commercial banks to Lebanon was 7.5% and the average cost through MTOs was 4% in the first quarter of 2013; while it was 7.1% and 3.8%, respectively, in the third quarter of 2012. MTOs account for about 70% of all cash electronic transactions to Lebanon, followed by money dealers with 22.4% and commercial banks with 7.5%.

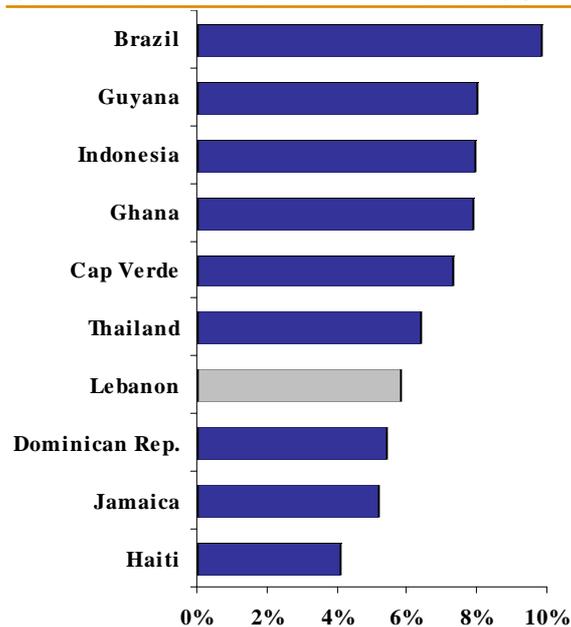
Ministry of Finance issues LBP2,472bn in Treasury bonds

The Ministry of Finance issued LBP2,472.5bn in Treasury bonds to finance its operations. The first series consisted of a 10-year LBP569bn bond that matures in September 2022 and carries a coupon rate of 8.24% to be paid semi-annually, and the second series consisted of a 12-year LBP1,903.4bn bond that matures in September 2025 and that carries a coupon rate of 8.74% to be paid semi-annually. The ministry indicated that the total amount issued exceeded by 50% the amount it was seeking from the issuance. It added that subscriptions to the 12-year Treasury bond significantly exceeded those of the 10-year bond. The amount of outstanding Lebanese pound-denominated Treasury bills totaled LBP50,419bn at the end of July 2013. The distribution of the securities shows that T-bills with a three-year maturity account for 39.3% of the total, followed by securities with a maturity of five years (23.2%), T-bills with a seven-year maturity (20.3%), Treasury bills that mature in two-years (5.3%), paper with a 10-year maturity (4.5%), eight-year maturing T-bills (3.9%), and maturities of one year (1.9%), six months (1.5%) and three months (0.2%).

Construction permits down 12% in first eight months of 2013

Figures released by the Association of Engineers of Beirut & Tripoli show that construction permits issued in the first eight months of 2013 reached 8.52 million square meters, constituting a decrease of 12.3% year-on-year, compared to a drop of 13.6% in the same period last year and a decline of 4.4% in the first eight months of 2011. Mount Lebanon accounted for 3.9 million square meters or 45.6% of total construction permits in the covered period. It was followed by the North with 1.8 million square meters (21.1%), the Bekaa with 923,887 square meters (10.8%), South Lebanon with 814,659 square meters (9.6%), Nabatieh with 670,149 square meters (7.9%), and Beirut with 429,884 square meters (5%). In parallel, cement deliveries totaled 3.2 million tons in the first seven months of 2013 and increased by 4% annually relative to a decrease of 5.4% in the same period of 2012 and an increase of 4.6% in the first seven months of 2011.

Costliest Destinations of Remittances from the U.S.*



*Cost of sending \$500 from the U.S.

Source: World Bank, Byblos Research

Industrial exports up 13% to \$1.97bn in first seven months of 2013

Figures released by the Ministry of Industry show that industrial exports totaled \$1.97bn in the first seven months of 2013, constituting an increase of 12.9% from \$1.74bn in the same period last year. Industrial exports reached \$225.7m in July 2013, down by 20.6% from \$284.1m in June 2013 but up by 9.9% from \$205.3m in July 2012. Base metals & articles of base metals accounted for \$347.3m, or 17.6% of total industrial exports in the first seven months of the year, followed by Mineral products with \$325.1m (16.5%), and machinery & mechanical appliances with \$310.2m (15.8%). Arab countries accounted for 57.4% of total industrial exports in July, followed by Asian countries with 13.1%, African economies with 12.8% and European countries with 11.3%. In parallel, industrial imports reached \$193.8m in the first seven months of the year, up 12.6% from \$172.2m in the same period of 2012. Italy was the main source of such imports and accounted for 21.2% of the total. It was followed by Germany with 18.4% and China with 14.2%. Further, imports of industrial equipment and machinery reached \$27.8m in July 2013, up by about 3% from \$27m in the same month last year. Germany was the main source of imports of industrial equipments and accounted for 25.6% of total industrial imports during the covered month, followed by Italy with 18.2% and China with 14.1%.

Treasury transfers to Electricité du Liban up 2% in first four months of 2013

Figures released by the Finance Ministry show that Treasury transfers to Electricité du Liban totaled \$724.5m in the first four months of 2013, constituting an increase of 1.5% from \$713.8m in the same period of 2012. The ministry said that reimbursements to the Kuwait Petroleum Corporation (KPC) and to Algerian energy conglomerate Sonatrach totaled \$698.7m, or 96.4% of transfers in the covered period and EdL's debt servicing represented \$25.8m or 3.6% of the total. It attributed the increase to an annual rise of \$13.5m, or 2%, in payments to KPC and Sonatrach, that more than offset the decrease of \$2.8m or 9.7% in debt servicing during the covered period. It said that the increase in payments to KPC and Sonatrach reflects a 22% rise in imported gas oil and was partly offset by a 12% decrease in imported fuel oil. It noted that the average international oil price according to which the payments were made was 2% lower. It pointed out that EdL contributed just 2.6% of repayments to the two oil suppliers during the covered period compared to 1.9% in the same period last year. EdL transfers accounted for 21.3% of primary expenditures in the first four months, down from 24% in the same period of 2012. EdL transfers constitute the third largest expenditures item after debt servicing and salaries & wages in overall fiscal spending.

Public-sector salaries and benefits up 8% in first four months of 2013

Figures issued by the Ministry of Finance show that salaries, wages and related benefits paid to public-sector employees totaled \$967.8m in the first four months of 2013, constituting an increase of 7.8% from the same period last year. They represented the largest component of total primary spending and accounted for 28% of such expenditures in the covered period, down from 30% in the same period last year. The figures include basic salaries, indemnities, allowances, contributions to civil servants' cooperatives, as well as contributions to other mutual funds providing health insurance for specific categories of civil servants, mainly judges, religious judges and Parliament employees. The payments exclude retirement and end-of-service indemnities as well as salaries, wages and benefits of employees at public institutions. Salaries and benefits of military personnel totaled \$608.3m and accounted for 62.9% of the total, followed by educational personnel with \$198.3m or 20.5% of the total, civil staff with \$151.2m (15.6%), and customs employees with \$10.6m (1.1%). Also, the Lebanese Army's salaries totaled \$390m in the first four months of the year and represented 64.1% of military personnel salaries and benefits. They were followed by salaries of the Internal Security Forces with \$173.1m (28.5%), General Security Forces with \$33.8m (5.6%), and State Security Forces with \$11.3m (1.9%).

The ministry attributed the increase in salaries, wages and related benefits paid to public-sector employees to an \$82.9m; or 13.7% annual rise in basic salaries to \$689.2m as a result of the 2012 cost-of-living adjustment and retroactive payments. It said that, excluding such payments from the two compared periods, basic salaries would have increased by 15% to \$629.5m due in part to an increase in basic salaries of military personnel. Also, allowances regressed by 5.5% annually to \$159.2m, while indemnities rose by 14.7% to \$51.7m year-on-year. The breakdown of basic salaries shows a rise of \$73m in payments to military personnel, an increase of \$23.2m in payments to educational personnel and a decrease of \$13.3m in payments to civil personnel.

Lebanon and Algeria sign cooperation agreement

The Federation of Chambers of Commerce, Industry & Agriculture (FCCIA) signed a Memorandum of Understanding with Algeria's Chamber of Commerce & Industry that aims to strengthen bilateral ties between the two countries in trade, industry and economic activities. The agreement also aims to improve ties between Algerian and Lebanese business organizations. Further, both parties have drafted a program and appropriate mechanisms to improve communication channels between the members of both chambers, to highlight trade opportunities in each country, and to facilitate the exchange of expertise.

The FCCIA indicated that the agreement falls within its strategy to find new markets for Lebanese businesses given the slowdown in domestic economic activity. Lebanese exports to Algeria totaled \$26.9m in 2012 and accounted for 0.6% of Lebanon's aggregate exports, while imports from Algeria stood at \$14.3m and represented 0.1% of total imports in 2012.

Insurance premiums up 9% to \$739m in first half of 2013, claims and benefits rise by 17% to \$333m

Figures released by the Association of Insurance Companies in Lebanon (ACAL) indicate that insurance premiums in Lebanon totaled \$739m in the first half of 2013, constituting an increase of 8.6% from \$680.8m in the same period of 2012. Aggregate premiums reached \$382.3m in the first quarter of 2013, constituting an increase of 19.6% from \$319.6m in the same quarter last year; while they stood at \$356.7m in the second quarter down 1.8% from the same period of 2012. Also, insurance premiums declined by 6.8% quarter-on-quarter.

Medical insurance premiums reached \$240.4m in the first half and accounted for 32.5% of the sector's aggregate premiums. They were followed by life premiums with \$201m (27.2%), motor premiums with \$161.6m (21.9%), fire premiums with \$54.9m (7.4%), workmen's compensation with \$22.2m (3%), other categories with \$20.5m (2.8%), cargo premiums with \$17.7m (2.4%), civil liability premiums with \$10.4m (1.4%), engineering premiums with \$6.5m (0.9%) and credit premiums with \$2.9m (0.4%). The medical and life categories were the main drivers of premium growth in the first half of the year as they posted annual increases of 11% and 8%, respectively, compared to growth of 5% for each of fire and workmen's insurance premiums, and motor premiums rose by 1% during the covered period; while cargo premiums contracted by 2% annually.

In parallel, ACAL indicated that total benefits and claims paid by insurance companies stood at \$333.3m in the first half of 2013, constituting a 16.7% increase from the same period last year. Medical claims reached \$139.5m in the first half of 2013 and accounted for 41.9% of total payments, followed by motor policy payments with \$92.1m (27.6%), life claims with \$50.8m (15.2%), fire claims with \$29.8m (9%), workmen's claims with \$11m (3.3%), other categories claims with \$4.1m (1.2%), cargo claims with \$2.8m (0.9%), civil liability claims with \$1.8m (0.5%) and engineering claims with \$1.2m (0.4%). Fire claims surged annually by 203% in the first half of the year, workmen claims improved by 15%, medical claims rose by 13%, cargo claims increased by 6% and motor claims grew by 4%; while life claims dropped by 50% year-on-year.

Further, unit-linked policies accounted for 57.9% of total life premiums and for 15.4% of the total number of life subject matters in the first half of the year; while life protection plans represented 42.1% of total life premiums and 84.6% of the total number of life subject matters in the covered period. ACAL noted that medical insurance premiums covering Lebanese citizens rose by 11% at \$235.4m, while medical insurance premiums covering expatriates grew by 7% year-on-year to \$5.2m in the first half of 2013. Finally, it indicated that non-compulsory motor insurance premiums rose by 3% year-on-year to \$137.7m, while compulsory motor insurance premiums fell by 11% annually to \$24.1m in the first half of the year.

IFC's investments in Lebanon at \$2.3bn at end-June 2013

The investment portfolio of the International Finance Corporation (IFC), the private sector arm of the World Bank, shows that its cumulative gross investments in Lebanon reached \$2.3bn as at the end of fiscal year 2012/2013. The IFC's gross investments in Lebanon accounted for 12.7% of its investments in the Middle East & North Africa region and for 1.3% of its investments worldwide. Lebanon was the third largest recipient of IFC investments among 16 MENA countries, behind Pakistan (\$5bn) and Egypt (\$3.4bn). The amount of commitments allocated to Lebanon consists of \$2.1bn in IFC funds and \$230m from co-investors through the purchase of interests in IFC investments. The IFC indicated that it has invested in 35 companies in Lebanon as at end-June 2013, which accounts for 7.3% of its invested firms in the MENA region and for 0.7% of the number of firms worldwide included in IFC's portfolio. In parallel, IFC's commitments in Lebanon totaled \$459.7m during FY2013 and targeted six banks and two companies. In 2010, the IFC purchased an 8.36% equity stake in Byblos Bank sal.

Fransabank's net income at \$72.7m in first half of 2013

Fransabank sal, one of Lebanon's top 13 banks, announced unaudited consolidated net profits of \$72.7m in the first half of 2013, up 10.4% from the same period last year. Net operating income grew by 6.8% year-on-year to \$209.2m, with net interest income decreasing by 0.7% to \$162.8m and net fees & commissions receipts rising by 3.7% year-on-year to \$28.7m. Non-interest income accounted for 25% of total income, up from 21.2% in the same period last year; with net fees & commissions accounting for 48.8% of non-interest earnings down from 59% in the first half of 2012. Further, the bank's interest margin was 2.34% in the first half of the year relative to 2.54% in the same period last year; while its spread fell to 2.21% from 2.39% in the first half of 2012. Total operating expenditures increased by 3.7% to \$121.7m, with staff expenses rising by 4.1% to \$77.2m. Also, the bank's return on average assets reached 0.91% in June 2013 on an annualized basis relative to 0.9% a year earlier; while its return on average equity was 9.26% on an annualized basis relative to 9.7% in the first half of 2012. The cost-to-income ratio decreased to 51.7% in the first half from 52.9% in the same period last year.

In parallel, total assets reached \$16.2bn at end-June 2013, constituting a 2.4% rise from end-2012 and an 8.7% increase from a year earlier; while loans & advances to customers, excluding loans & advances to related parties, grew by 5.1% from end-2012 and by 11.6% from a year earlier to \$5bn. Also, customer deposits, excluding deposits from related parties, totaled \$13.5 at end-June 2013, constituting an increase of 5.1% from end-2012 and a rise of 9.6% from a year earlier. The loans-to-deposits ratio rose to 36.7% at end-June 2013 from 36.3% 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	Oct 2011	Sep 2012	Oct 2012	Change*	Risk Level
Political Risk Rating	55.5	53.5	53.5	▼	High
Financial Risk Rating	35.0	35.0	35.0	↔	Low
Economic Risk Rating	34.0	34.0	34.0	↔	Moderate
Composite Risk Rating	62.2	61.2	61.2	▼	Moderate

Regional Average	Oct 2011	Sep 2012	Oct 2012	Change*	Risk Level
Political Risk Rating	59.2	59.3	59.3	▲	High
Financial Risk Rating	42.3	41.7	41.8	▼	Very Low
Economic Risk Rating	36.6	36.2	36.2	▼	Low
Composite Risk Rating	69.1	68.5	68.6	▼	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		CCC	

Source: Rating agencies

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