



LEBANON THIS WEEK

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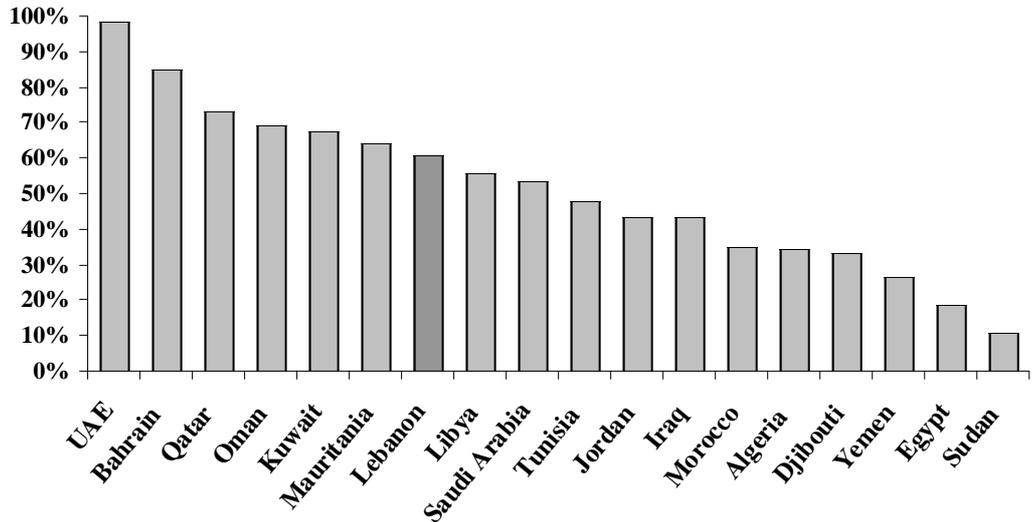
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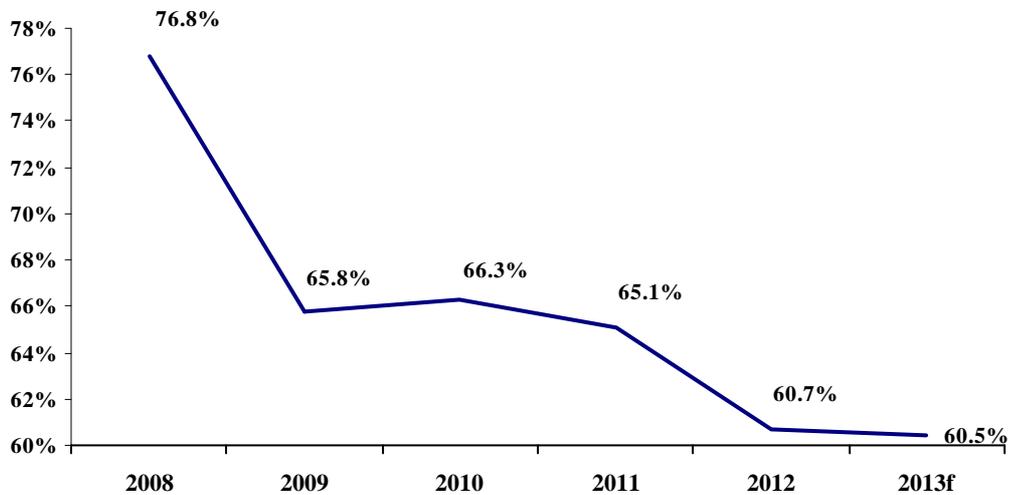
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Charts of the Week

Exports of Goods & Services from Arab countries in 2013 (% of GDP)



Exports of Goods & Services from Lebanon (% of GDP)



Source: International Monetary Fund - November 2013, Byblos Bank

Quote to Note

"The Lebanese financial system is a critical asset to the Lebanese people and serves as a bedrock of the national and regional economy."

Daniel Glaser, Assistant Secretary for Terrorism Financing at the U.S. Department of the Treasury

Number of the Week

120: Lebanon's rank out of 189 countries on the ease of starting a business, according to the World Bank/International Finance Corporation Ease of Doing Business survey for 2014

Economic Indicators

\$m (unless otherwise mentioned)	2012	Aug 12	May 13	Jun 13	Jul 13	Aug 13	% Change*
Exports	4,486	339	364	348	260	279	(17.70)
Imports	21,281	1,782	1,797	1,634	1,718	1,828	2.58
Trade Balance	(16,795)	(1,443)	(1,433)	(1,286)	(1,438)	(1,549)	7.35
Balance of Payments	(1,538)	(497)	(131)	(233)	(575)	(223)	(55.13)
Checks Cleared in LBP	14,976	1,233	1,457	1,444	1,513	1,354	9.79
Checks Cleared in FC	56,044	4,657	4,526	4,523	4,938	4,495	(3.48)
Total Checks Cleared	69,787	5,890	5,983	5,967	6,451	5,849	(0.70)
Budget Deficit/Surplus	(3,925)	(320.35)	(113.72)	(275.88)	(171.51)	(551.43)	72.13
Primary Balance	(109.87)	(143.82)	309.14	(23.19)	82.10	(382.69)	166.09
Airport Passengers	5,960,414	624,516	514,520	570,903	580,099	725,903	16.23

\$bn (unless otherwise mentioned)	Dec 2012	Aug 12	May 13	Jun 13	Jul 13	Aug 13	% Change*
BdL FX Reserves	29.97	29.54	31.36	31.72	31.27	31.00	4.95
<i>In months of Imports</i>	<i>16.02</i>	<i>16.57</i>	<i>17.45</i>	<i>19.41</i>	<i>18.20</i>	<i>16.96</i>	<i>2.31</i>
Public Debt	57.69	55.69	59.18	60.01	60.23	60.50	8.64
Net Public Debt	49.12	47.82	50.71	50.90	51.14	51.74	8.19
Bank Assets	151.88	147.05	156.61	157.95	157.81	158.56	7.82
Bank Deposits (Private Sector)	125.00	121.16	130.05	131.27	131.18	131.38	8.44
Bank Loans to Private Sector	43.45	41.72	44.42	44.84	45.17	45.57	9.23
Money Supply M2	43.62	41.63	44.16	44.20	44.18	44.42	6.70
Money Supply M3	104.71	101.08	106.77	107.31	107.33	108.28	7.12
LBP Lending Rate (%)	7.47	7.27	7.35	7.87	7.13	7.24	(3b.p)
LBP Deposit Rate (%)	5.46	5.51	5.49	5.39	5.43	5.47	(4b.p)
USD Lending Rate (%)	7.05	7.26	6.97	6.97	7.02	7.16	(10b.p)
USD Deposit Rate (%)	2.94	2.84	2.90	2.86	2.89	2.91	7b.p
%* Change in CPI**	3.66	5.85	2.43	3.72	3.15	3.81	(204b.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"	11.75	6.14	36,706	10.86%
Solidere "B"	11.75	6.33	35,999	7.06%
Byblos Common	1.52	0.00	318,261	5.05%
Byblos Pref. 08	100.50	0.50	500	1.86%
Byblos Pref. 09	101.00	1.00	210	1.87%
BLOM GDR	8.80	1.73	29,000	6.01%
BLOM Listed	8.28	(0.12)	5,000	16.46%
Audi GDR	6.51	0.00	0	6.14%
Audi Listed	6.75	(2.17)	3,717	21.83%
HOLCIM	14.98	10.96	4,000	2.70%

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

Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
Apr. 2014	7.375	101.63	3.24
Jan. 2015	5.875	101.63	4.41
Apr. 2015	10.00	108.00	4.18
Jan. 2016	8.500	108.00	4.57
Mar. 2017	9.000	111.88	5.08
Nov. 2018	5.150	99.50	5.27
Apr. 2021	8.250	111.75	6.24
Nov. 2026	6.600	99.00	6.72

Source: Byblos Bank Capital Markets

	Nov 11-15	Nov 4-8	% Change	Oct 2013	Oct 2012	% Change
Total Shares Traded	439,338	13,948,172	(96.85)	2,166,463	3,246,713	(33.27)
Total Value Traded	\$2,365,541	\$98,218,878	(97.59)	\$23,954,303	\$24,752,559	(3.22)
Market Capitalization	\$10.81bn	\$10.71bn	0.97	\$10.53bn	\$9.96bn	5.79

Source: Beirut Stock Exchange (BSE)



IMF forecasts real GDP growth at 1.5% in 2013, public debt to reach 143% of GDP

In its semi-annual economic outlook for the Middle East and Central Asia region, the International Monetary Fund projected Lebanon's real GDP growth at 1.5% in 2013 compared to growth of 2.1% for the Middle East & North Africa, 2.8% for the region's oil importers and 2.9% for Arab countries in transition excluding Libya. Lebanon's projected growth rate in 2013 would make it the third slowest economy in the Arab world, ahead of only Kuwait (0.8%) and Libya (-5.1%). The IMF continues to exclude Syria from its forecasts. It also projected real GDP growth of 1.5% in 2014 compared to 3.8% for MENA countries, 3.1% for the region's oil importers, and 3.2% for Arab countries in transition ex-Libya.

The IMF indicated that Lebanon has been severely affected by direct and indirect spillovers from the Syrian crisis, with the sharp drop in the tourism sector and related industries being partly responsible for the slowdown in overall economic activity. It said that the cost of hosting the Syrian refugees is straining the country's already weak public finances as the government faces rising health care, education, and security costs. It noted that disruptions in transit trade through Syria and higher food imports as a result of the rising number of refugees are weighing on the current account deficit.

The Fund estimated the country's nominal GDP at \$43.5bn in 2013 relative to \$41.3bn in 2012, which would account for 7.9% of Arab oil importers' aggregate GDP. It projected Lebanon's inflation rate to average 6.3% in 2013 compared to 13.6% in MENA economies, 9% for the region's oil importers and 7.2% in Arab countries in transition ex-Libya. Also, it forecast broad money to grow by 8% this year, almost unchanged from 7.9% in 2012.

In parallel, the IMF projected the government's fiscal balance to post deficits of 10.4% of GDP in 2013 and 11% of GDP in 2014, relative to a deficit of 9% of GDP in 2012. It forecast government revenues at 22.6% of GDP in 2013 relative to 32.8% of GDP in the MENA countries, 23.5% of GDP for oil importers and 25% of GDP in Arab countries in transition; and estimated public expenditures at 33.1% of GDP compared to 32.7% of GDP for MENA countries, 34.9% of GDP for oil importers and 36.9% of GDP for Arab countries in transition. Further, it expected the public debt level to increase to 143.1% of GDP at end-2013 and 147.9% of GDP at end-2014, from 139.5% of GDP at end-2012. It also forecast total gross external debt at 175.9% of GDP at end-2013 and 174.7% of GDP at end-2014, up from 174.8% of GDP at end-2012 and compared to external debt in the MENA countries of 25.5% of GDP at the end of 2013 and 24.8% of GDP at the end of 2014.

The Fund estimated Lebanon's exports of goods & services to reach \$26.3bn in 2013 and \$26.7bn in 2014 compared to \$25.1bn in 2012, and for the imports of goods & services to increase to \$36.1bn in 2013 and \$37.2bn in 2014 from \$34.4bn in 2012. The IMF forecast the country's current account deficit at \$7.3bn or 16.7% of GDP in 2013, up from \$6.7bn or 16.2% of GDP in 2012, and compared to deficits of 6.7% of GDP for oil importers and 4.7% of GDP for Arab countries in transition ex-Libya. It also projected Lebanon's current account deficit at \$7.6bn or 16.7% of GDP in 2014. The Fund expected the country's gross official foreign currency reserves to reach \$33.6bn at end-2013 and \$34.4bn at end-2014, up from \$32.2bn at end-2012.

	Lebanon		Oil Importers		Arab Countries in Transition	
	2013P	2014P	2013P	2014P	2013P	2014P
Real GDP Growth (%)	1.5	1.5	2.8	3.1	2.9	3.2
Consumer Price Inflation (%) *	6.3	3.1	9.0	9.2	7.2	8.1
Fiscal Balance (% of GDP)	(10.4)	(11.0)	(10.7)	(9.6)	(11.2)	(10.1)
Public Debt (% of GDP)	143.1	147.9	84.1	86.0	76.2	78.4
Total Gross External Debt (% of GDP)	175.9	174.7	42.8	43.8	23.7	25.4
Current Account (% of GDP)	(16.7)	(16.7)	(6.7)	(4.9)	(4.7)	(3.4)

P: projected

*Yearly average

Source: International Monetary Fund, November 2013

Central Bank announces economic stimulus package for 2014

Central Bank Governor Riad Salamé announced a LBP1,200bn, or \$800m, financial package aimed to stimulate lending and to support domestic demand in 2014. This economic stimulus package would be the Central Bank's second package following the LBP2,200bn, or \$1.46bn, in financial facilities it provided to Lebanese commercial banks earlier this year. The Bank extended loans to commercial banks at an interest rate of 1%. In turn, the banks lent the money to their clients at reduced interest rates. He said that the smaller stimulus package for 2014 reflects the need to contain inflation rates and to preserve the stability of the currency and interest rates. He pointed out that commercial banks have used 75% of the available financial facilities as of September 2013, adding that the new package would consist of rolling over the remaining amount of the existing facility and adding to it. The Central Bank has not specified the distribution of the new financial facility by sector. Housing loans accounted for 56% of the total facility of the 2013 stimulus, followed by environmentally-friendly projects with 20%, productive sectors with 14%, non-housing loans with 5.5%, education with 2.3%, and research & development and investment projects with 1% each. The loans extended under the first stimulus were earmarked to finance new projects or the development of existing ones, and could not be used to refinance existing projects, repay loans, finance partnerships, or fund the operating capital of a company.

Beirut has 37th most expensive retail rent in the world

The 2013 survey of the world's most expensive retail rental locations by property consultants Cushman & Wakefield ranked Beirut as the 37th most expensive city among 64 cities worldwide, the third most expensive city among seven cities in the Middle East & Africa region, and the second most expensive among five Arab cities. Each city is represented by its most expensive retail location. Beirut was the 36th most expensive city worldwide, the second most expensive in the Middle East & Africa region, and the most expensive among Arab cities the 2012 survey. It was the 37th most expensive city worldwide, the third most expensive among 13 cities in the Middle East & Africa region, and the most expensive among 10 Arab cities included in the 2011 survey. The study evaluated retail rental prices between June 2012 and June 2013 in 334 locations in 64 countries around the world.

On a global basis, the rent of retail space in Beirut was more expensive than in Luxembourg, Santiago in Chile and Almaty in Kazakhstan, and less costly than in Dubai, Stockholm and Brussels. The most expensive retail rental location in Beirut is the ABC Center in Achrafieh at €1,539 per square meter per year, or around \$2,000 per sqm, higher than the Middle East & Africa average of €1,068 per sqm.

Cushman & Wakefield indicated that the number of construction projects in Lebanon that include retail outlets is currently very limited, with the majority consisting of small projects. It noted that the limited number of construction projects reflects the decrease in foreign direct investment due to the unstable security situation, as well as the increasing reliance of retail sales on local consumers given the decline in the number of tourists in Lebanon. It pointed out that occupiers that are dependent on local demand have been resilient so far this year, but it noted that retailers in the food & beverage sector have been affected by lower sales. Further, it said that the number of vacancies is increasing, which is adding to the market's considerable retail space. It indicated that the majority of luxury retailers are currently located in the Beirut Central District, but it added that there are plans to develop retail space for luxury goods in the suburbs of Beirut, mainly in the Dbbayeh and Hazmieh areas. It pointed out that rents for luxury goods retail space have been stable due to the limited available space, even though the demand for upscale rental outlets has declined in recent months.

In parallel, when including all surveyed locations in the Middle East & Africa region, the ABC Center in Achrafieh ranks as the fourth most expensive location in the region in terms of retail rent prices, followed by the Beirut Central District in 11th place at €23 per sqm (\$1,200 per sqm), Verdun Street and Kaslik Street in 15th place at €769 per sqm each (\$1,000 per sqm each), and Hamra Street in 20th place at €654 per sqm (\$850 per sqm). In parallel, rents at the ABC Center in Achrafieh, the Beirut Central District and Hamra Street remained unchanged the 12 months ending June 2013, while the rent in Kaslik Street regressed by 33.3% annually during the covered period and that in Verdun Street fell by 28.6% year-on-year. Retail rents fell by an average of 2.1% in the Middle East & Africa year-on-year, as rents increased in two locations, declined in four other locations, and were unchanged in one location. Also, retail rents grew by an average of 3.2% globally, as rents rose in 146 of the 334 locations surveyed, declined in 48 others and remained stable in 139 locations. Hong Kong's Causeway Bay is the world's most expensive retail location at €24,983 per sqm a year.

Top 10 Rental Locations in the Arab World		
City	Location	Rent (€/sqm/yr)
Dubai	Shopping Center	1,578
Beirut	ABC Center Achrafieh	1,539
Beirut	Beirut Central District	923
Abu Dhabi	City Center Mall	922
Muscat	Shopping Center	839
Beirut	Rue Verdun	769
Kaslik	Kaslik Street	769
Beirut	Rue Hamra	654
Manama	Shopping Center	392
Amman	City Center	308

Source: Cushman & Wakefield 2013, Byblos Research

Downtown Beirut has 394 real estate projects totaling three million square meters

Solidere sal, the Lebanese Company for the Development and Reconstruction of the Beirut Central District, indicated that a total of 394 development projects, representing about 3.1 million square meters of built-up area, were at various stages of development in the Beirut Central District as of June 2013. It said that 274 projects were completed, 45 are under construction, 25 are under study, 23 are awaiting permits, 14 are awaiting submission, seven are inactive, and six are under restoration. Also, projects completed represented 1.4 million square meters of built-up area and accounted for 46.3% of the total. They were followed by projects under construction with a total of 488,867 sqm (15.9%), projects awaiting submission at 407,835 sqm (13.3%), those awaiting permits with 373,448 sqm (12.2%), and projects under study that covered 361,778 sqm (11.8%); while inactive projects represented 16,632 sqm (0.5%) and those being restored covered 12,543 sqm (0.4%).



Lebanon's sovereign ratings affirmed, outlook 'stable'

Capital Intelligence affirmed Lebanon's long- and short-term foreign and local currency sovereign ratings at 'B' with a 'stable' outlook. It said that Lebanon's ratings reflect its adequate international liquidity as well as its track record of meeting its debt obligations and maintaining relative macroeconomic stability in times of crisis. But it noted that the ratings are constrained by the country's weak internal political dynamics, fragile security situation, elevated geopolitical risks, high public debt level, and wide fiscal and current account deficits. It considered that Lebanon is exposed to refinancing, interest rate and exchange rate risks, given the unfavorable structure of its public debt stock.

In parallel, the agency said that the subdued economic performance has mirrored the unfavorable political conditions and the spillovers from the Syrian crisis. It did not expect the economy to regain its momentum until geopolitical risks subside. It said that rising external and internal political pressures have largely contributed to wider fiscal and current account imbalances, which would make Lebanon vulnerable to debt rollover risks. Further, it said that Lebanon's public finances continue to deteriorate as the weak domestic economic conditions limit the government's capacity to raise public revenues or reduce spending. It also noted that the country's debt dynamics have weakened due to the slowdown in economic activity and the rise in financing needs.

Capital Intelligence indicated that Lebanon's refinancing risks remain high, with the government's current annual gross financing requirement at about 35% of GDP. It noted that the government relies on the domestic banking system to meet the bulk of its financing needs in both local and foreign currency. As such, it anticipated that the government would be vulnerable to a political or economic shock that would adversely affect the risk appetite of local banks or the confidence of depositors. However, it said that, in the absence of such shocks, the government would manage its gross financing needs in the short-term and that the domestic market would provide financing due to satisfactory, but slower, deposit inflows. It said that the Central Bank's gross foreign reserves of around \$37bn provide a reasonable buffer against moderate external shocks, but it noted that they would not be sufficient in case of large-scale capital flight or currency conversions. The agency added that Lebanon's banking sector continues to be resilient during the economic slowdown, and that non-resident deposits have been relatively immune to domestic political shocks.

Financing risks limited despite widening deficit

Business Monitor International projected Lebanon's fiscal deficit to widen from 9.1% of GDP in 2012 to 11.9% of GDP in 2013 and 11.7% of GDP in 2014. It attributed the widening of the deficit to the government's inability to reduce spending, increase revenues and implement structural economic reforms. It anticipated that any new government would find it difficult to implement austerity measures given the highly divisive nature of Lebanon's political system and the ongoing conflict in Syria. As such, it forecast the fiscal deficit to remain elevated and to average 11.4% of GDP annually during the 2013-17 period. It anticipated that the Lebanese economy would grow below its potential over the coming quarters, mainly due to high political instability and paralyzed institutions. It projected real GDP growth at 1.7% in 2013 and 2.5% in 2014 relative to a growth rate of 1.2% in 2012.

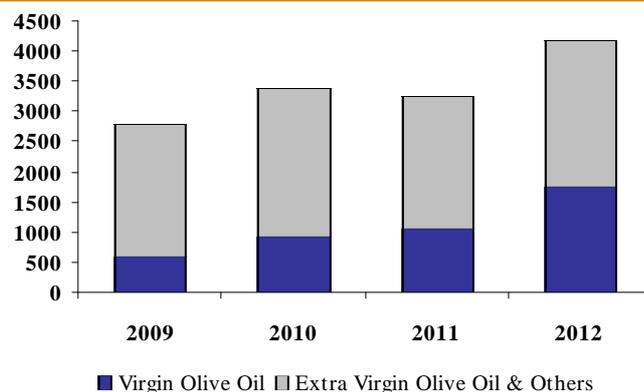
BMI forecast total spending to increase by 10% in nominal terms this year and by 9% in 2014, and expected public revenues to contract by 1% in 2013 and to grow by 2% in 2014 due to the weak economic activity and political uncertainties. It said that the public-sector wage increase will continue to be among the main causes of the country's elevated fiscal deficit. It pointed out that the Cabinet approved an across-the-board adjustment to the salary scale of public sector employees as well as wide-ranging tax and fee hikes in order to finance the salary increase. It noted that the adjustment and related financing measures are awaiting the approval of Parliament. It expected the proposed revenue measures to fall short of the total cost of the adjustment, even if they are fully implemented. But it considered that the government would not be able to substantially increase public revenues due to the lack of political will to raise taxes. It noted that the Finance Ministry expects the fiscal deficit to exceed 30% of public spending if the salary scale goes into effect next year. Further, it pointed out that the increasing number of Syrian refugees constitutes an additional burden on public finances and would keep public spending at high levels in the coming years. It anticipated that foreign aid would be much lower than the \$2.6bn requested by the current government.

In parallel, BMI anticipated that the government would not face difficulties in financing its deficit in the coming years, despite the deteriorating macroeconomic fundamentals. It considered that the recent downgrade of the sovereign ratings by Standard & Poor's would not significantly increase the government's borrowing costs, as local banks hold the majority of the public debt stock. It expected domestic banks to continue to provide financing to the government as foreign financing will remain expensive given the weak state of public finances, and as the Central Bank will continue to engineer the issuance of Treasury bills in a way that keeps local banks the main subscribers. It projected the stock of the public debt to reach \$87.7bn at the end of 2017 and for the public debt level to average annually 135.7% of GDP during the 2013-17 period.

Olive oil exports up 14% between 2009 and 2012

The Investment Development Authority of Lebanon (IDAL) estimated that olive oil production in Lebanon reached 11,000 tons in 2009, 10,000 tons in 2010 and 11,300 tons in 2011; and posted a compound annual growth rate (CAGR) of 6.5% between 2000 and 2011. It estimated that about 30% of olive oil production consists of extra virgin olive oil, which is the most refined type of oil, with the balance consisting of regular virgin olive oil. It estimated that about 41% of olive oil production takes place in the North, followed by Nabatiyeh with 21%, the South with 15%, the Bekaa with 13% and Mount Lebanon with 10%. It indicated that there were 544 registered olive oil mills across Lebanon in 2010, with the North having 274 mills or 50.4% of the total, followed by the South with 139 (25.6%), Mount Lebanon with 110 (20.2%) and the Bekaa with 21 (3.9%). Also, IDAL estimated olive production in Lebanon at 86,700 tons in 2009, 81,000 tons in 2010 and 90,307 tons in 2011.

Lebanese Olive Oil Exports (Tons)



Source: IDAL, Byblos Research

It noted that Lebanese olive oil exports increased from 3,238 tons in 2011 to 4,162 tons in 2012, and rose by a CAGR of 14% between 2009 and 2012. It added that Arab countries are the destination of about 53% of olive oil exports, followed by North America with a 29% share. It said that the United States accounted for 22% of Lebanese olive oil exports in 2012, making it the largest destination of such exports, followed by Saudi Arabia with 20.1%, the UAE (10.5%), Kuwait (8%), Canada (7.3%), Qatar (5.9%) and Australia (4.5%). It noted that the Lebanese olive oil export market is growing in Australia, New Zealand, and in Latin American countries.

In parallel, IDAL indicated that olive oil imports to Lebanon regressed from 3,159 tons in 2010 to 2,374 tons in 2011 and 2,213 tons in 2012. It attributed the decline to the conflict in Syria, which is the main source of olive oil imports to Lebanon. It indicated that Lebanon's main olive oil imports come from the Middle East & North Africa region, where Syria accounts for about 72% of such imports, followed by Tunisia with a 24.8% share and Jordan with 2.4%. It considered that Lebanon's olive oil market is on the upside and has yet to reach its full potential. It added that some Lebanese producers have sought to specialize in the production of extra virgin olive oil, which has a growing export potential, as Lebanese olive oil gains more recognition in both domestic and international markets. It said that about 300 hectares of land are currently dedicated to organic olive oil given the latter's potential for growth. According to the Ministry of Agriculture, there are about 170,000 olive farmers and growers in Lebanon.

Markets not affected by sovereign downgrade

In the monthly meeting between the Central Bank and the Association of Banks in Lebanon (ABL), Governor Riad Salamé highlighted the stability of the Lebanese pound's exchange rate and that the demand and supply for foreign currency is taking place through the market. He also pointed out the continuing stability of the banks' deposit base and the structure of interest rates. He noted that the Central Bank sold \$2.8bn from its holdings of Eurobonds between September and mid-November, providing the Bank with liquidity to cover the country's needs in foreign currency.

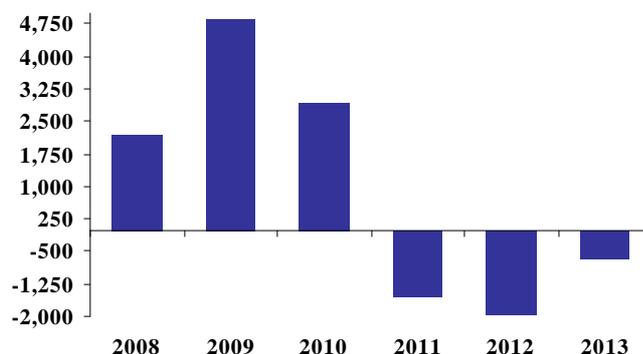
Also, Governor Salamé indicated that the markets have not been affected by the recent downgrade of Lebanon's sovereign rating. He added that the Bank does not utilize commercial banks' foreign currency deposits at the Central Bank, and that it places them with correspondent banks. He noted, therefore, that the rating agencies should view these deposits as part of the banks' liquidity level rather than as exposure to the sovereign. Also, he said that the Central Bank and the Banking Control Commission would assess the means that would allow willing banks to improve their solvency. But the ABL cautioned from a further downgrade of the sovereign ratings if the current political status-quo is maintained. It said that another sovereign downgrade would also affect banks' ratings given their correlation with the sovereign ratings. In turn, this would result in the increase in the banks' assets' risk weight to 150% and would force them to increase significantly their capital.

In parallel, Governor Salamé indicated that the Lebanese government and the Central Bank will not join the Inter-governmental Agreement (IGA) on the compliance with the Foreign Account Tax Compliance Act (FATCA). He added that each Lebanese bank would have to join the IGA on an individual basis. He noted that the Central Bank intends to issue a circular about FATCA's implementation as part of the banking sector's commitment to comply with international standards.

Balance of payments posts deficit of \$676m in first nine months of 2013

Central Bank figures show that Lebanon's balance of payments posted a deficit of \$676.4m in the first nine months of 2013 compared to a deficit of \$1.9bn in the same period last year. The balance of payments posted a surplus of \$503.8m in September 2013 compared to a deficit of \$223m in August 2013 and a deficit of \$92.2m in September 2012. The September 2013 surplus was caused by a deficit of \$405m in the net foreign assets of banks and financial institutions, and was offset by a surplus of \$908.8m in those of the Central Bank. The cumulative deficit over the first nine months of 2013 was caused by a deficit of \$2.95bn in the banks and financial institutions' net foreign assets, and was partly offset by a surplus of \$2.28bn in those of the Central Bank. The balance of payments posted deficits of \$1.54bn in 2012 and \$2bn in 2011, and surpluses of \$3.3bn in 2010 and \$7.9bn in 2009.

Balance of Payments* (US\$m)



*in the first nine months of each year

Source: Central Bank of Lebanon

Central Bank's gross reserves up 7% to \$32bn in first nine months of 2013

The Central Bank's interim balance sheet reached \$78.6bn at the end of September 2013 compared to \$76.7bn at the end of 2012 and to \$77.4bn at end-September 2012. Gross foreign currency reserves reached \$32bn at the end of September, constituting an increase 6.9% in the first nine months of the year from \$30bn at the end of 2012. Gross foreign currency reserves increased by \$988m in January, by \$14.8m in March, by \$300.1m in April, by \$701.2m in May, by \$355.8m in June and by \$1bn in September; while they declined by \$616.4m in February, \$447.9m in July, and \$269.7m in August 2013. This resulted in an aggregate increase of nearly \$2.1bn in the first nine months of the year, with an increase of \$386.4m in the first quarter, a rise of \$1.4bn in the second quarter and a growth of \$313.9m in the third quarter of 2013. Further, foreign currency reserves rose by \$2bn, or 6.8%, year-on-year.

The value of the Central Bank's gold reserves contracted by 19.5% in the first nine months of 2013 and by 25% year-on-year to \$12.3bn, compared to the peak of \$16.7bn reached at end-August 2011. Its securities portfolio decreased by 5.3% in the first nine months and by 5.2% annually to \$15.7bn. Further, deposits of the financial sector rose by \$2.6bn, or 5.1%, in the covered period and by \$3bn or 6% annually to \$53.7bn; while public sector deposits grew by 24.9% year-to-September and by 24.6% year-on-year to \$7.4bn. Gross foreign currency reserves decreased by \$842.4m in 2012, and rose by \$2.22bn in 2011, \$2.94bn in 2010, \$8.6bn in 2009, and \$7.28bn in 2008.

Public-sector salaries and benefits up 9% in first eight months of 2013

Figures issued by the Ministry of Finance show that salaries, wages and related benefits paid to public-sector employees totaled \$1.9bn in the first eight months of 2013, constituting an increase of 8.7% 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 compared to 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 reached \$1.2bn and accounted for 62.8% of the total, followed by educational personnel with \$389.4m (20.9%), civil staff with \$281.9m (15.2%), and customs employees with \$20.6m (1.1%). The distribution of military personnel salaries and benefits shows that the Lebanese Army's salaries totaled \$749.6m in the first eight months of the year and represented 64.2% of total military personnel salaries and benefits. They were followed by salaries of the Internal Security Forces with \$334.3m (28.6%), General Security Forces with \$63m (5.4%), and State Security Forces with \$20.6m (1.8%).

The ministry attributed the increase in salaries, wages and related benefits paid to public-sector employees to an increase of \$169.8m, or 14.1%, in basic salaries that reached \$1.4bn. The ministry noted that basic salaries included \$0.7m in retroactive payments in the first eight months of 2013 compared to \$59.7m in the same period last year. It said that, excluding such payments from the two compared periods, basic salaries would have increased by 20% as a result of the cost-of-living adjustment which started to be paid in September 2012, the enlistment of new personnel and/or the promotion of current employees. The breakdown of basic salaries shows a rise of \$161.2m in payments to military personnel, an increase of \$11.3m in outlays to educational personnel and a decrease of \$2m in payments to civil personnel. Also, allowances declined by 6% from the same period last year to \$270.6m; while other expenses, mainly composed of payments to employees of the Civil Servants Cooperative, fell by 11.1% to \$95.5m, and indemnities rose by 11.5% to \$96.2m year-on-year.

Car sales up 2% in first 10 months of 2013

Figures released by the Association of Automobile Importers in Lebanon (AIA) indicate that a total of 29,724 new passenger cars were sold in the first 10 months of 2013, constituting an increase of 1.8% from 29,198 cars sold in the same period last year. Korean cars accounted for 45.7% of total sales, followed by Japanese cars with a 27% share, European automobiles with 19.6%, American vehicles with 5.5% and Chinese cars with 2.1%. Chinese cars posted the highest growth in sales with a 75% rise year-on-year, followed by Korean cars with a 3.1% increase and Japanese cars with a 2.7% rise. In parallel, American cars posted a 13% contraction in sales year-on-year, followed by European cars with a 1.7% decrease. Kia is the leading brand in the Lebanese market with 7,724 cars sold in the first 10 months of 2013, followed by Hyundai with 5,859 cars sold, Nissan with 4,017 cars, Toyota (1,619), Chevrolet (957), Renault (855) and Mitsubishi (765). In parallel, a total of 1,894 new commercial vehicles were sold in the first 10 months of 2013, down by a marginal 0.6% from 1,905 vehicles sold in the same period last year, and up by 8.7% from 1,743 vehicles sold in the same period of 2011.

The AIA indicated that the combined number of registered new and imported used cars in the first 10 months of 2013 decreased by 7% from a year earlier. It said that about 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 price 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.

EFG Hermes' net income down 20% to \$27m in first nine months of 2013

Regional investment bank EFG Hermes declared consolidated net income of EGP185.2m, or around \$27.1m, in the first nine months of 2013, constituting a decrease of 20.2% from net profits of EGP232.1m in the same period last year. Investment banking operations generated net losses of EGP168m, while commercial banking activity by Crédit Libanais posted net profits of EGP354m in the first nine months of 2013. Total operating revenues reached EGP1.5bn in the first nine months of 2013, up 10.6% annually. EFG said that commercial banking revenues increased by 14.2% annually to EGP964m, while those of investment banking improved by 5% year-on-year to EGP564m. Fees and commissions of the investment bank dropped 0.7% year-on-year to EGP444m, while they decreased 6.1% quarter-on-quarter in the third quarter of the year. It said that revenues generated from capital markets and treasury operations increased by 33.3% year-on-year to EGP120m. In parallel, EFG Hermes indicated that total consolidated assets reached EGP66.4bn, or \$9.8bn at the end of September 2013; relative to EGP59.4bn, or \$8.8bn at end-2012. It added that Crédit Libanais accounted for 64% of consolidated operating revenues in the first nine months of 2013.

EFG Hermes Holding SAE holds a 65% stake in Crédit Libanais and has a call option for an additional 25% interest in the bank. Crédit Libanais posted net profits of \$51.8m in the first nine months of 2013, constituting an increase of 1.2% from the same period in 2012. Its total assets reached \$8.1bn at end-September 2013, constituting a 2.4% increase from end-2012; while its loans to customers stood at \$2.5bn at end-September 2013, up 13.1% from end-2012. The bank's deposits totaled \$7bn at the end of September 2013 and increased by 0.5% from end-2012.

Balance sheet of financial institutions up 23% in first nine months of 2013

Figures released by the Central Bank show that the consolidated balance sheet of financial institutions in Lebanon reached LBP2,316bn, or \$1.54bn, at the end of September 2013, constituting an increase of 23.1% from end-2012 and a rise of 36.5% from a year earlier. Liabilities to the private sector reached \$340.4m and increased by 56.5% from end-2012 and by 28.3% from end-September 2012. Further, commitments to the financial sector totaled \$718.1m at the end of September 2013, representing a rise of 23.6% from the end of last year, and an increase of 55.8% from end-September 2012.

On the assets' side, financial institutions' operations with commercial banks reached \$614.6m at the end of September 2013, up 29.7% in the first nine months of the year and 49.1% from a year earlier. Lending to the private sector totaled \$810.8m, and increased by 27.3% from end-2012 and by 37.9% from end-September 2012. Also, investments in government securities totaled \$113.3m as at end-September 2013, decreasing by 17.6% in the first nine months of the year, but rising by 4.8% from end-September 2012. Further, the aggregate capital account of financial institutions reached \$389.4m at the end of September 2013, constituting an increase of 9.6% from end-2012 and a rise of 18.5% from a year earlier. There were 53 financial institutions in Lebanon with a total of 68 branches as of June 2013.

Standard Chartered to sell retail operations in Lebanon

Standard Chartered Plc reportedly plans to divest its consumer banking business in Lebanon and to focus on wholesale banking in the country. Standard Chartered, which operates in Lebanon through its fully-owned subsidiary Standard Chartered Bank sal, said that the decision was part of a wider strategy to focus on markets and business segments that offer the highest potential for growth, and to pull back from less profitable businesses and countries. It said that it would continue to cater to the needs of corporate and financial institutions in Lebanon after any sale. Standard Chartered has been present in the Lebanese market since 2000 when it acquired Metropolitan Bank sal. It operates through its fully owned subsidiary Standard Chartered Bank sal and has three branches in the country with 120 employees.



Corporate Highlights

Assets of Syrian affiliates of Lebanese banks drop by 15% and deposits decline by 21% in first nine months of 2013

Financial results issued by the affiliates of seven Lebanese banks operating in Syria show that their aggregate assets reached SYP462.4bn at the end of September 2013, constituting an increase of 49.1% from end-2012. The increase in banks' assets is due in part to a 169.3% rise in banks' short-term deposits at other local and foreign banks. In US dollar terms, the assets of the seven banks declined by 15.5% from \$4bn at the end of 2012 to \$3.4bn at the end of September 2013. Also, the banks' loans totaled SYP93.1bn at end-September 2013, reflecting a drop of 14.4% from the end of 2012. In US dollar terms, total loans reached \$680.2m, down 51.5% from \$1.4bn at the end of 2012. The loans' decline was mainly caused by a contraction of SYP6.2bn in the lending of Byblos Bank Syria, followed by a decrease of SYP3.2bn in the loans of Bank of Syria & Overseas, a drop of SYP2.2bn in the lending of Banque BEMO Saudi Fransi, a decline of SYP1.2bn in the loans of Bank Al-Sharq, a fall of SYP1.2bn in the lending of Bank Audi Syria, a decrease of SYP1.1bn in the loans of Fransabank Syria and a contraction of SYP411.2m in the lending of Syria Gulf Bank from end-2012.

Also, the banks' total customer deposits reached SYP316bn at the end of September 2013, increasing by 39.3% from the end of 2012. In US dollar terms, customer deposits at the seven banks regressed by 21% from \$2.9bn at the end of 2012 to \$2.3bn at the end of September 2013. The increase was mainly prompted by a SYP33.6bn rise in the deposits of Banque BEMO Saudi Fransi, followed by a SYP19.7bn growth in those of Bank of Syria & Overseas, an SYP11.2bn surge in those of Syria Gulf Bank, a SYP9.1bn improvement in those of Fransabank Syria, a SYP7.9bn increase in those of Bank Audi Syria, a SYP5.3bn rise in those of Byblos Bank Syria and a SYP2.4bn growth in those of Bank Al-Sharq. The ratio of the banks' loans-to-customer deposits stood at 29.5% at end September 2013 compared to 47.9% at the end of 2012. Also, the aggregate shareholders' equity of the banks reached SYP46.3bn at the end of September 2013, constituting an increase of 30.4% from end-2012. In US dollar terms, banks' shareholders' equity stood at \$338.1m at the end of September, down 26.1% from \$457.7m at the end of 2012.

In parallel, the aggregate net profits of the seven banks reached SYP10.7bn in the first nine months of 2013 compared to SYP526.1m in the same period last year. The surge in net income is due to a significant increase in the unrealized net foreign exchange gains on structural positions from SYP3.5bn in the first nine months of 2012 to SYP28.3bn in the first nine months of 2013. The aggregate net profits of the seven banks shift to a loss of SYP17.6bn, or \$178.4m, in the first nine months of 2013 when excluding foreign exchange gains on structural positions. The profits of Banque BEMO Saudi Fransi surged by SYP3.1bn, followed by a rise of SYP2.9bn in those of Fransabank Syria, a growth of SYP1.8bn in those of Bank Audi Syria, an increase of SYP1.4bn in those of Bank Al-Sharq, a rise of SYP675.2m in the net income of Bank of Syria & Overseas and an improvement of SYP164.4m in the profits of Byblos Bank Syria. In parallel, the net income of Syria Gulf Bank shifted from a loss of SYP40.2m to a gain of SYP15.9m.

The aggregate net interest income of the banks reached SYP4bn in the first nine months of 2013, down 15.5% from the same period last year; while their total net fees & commission income increased by 55.1% to SYP2.2bn. In US dollar terms, banks' net interest income totaled \$40.3m in the first nine months of the year, down 46.4% from \$75.2bn in the first nine months of 2012; while their net fees & commission income stood at \$22.5m, down 1.6% from \$22.8bn in the same period last year. The banks' total operating income reached SYP35.9bn in the first nine months of 2013, up 246.8% year-on-year; while total operating expenses reached SYP27.2bn in the first nine months of the year, up 170.8% from the same period last year. In US dollar terms, banks' operating income totaled \$364.9m in the first nine months of the year, up 120% from \$165.9m in the same period last year; while their operating expenses stood at \$276.6m, up 71.8% from \$161m in the first nine months of 2012. The figures in US dollar reflect the prevailing official exchange rates during the covered period.

Results of Affiliates of Lebanese Banks in Syria for First Nine Months of 2013 (in US\$)

	Banque BEMO Saudi Fransi	Bank of Syria & Overseas	Bank Audi Syria	Byblos Bank Syria	Fransabank Syria	Syria Gulf Bank	Bank Al-Sharq
Net Profits	\$32.7m	\$7.6m	\$18.5m	\$2m	\$31.4m	\$0.2m	\$16.2m
Total Assets	\$912.1m	\$762m	\$450.8m	\$450.1m	\$414.9m	\$254.6m	\$135.4m
% Change**	-15.7%	4.1%	-29.7%	-19.9%	-4.9%	-24.4%	-35.8%
Loans	\$176.8m	\$77.2m	\$143.1m	\$79.3m	\$70.2m	\$92.9m	\$40.7m
% Change**	-48.1%	-56.6%	-46.6%	-63.9%	-49.3%	-45.1%	-53.7%
Customer Deposits	\$757.6m	\$498.3m	\$340.2m	\$227.4m	\$186m	\$210.6m	\$98.5m
% Change**	-16.2%	-20.4%	-31.8%	-31.7%	-11.7%	-4.3%	-31.3%

**Change from end-2012

Source: Banks' financial statements



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	Mar 2012	Feb 2013	Mar 2013	Change*	Risk Level
Political Risk Rating	55.5	53.0	53.0	▼	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	61.0	61.0	▼	Moderate
Regional Average	Mar 2012	Feb 2013	Mar 2013	Change*	Risk Level
Political Risk Rating	60.5	58.6	58.6	▼	High
Financial Risk Rating	42.1	41.6	41.5	▼	Very Low
Economic Risk Rating	37.3	36.3	36.4	▼	Low
Composite Risk Rating	69.9	68.2	68.2	▼	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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