



## LEBANON THIS WEEK

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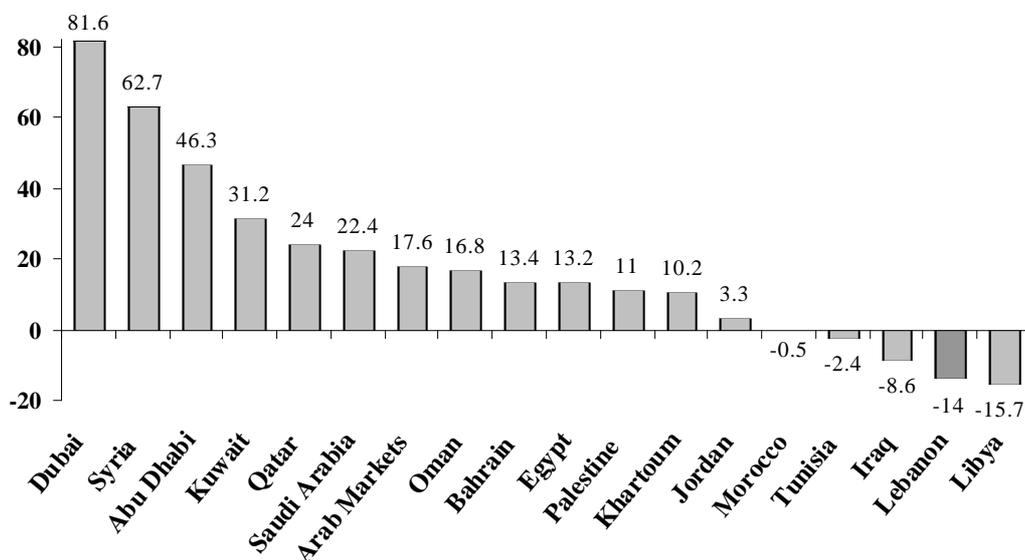
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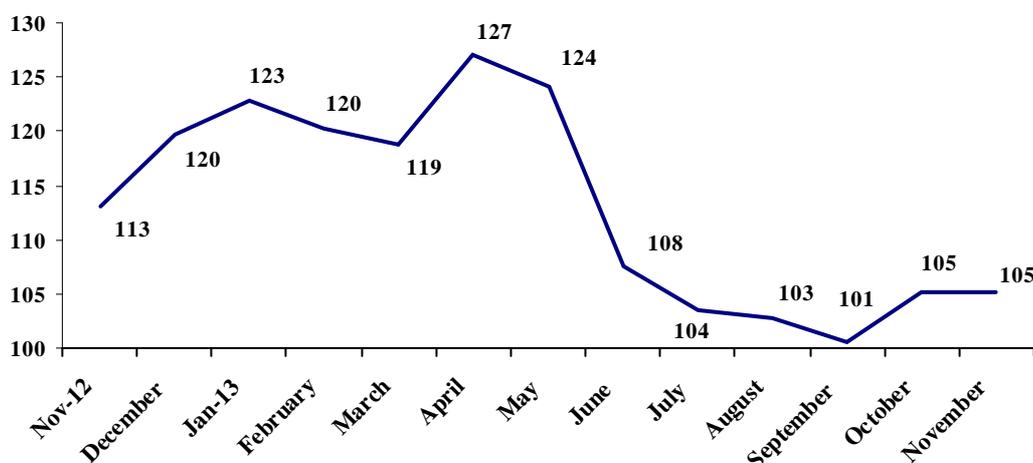
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### Charts of the Week

Performance of Arab Stock Markets in the First 11 Months of 2013 (% change)



Performance of the Beirut Stock Exchange\*



\* Banque du Liban Market Value Weighted Index average monthly values

Source: Local Stock Markets, Dow Jones Indices, Banque du Liban, Byblos Bank

### Quote to Note

"The cost of refugees is straining the country's already weak public finances as the government faces rising health care, education, and security costs."

*The International Monetary Fund, on the impact of the growing number of Syrian refugees in Lebanon*

### Number of the Week

**25:** Number of venture capital investments in Lebanon between 2010 and 2012, third highest in the Arab world, according to the MENA Private Equity Association

## Economic Indicators

\$m (unless otherwise mentioned)	2012	Sep 12	Jun 13	Jul 13	Aug 13	Sep 13	% Change*
Exports	4,486	471	348	260	279	288	(38.85)
Imports	21,281	1,630	1,634	1,718	1,828	1,565	(3.99)
Trade Balance	(16,795)	(1,159)	(1,286)	(1,438)	(1,549)	(1,277)	10.18
Balance of Payments	(1,538)	(92)	(233)	(575)	(223)	504	-
Checks Cleared in LBP	14,976	1,233	1,444	1,513	1,354	1,473	19.49
Checks Cleared in FC	56,044	4,580	4,523	4,938	4,495	4,513	(1.46)
Total Checks Cleared	69,787	5,813	5,967	6,451	5,849	5,986	2.98
Budget Deficit/Surplus	(3,925)	(569.85)	(275.88)	(171.51)	(551.43)	(668.16)	17.25
Primary Balance	(109.87)	(138.20)	(23.19)	82.10	(382.69)	(262.33)	89.82
Airport Passengers	5,960,414	546,784	571,831	581,605	727,086	539,297	(1.37)

\$bn (unless otherwise mentioned)	Dec 2012	Sep 12	Jun 13	Jul 13	Aug 13	Sep 13	% Change*
BdL FX Reserves	29.97	29.99	31.72	31.27	31.00	32.03	6.80
<i>In months of Imports</i>	16.02	18.40	19.41	18.20	16.96	20.47	11.24
Public Debt	57.69	56.10	60.01	60.23	60.50	62.39	11.22
Net Public Debt	49.12	47.83	50.90	51.14	51.74	52.15	9.03
Bank Assets	151.88	148.36	157.95	157.81	158.56	159.26	7.34
Bank Deposits (Private Sector)	125.00	121.75	131.27	131.18	131.38	131.26	7.89
Bank Loans to Private Sector	43.45	42.29	44.84	45.17	45.57	45.88	8.49
Money Supply M2	43.62	41.81	44.20	44.18	44.42	44.49	6.41
Money Supply M3	104.71	101.50	107.31	107.33	108.28	108.49	6.89
LBP Lending Rate (%)	7.47	7.30	7.87	7.13	7.24	7.36	6b.p
LBP Deposit Rate (%)	5.46	5.43	5.39	5.43	5.47	5.37	(6b.p)
USD Lending Rate (%)	7.05	7.16	6.97	7.02	7.16	6.95	(21b.p)
USD Deposit Rate (%)	2.94	2.83	2.86	2.89	2.91	2.91	8b.p
%* Change in CPI**	3.66	6.56	3.72	3.15	3.81	4.81	(175b.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"	11.34	0.89	164,678	10.66%
Solidere "B"	11.44	1.96	22,658	6.99%
Byblos Common	1.58	1.94	26,716	5.34%
Byblos Pref. 08	100.50	0.00	0	1.89%
Byblos Pref. 09	101.00	0.00	0	1.90%
BLOM GDR	8.80	0.00	73,800	6.11%
BLOM Listed	8.25	0.00	6,817	16.68%
Audi GDR	6.73	3.38	10,000	6.46%
Audi Listed	6.29	(6.12)	83,470	20.69%
HOLCIM	14.48	9.04	542	2.66%

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

Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
Apr. 2014	7.375	101.63	2.80
Jan. 2015	5.875	102.00	4.02
Apr. 2015	10.00	108.00	4.02
Jan. 2016	8.500	108.06	4.48
Mar. 2017	9.000	111.62	5.12
Nov. 2018	5.150	99.38	5.31
Apr. 2021	8.250	111.75	4.73
Nov. 2026	6.600	99.00	6.72

Source: Byblos Bank Capital Markets

	Nov 25-29	Nov 18-21	% Change	Nov 2013	Nov 2012	% Change
<b>Total Shares Traded</b>	411,773	198,954	106.97	15,046,249	1,823,939	724.93
<b>Total Value Traded</b>	\$4,595,587	\$2,558,600	79.61	\$108,272,444	\$17,978,278	502.24
<b>Market Capitalization</b>	\$10.63bn	\$10.69bn	(0.56)	\$10.63bn	\$10.01bn	6.29

Source: Beirut Stock Exchange (BSE)



### Net private capital inflows to Lebanon to drop by 42% to \$2.9bn in 2013, fifth lowest in emerging markets

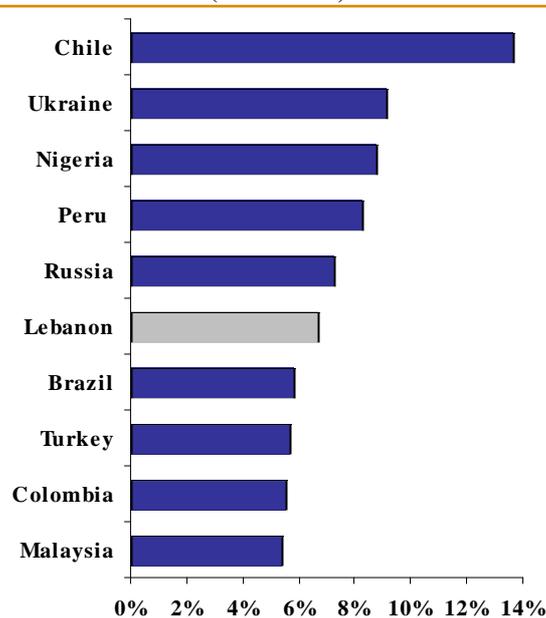
The Institute of International Finance projected net private capital inflows to Lebanon at \$2.9bn in 2013, constituting a decline of 41.7% from \$5bn in 2012, and compared to inflows of \$6.3bn in 2011, \$5.8bn in 2010 and a peak of \$12bn in 2009. The expected drop in net inflows this year would be the sixth steepest among 30 emerging markets with available figures, slower than only Argentina (-77.4%), South Korea (-58.3%), Poland (-54.6%), Thailand (-51.5%) and Venezuela (-51%). It would also be the steepest among seven countries in the Middle East & Africa (ME&A). Net private capital inflows to Lebanon would account for 0.3% of total flows to emerging markets and for 3.5% of aggregate flows to ME&A economies in 2013. Lebanon would be the fifth smallest recipient of net private capital inflows this year among emerging markets, coming ahead of Bulgaria (\$2.2bn), Argentina (\$1.9bn), Ecuador (\$496m) and Egypt (\$283m); and the second smallest recipient among countries in the ME&A region, better than only Egypt.

In parallel, net private capital inflows to Lebanon are expected to be equivalent to 6.7% of GDP in 2013, the sixth highest share among emerging markets and lower than only Chile (13.7% of GDP), Ukraine (9.1% of GDP), Nigeria (8.8% of GDP), Peru (8.3% of GDP) and Russia (7.3%). It would also constitute the second highest share among ME&A economies behind Nigeria.

Net private capital inflows to Lebanon fell by 20.9% in 2012 and posted the ninth steepest decline among emerging markets and the third steepest among ME&A economies. They accounted for 0.4% of total net private capital inflows to emerging markets and for 6.5% of aggregate flows to ME&A economies last year. Lebanon was the sixth smallest recipient of net private capital inflows among emerging markets last year. It was also the third smallest recipient among countries in the ME&A region, better than only Morocco (\$3.8bn) and Egypt (-\$6.5bn). Further, net private capital inflows to Lebanon were equivalent to 12.1% of GDP in 2012, the highest among ME&A economies and the third highest share among emerging markets behind only Chile with 16.8% of GDP and Peru with 12.4% of GDP.

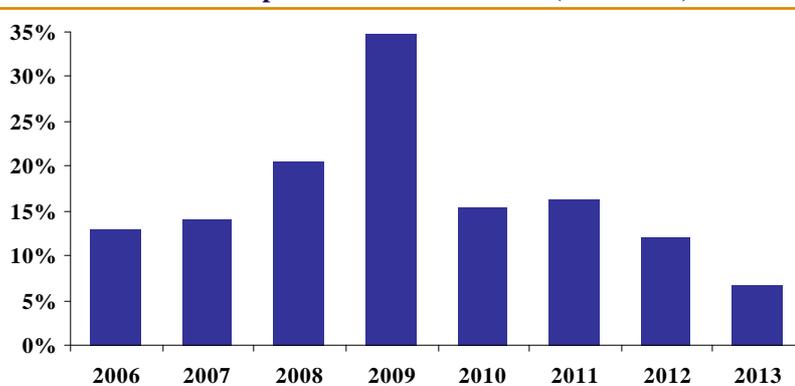
In parallel, the IIF projected net private capital inflows to Lebanon at \$4.3bn in 2014, constituting an increase of 48.8% from 2013, but well below the average of \$7.5bn per year between 2008 and 2011. Accordingly, net private flows to Lebanon next year would post the second highest growth rate among emerging markets and ME&A economies.

**Projected Net Capital Inflows in 2013\***  
(% of GDP)



\*Top 10 countries among 30 Emerging Markets  
Source: Institute of International Finance, International Monetary Fund, Byblos Research

**Net Private Capital Inflows to Lebanon (% of GDP)**



Source: Institute of International Finance, IMF, Byblos Research

### Lebanon ranks 48th globally, sixth in West Asia and North Africa in terms of talent competitiveness

INSEAD's Global Talent Competitiveness Index (GTCI) for 2013 ranked Lebanon in 48th place among 103 countries around the world and in sixth place among 15 countries in North Africa and West Asia (NAWA). Lebanon also came in ninth place among 31 upper-middle income countries (UMICs) included in the survey.

The newly launched GTCI measures a country's ability to develop, attract and retain talent. It assesses the steps and decisions that countries take to develop and acquire talented individuals, as well as a country's ability to provide the set of skills required to have a productive, innovative and competitive economy. The GTCI is a composite of six pillars that are grouped in two sub-indices that are the Talent Competitiveness Input Sub-Index and the Talent Competitiveness Output Sub-Index. A country's score is the simple average of its scores on the six pillars, with a higher score reflecting a better performance in terms of talent competitiveness. The countries included in the GTCI represent 86.3% of the world's population and 96.7% of global GDP.

Globally, Lebanon ranked ahead of Uruguay, Georgia and Russia, and came behind China, Kazakhstan and Croatia. It ranked behind Montenegro, Malaysia, Hungary, Costa Rica, Bulgaria, Panama, Kazakhstan and China among UMICs, while it came behind the UAE, Israel, Cyprus, Qatar and Saudi Arabia in the NAWA region. Lebanon received a score of 44.9 points, higher than the NAWA region average score of 44.24 points and the UMIC's average of 41.91 points

Lebanon ranked ahead of China, Azerbaijan and Mongolia, and came behind South Africa, Greece and Kuwait on the Talent Competitiveness Input Sub-Index. This category covers the policies, resources and efforts that a country can use to promote its talent competitiveness. It includes four pillars that reflect the extent that the political and economic environment creates a favorable climate for talent to develop and thrive. It also focuses on what countries are doing to attract, grow and retain talented individuals. Lebanon ranked ahead of China, Azerbaijan and Botswana, and came behind South Africa, Brazil and Argentina among UMICs. Regionally, it ranked ahead of Azerbaijan, Jordan, Turkey, Morocco, Egypt and Algeria.

Also, Lebanon ranked ahead of Saudi Arabia, Bulgaria and Serbia, and came behind Russia, China and Spain on the Talent Competitiveness Output Sub-Index. This category measures the quality of talent in a country that results from domestic policies, resources and efforts. It is composed of two pillars that assess the current situation of a particular country in terms of labor and vocational skills as well as in terms of global knowledge skills. Lebanon ranked behind only Montenegro, Hungary, Malaysia and China among UMICs; while it came behind Israel, Qatar, the UAE and Cyprus in the NAWA region.

### Global Talent Competitiveness Index 2013

	Score	NAWA Rank	Global Rank
UAE	60.87	1	19
Israel	56.58	2	24
Cyprus	52.78	3	33
Qatar	52.73	4	34
Saudi Arabia	48.23	5	42
<b>Lebanon</b>	<b>44.90</b>	<b>6</b>	<b>48</b>
Georgia	44.64	7	50
Azerbaijan	42.44	8	57
Kuwait	42.14	9	60
Armenia	42.00	10	61
Jordan	41.93	11	62
Turkey	41.16	12	67
Egypt	33.49	13	89
Morocco	33.30	14	90
Algeria	26.40	15	103

Source: INSEAD, Byblos Research

### Components of the 2013 Talent Competitiveness Index for Lebanon

	Global Rank	NAWA Rank	UMIC Rank	Lebanon Score	NAWA Avg Score	UMICs Avg Score
<b>Talent Competitiveness Input</b>	<b>57</b>	<b>9</b>	<b>12</b>	<b>48.02</b>	<b>48.99</b>	<b>46.88</b>
Enablers	84	12	26	40.71	50.52	47.01
Attract	68	7	20	48.55	45.48	49.84
Grow	44	6	7	50.41	47.34	45.43
Retain	52	8	10	52.39	52.63	45.22
<b>Talent Competitiveness Output</b>	<b>42</b>	<b>5</b>	<b>5</b>	<b>38.68</b>	<b>34.74</b>	<b>31.98</b>
Labor & vocational skills	49	6	9	39.81	37.18	36.28
Global knowledge skills	41	5	4	37.55	32.29	27.67

Source: INSEAD, Byblos Research

### Construction permits down 10% in first 10 months of 2013

Figures released by the Association of Engineers of Beirut & Tripoli show that construction permits issued in the first 10 months of 2013 reached 10.8 million square meters, constituting a decrease of 9.8% year-on-year, compared to a drop of 12.8% in the same period last year and a decline of 5.4% in the first 10 months of 2011. Mount Lebanon accounted for 5 million square meters or 46.2% of total construction permits in the covered period. It was followed by the North with 2.2 million square meters (20%), the Bekaa with 1.2 million square meters (11.1%), South Lebanon with 1.1 million square meters (10%), Nabatieh with 876,295 square meters (8.1%), and Beirut with 490,759 square meters (4.5%). In parallel, cement deliveries totaled 4.2 million tons in the first nine months of 2013 and increased by 7.5% annually relative to a decrease of 5.8% in the same period of 2012 and an increase of 7.6% in the first nine months of 2011.

### Lebanon ranks fifth in Arab world in economic freedom

The Fraser Institute's 2013 annual Index of Economic Freedom in the Arab World ranked Lebanon in fifth place among 18 countries included in the survey. Lebanon's rank has been unchanged since 2011. The survey included Iraq and Sudan in the index for the first time, while it excluded Syria due to data uncertainty. The index measures the degree of economic freedom in each country based on 39 variables that are distributed into five broad factors of economic freedom. The factors measure the size of government, legal structure & security of property rights, access to sound money, freedom to trade internationally, and the regulation of credit, labor and business.

Lebanon received a score of 7.7 points on a scale of zero to 10, unchanged from 2012 and compared to a score of 7.6 points in 2011. Lebanon's score was higher than the Arab average of 7.1 points and the average score in non-GCC Arab countries of 6.8 points, while it was similar to the average score in GCC economies.

Lebanon ranked first on the Size of Government category, which measures the extent that a country relies on individual choice and markets, rather than on the political process, to allocate resources and goods & services. Also, Lebanon tied with Jordan in third place and ranked behind only Bahrain and Kuwait 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.

In parallel, Lebanon ranked in 11th place, ahead of Yemen, Algeria, Mauritania, Egypt, Djibouti, Sudan and Iraq, on the Legal Structure & Security of Property Rights category. This category measures the government's effectiveness in protecting property rights.

Also, Lebanon ranked in 15th place, ahead of only Tunisia, Morocco and Algeria, on the Freedom to Trade Internationally category. The category measures the impact of tariffs, exchange rates distortion, and exchange rate and capital controls on international trade. Further, Lebanon came in fourth place, behind only Bahrain, Saudi Arabia and Oman, in terms of the Regulation of Credit, Labor & Business. The category measures the restrictions that the regulatory burden imposes on the credit, labor and product markets.

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.

### Central Bank to extend \$332m as part of new stimulus package

The Central Bank of Lebanon issued Intermediate Circular 346 on November 25, 2013, which amends Basic Circular 23 dated March 7, 1996 and details the mechanism of a new economic stimulus package that Governor Riad Salamé announced recently. The circular stipulates that the Central Bank will roll over the remaining amount of the LBP2,210bn, or \$1.47bn, in financial facilities that it provided to banks earlier this year, and will add to it LBP500bn, or \$331.7m. The Central Bank will extend the loans to domestic banks on a first-come first-served basis at an interest rate of 1% per year. The financial facilities will allow banks operating in Lebanon to extend loans to clients at interest rates determined by the Central Bank.

The circular indicates that the loans to be extended under the new stimulus have to be 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. The Central Bank indicated that banks would not benefit from reductions in reserve requirements for these loans.

Governor Riad Salamé announced in mid-November a LBP1,200bn, or \$800m, financial package aimed to stimulate lending and to support domestic demand in 2014. 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. The Central Bank launched the first stimulus package at the beginning of this year by allowing banks operating in Lebanon to benefit from financial facilities from the Bank totaling up to LBP2,210bn, or \$1.47bn. Housing loans accounted for 55.7% of the total facility, followed by environmentally-friendly projects with 24.1%, productive sectors with 10%, non-housing loans with 5.4%, education with 2.3%, research & development and investment projects with 1% each and SMEs with 0.5%. Commercial banks have utilized 75% of the available financial facilities as of September 2013.

### Index of Arab Economic Freedom for 2013

Country	Score	Rank
Bahrain	8.0	1
Jordan	8.0	1
UAE	8.0	1
Kuwait	7.8	4
<b>Lebanon</b>	<b>7.7</b>	<b>5</b>
Oman	7.6	6
Qatar	7.6	6
Saudi Arabia	7.4	8
Yemen	7.3	9
Tunisia	6.9	10
Egypt	6.8	11
Morocco	6.7	12
Sudan	6.6	13
Djibouti	6.5	14
Comoros	6.4	15
Mauritania	6.3	16
Iraq	6.1	17
Algeria	5.8	18

Source: Fraser Institute, Byblos Research

### Lebanon's Rankings & Scores by Category

Category	Rank	Score
Size of Government	1	9.0
Access to Sound Money	3	9.0
Regulation of Credit, Labor & Business	4	8.2
Freedom to Trade Internationally	15	6.2
Legal Structure & Security of Property Rights	11	6.1

Source: Fraser Institute, Byblos Research

### **Syrian refugee households spend on average \$520 per month, 77% of families borrow money to cover expenditures**

A survey commissioned by international non-governmental organization Oxfam and conducted by the Beirut Research and Innovation Center shows that households of Syrian refugees in Lebanon generate less than \$250 per month from work and spend on average around \$520 per month. But it said that the average income varies across regions and ranges from \$86 per month in parts of Akkar to \$547 per month in parts of Beirut; while spending ranges between \$359 per month in the Bekayel region in Akkar and \$580 a month in the Zarif area of Beirut. It noted that households spend \$275 on food and \$225 on rent; and that the median household income stands at about \$200 per month, indicating that the majority of families earn below the average monthly income.

The survey pointed out that a Syrian refugee household has an average financial deficit of \$274 per month. It said that refugees have used financial support from the United Nations High Commissioner for Refugees (UNHCR), personal savings and debt to cover the shortfall in spending. It noted that a registered family with the UNHCR has received an average of \$90 per month. Also, it estimated that Syrian families have brought with them on average \$370 in savings when they arrived in Lebanon. But it noted that only a small number of families carried substantial savings, while more than half of surveyed households did not have any savings. It added that families have depleted their personal savings during the first six months of their stay in Lebanon and have resorted to debt to cover the balance of their expenses, as 77% of surveyed families have accumulated debt since their arrival to Lebanon. It said that surveyed households acknowledged that they have accumulated on average \$454 in debt since their arrival to Lebanon and that the median debt stands at about \$300 per refugee household, indicating that most families have accumulated debt below \$454 each. It added that the average debt stock per household is the lowest in the Zarif area of Beirut at \$153 and is the highest in the Mina area of Tripoli at \$815. The survey indicated that debt accumulated by Syrian refugees consists usually of interest-free loans that are provided mainly by Syrian and Lebanese family members and friends, and to a much lesser extent by NGOs and other charities.

In parallel, the survey pointed out that most refugee households have indicated that they spend a lot more than their combined income from work, subsidies, charity support, accrued debt, proceeds for the sale of valuables, and savings. It estimated at 27% the average gap between a household's aggregate income and its declared spending. It noted that households cover the gap through unspecified sources of income and from remittances from relatives who are still in Syria.

The Beirut Research and Innovation Center surveyed 260 Syrian refugee households, representing 1,591 refugees, about their living conditions, sources of income and expenditure patterns in Lebanon. It said that surveyed families have spent on average 9.5 months in Lebanon at the time of the survey.

### **Number of real estate transactions down 6% in first 10 months of 2013**

Figures released by the Ministry of Finance indicate that the total number of real estate transactions reached 55,794 in the first 10 months of 2013, constituting a decrease of 5.6% from 59,081 deals in the same period last year. In comparison, the number of real estate transactions declined by 10.7% in the first 10 months of 2012 and dropped by 10.1% year-on-year in the same period of 2011. Also, the aggregate value of real estate transactions totaled \$6.9bn in the first 10 months of 2013, constituting an increase of 1.5% from \$6.79bn in the same period last year. The value of real estate deals was \$7.67bn and \$6.84bn in the first 10 months of 2010 and 2011, respectively. In parallel, the average value per real estate transaction increased by 7.5% year-on-year to \$123,539 in the first 10 months of 2013, relative to an average value of \$114,889 in the same period of 2012 and \$103,460 in the first 10 months of 2011. There were 1,009 real estate transactions by foreigners in the first 10 months of 2013, constituting a decline of 6.3% from 1,077 deals in the same period last year, and compared to an annual decrease of 4.9% in the first 10 months of 2012 and a decline of 26.5% year-on-year in the same period of 2011.

### **Industrial exports up 10% to \$2.4bn in first nine months of 2013**

Figures released by the Ministry of Industry show that industrial exports totaled \$2.42bn in the first nine months of 2013, constituting an increase of 10% from \$2.2bn in the same period last year. Industrial exports reached \$234.6m in September 2013, up by 7.2% from \$218.8m in August 2013 but down by 7.3% from \$253.1m in September 2012. Base metals & articles of base metals accounted for \$426m, or 17.6% of total industrial exports in the first nine months of the year, followed by machinery & mechanical appliances with \$401.6m (16.6%), and mineral products with \$338.9m (14%). Arab countries accounted for 55.9% of total industrial exports in September, followed by African economies with 14.2%, Asian countries with 12.6% and European countries with 12.2%. In parallel, industrial imports reached \$243.8m in the first nine months of the year, up 10.7% from \$220.2m in the same period of 2012. Italy was the main source of such imports and accounted for 22.8% of the total. It was followed by Germany with 16.5% and China with 15.1%. Further, imports of industrial equipment and machinery reached \$26.8m in September 2013, up by about 42.6% from \$18.8m in the same month last year. Italy was the main source of imports of industrial equipments and accounted for 36.6% of total industrial imports during the covered month, followed by China with 18.5% and Germany with 5.9%.

### Fiscal deficit up 60% to \$3.3bn in first nine months of 2013 when assuming \$904.5m in telecom revenues

Figures released by the Finance Ministry show that the fiscal deficit reached \$3.3bn in the first nine months of 2013 and widened by 59.8% from \$2.1bn in the same period last year. The deficit was equivalent to 32% of total budget and Treasury expenditures compared to 22.3% of overall spending in the first nine months of 2012. Overall government expenditures reached \$10.3bn and increased by 11.6% year-on-year, while total revenues decreased by 2.2% to \$7bn. Budgetary expenditures rose by 9.1% to \$8.1bn and included \$1.7bn in transfers to Electricité du Liban and \$303m in outlays from previous years, while budget revenues decreased by 3.7% to \$6.6bn. Tax revenues declined by 1.5% year-on-year to \$5.2bn, of which 31.8%, or \$1.6bn, were in VAT receipts that were flat compared to the first nine months of 2012. Tax revenues accounted for 78.2% of budgetary revenues and for 73.5% of total Treasury and budgetary receipts. The Finance Ministry is basing its monthly fiscal results on the Telecommunications Ministry's estimate of telecom receipts that reached \$904.5m in the first nine months 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 remained almost unchanged year-on-year; while the fiscal deficit rose by 34.2% to \$4.2bn, equivalent to 40.7% of expenditures.

The distribution of other tax revenues shows that receipts from taxes on income, profits & capital gains decreased by 1.7% to \$1.4bn in the first nine months of 2013; customs revenues regressed by 3.5% year-on-year to \$1.1bn; revenues from property taxes fell by 2.2% to \$568.5m; revenues from taxes on goods & services rose by 1% to \$244.8m; and other tax receipts, mainly stamp fees, decreased by 3.3% to \$228.1m. Further, the distribution of income tax revenues shows that taxes on profits accounted for 44% of total income tax receipts, followed by the tax on interest deposits with 23.3%, the tax on wages & salaries with 21.2%, and the capital gains tax with 9.8%. Income from taxes on wages & salaries improved by 15.7% and that from the tax on interest rates rose by 1.3%; while receipts from capital gains tax regressed by 23.1% and those from the tax on profits fell by 4.6%.

Also, the distribution of property taxes shows that revenues from real estate registration fees decreased by 5.2% to \$387.4m; while receipts from built property taxes rose by a marginal 0.3% to \$95.8m and revenues from inheritance tax increased by 11.2% to \$85.4m. In parallel, non-tax budgetary revenues regressed by 10.8% to \$1.4bn, with revenues from government properties dropping by 14.4% to \$1.1bn and administrative fees & charges rising by 0.9% to \$280.3m. Based on the ministry's assumption, receipts from telecom services accounted for 83.5% of income from government properties and for 62.8% of non-tax revenues.

Debt-servicing cost increased by 1.3% year-on-year to \$2.7bn in the first nine months of 2013. It accounted for 26.6% of total expenditures and for 33.7% of budgetary spending, and absorbed 39% of overall revenues and 41.5% of budgetary receipts. Interest payment on domestic debt regressed by 1.3% year-on-year to \$1.6bn, while interest disbursement on foreign debt rose by 6.5% to \$986.8m. Repayment of principal on foreign debt fell by 2.1% to \$139.5m. Excluding debt servicing, the primary budget balance posted a surplus of \$1.2bn, or 15% of budget expenditures compared to a surplus of \$2.1bn, or 28.4% of budget spending in the same period last year. The overall primary balance posted a deficit of \$546.6m or 5.3% of spending, relative to a surplus of \$649.4m or 7% of total expenditures in the same period of 2012.

<b>Fiscal Results in First Nine Months of 2013</b>		
	<b>Including Assumed Telecom Receipts</b>	<b>Excluding Assumed Telecom Receipts*</b>
	<b>US\$m</b>	<b>US\$m</b>
Budget revenues	6,605	5,701
Tax revenues	5,165	5,165
Non-tax revenues	1,440	535.5
<i>of which Telecom revenues</i>	904.5	-
Budget expenditures	8,128	8,128
<b>Budget Surplus/Deficit</b>	<b>(1,523)</b>	<b>(2,427)</b>
<i>In % of budget expenditures</i>	<i>(18.7%)</i>	<i>(29.9%)</i>
<b>Budget Primary Surplus</b>	<b>1,220</b>	<b>315.7</b>
<i>In % of budget expenditures</i>	<i>15%</i>	<i>3.9%</i>
Treasury receipts	421	421
Treasury expenditures	2,188	2,188
Total Revenues	7,026	6,122
Total Expenditures	10,316	10,316
<b>Total Deficit</b>	<b>(3,290)</b>	<b>(4,194)</b>
<i>In % of total expenditures</i>	<i>(31.9%)</i>	<i>(40.7%)</i>
<b>Total Primary Surplus/Deficit</b>	<b>(546.4)</b>	<b>(1,451)</b>
<i>In % of total expenditures</i>	<i>(5.3%)</i>	<i>(14.1%)</i>

\* Cash basis

Source: Ministry of Finance, Byblos Research

### **Stock market activity down 8% to \$345m in first 11 months of 2013**

Figures released by the Beirut Stock Exchange indicate that total trading volume reached 48.2 million shares in the first 11 months of 2013, constituting a decrease of 0.9% from the same period last year; while aggregate turnover amounted to \$345.1m, down 8.2% from a turnover of \$376.1m in the first 11 months of 2012. Market capitalization increased by 6.3% from end-November 2012 to \$10.63bn, of which 79.1% was in banking stocks, followed by real estate stocks with 17.7%, industrial stocks with 2.9%, and trading stocks with 0.4%. The market liquidity ratio was 3.2% compared to 3.8% in the same period last year. Banking stocks accounted for 86.2% of aggregate trading volume in the first 11 months of the year, followed by real estate stocks with 11.8%, and industrial stocks and trading stock with 1% each. Also, banking stocks accounted for 79% of the aggregate value of shares traded, followed by real estate stocks with 20%, industrial stocks with 0.7% and trading stocks with 0.3%. The average daily traded volume for the period was 220,206 shares for an average daily value of \$1.6m. The figures reflect an increase of 1.9% in volume and a decrease of 5.7% in value year-on-year.

### **Olayan School of Business among top business schools in the region**

The QS Global 200 Business Schools Report for 2013, an annual survey that ranks the top 200 business schools worldwide, included one Lebanese university among five ranked universities in the Middle East & Africa (ME&A) region. The survey ranked the Suliman S. Olayan School of Business at the American University of Beirut (AUB) in fifth place in the ME&A region, down from fourth place in last year's survey. The top ranked university in the ME&A region is the Graduate School of Business at the University of Cape Town, followed by the University of Witwatersrand in South Africa, the American University of Sharjah, and the American University in Cairo.

The survey included the Suliman S. Olayan School of Business in the "elite regional" category, while it put the remaining four universities from the ME&A region in the "emerging global" category. The "elite regional" category includes institutions that are well-regarded by employers in their region, and that have started to develop a reputation beyond their region; while the "emerging global" category includes business schools that have an established reputation for excellence among employers that stretches well beyond their region.

The Harvard Business School is the top ranked business school in North America, INSEAD France is the best business school in Europe, INSEAD Singapore is the top ranked school in Asia-Pacific, and EGADE-Tecnologico de Monterrey in Mexico is the best business school in Latin America.

The survey only covers business schools that offer full-time MBA programs and ranks the schools based on recruiters' preference for their MBA graduates and alumni. The results are based on the answers of 28,000 employers, including 4,318 employers who were actively recruiting MBA graduates. The survey was conducted between March and July 2013.

### **NECB to raise capital by \$25m**

Near East Commercial Bank sal (NECB) announced that it is raising its capital by LBP37.68bn (\$25m) to LBP64.26bn, or \$42.6m, through the issuance of 188.4 million new nominal shares at a subscription price of LBP200 (\$0.13) per share. Holders of current shares have the exclusive right to subscribe to the new shares in a proportion equivalent to the percentage of shares they currently own. The bank's Extraordinary General Assembly approved the capital increase on October 4, 2013. NECB's main shareholders are Saradar Holding sal with a 51% stake in the bank, followed by the Swiss-based Wiederkehr Group with a 39% share and Mr. Carlos Ghosn with a 9% stake.

NECB sal posted audited consolidated net profits of \$1.4m in 2012 relative to \$0.56m in 2011. Total operating income grew by 48.7% year-on-year to \$12.1m, with net interest income increasing by 48.4% to \$5.8m and net fees & commissions receipts rising by 89.8% year-on-year to \$2.6m. Total assets reached \$379.3m at end-2012, constituting a 25.4% rise from a year earlier; while loans & advances to customers, excluding loans & advances to related parties, grew by 100% year-on-year to \$87.9m. Also, customer deposits, excluding deposits to related parties, totaled \$320.2m at end-2012, constituting an increase of 18.6% from \$270.1m a year earlier. The bank's shareholder equity grew by 6% year-on-year to \$24.8m at end-2012. NECB is a niche commercial bank that caters to private and business banking customers, and offers custody services to asset managers.

### **Hotel occupancy rate at 45.3% in October 2013**

Figures released by STR Global show that the occupancy rate at Beirut hotels reached 45.3% in October 2013, constituting an increase of 17.6% from the same month last year; while revenues per available room (RevPAR) stood at \$72.2, up 17.3% from October 2012. STR said that Beirut posted the largest year-on-year rise in the Middle East & Africa region in terms of occupancy rate, and posted the second highest increase on the RevPAR indicator in October 2013. Also, Beirut was among three markets to post a double digit increase in their RevPAR in October 2013, along with Abu Dhabi that registered an increase of 28.2% in its RevPAR to \$132.5 and Muscat that posted a rise of 11.5% to \$173.7.

The occupancy rate at hotels in the Middle East was 69.8% in October 2013 relative to 68.2% in the same month last year, while the RevPAR was \$170.6, up 3.8% from \$164.4 in October 2012. Also, the occupancy rate at hotels in North Africa was 41.5% in October 2013 relative to 59.6% in the same month last year, while the RevPAR was \$37.7, down 31% from \$54.6 in the same month last year.

### **BBAC's net profits up 3% to \$35m in first nine months of 2013**

The Bank of Beirut and the Arab Countries (BBAC) sal, one of Lebanon's top 13 banks, announced unaudited consolidated net profits of \$34.9m in the first nine months of 2013, up 2.5% from the same period last year. Net operating income grew by 4.7% year-on-year to \$91m, with net interest income decreasing by 6.6% to \$57.5m and net fees & commissions receipts rising by 20.5% year-on-year to \$15.2m. Non-interest income accounted for 34.8% of total income, up from 26.8% in the same period last year; with net fees & commissions representing 49.5% of non-interest earnings down from 56% in the first nine months of 2012. Further, the bank's interest margin was 1.61% in the first nine months of 2013 relative to 1.88% in the same period last year; while its spread dropped to 1.56% from 1.81% in the first nine months of 2012. Total operating expenditures increased by 7.4% to \$50.6m in the first nine months, with staff expenses growing by 6.7% to \$26.5m. Also, the bank's return on average assets reached 0.94% in September 2013 on an annualized basis relative to 1% a year earlier; while its return on average equity was 11.65% on an annualized basis relative to 12.92% in September 2012. The cost-to-income ratio increased to 57.3% in the first nine months of 2013 from 56% in the same period last year.

In parallel, total assets reached \$4.95bn at end-September 2013, constituting a 4.9% growth from a year earlier and a 0.8% increase from end-2012; while loans & advances to customers, excluding loans & advances to related parties, rose by 9.8% year-on-year and by 8.1% from end-2012 to \$1.3bn. Also, customer deposits, excluding deposits from related parties, totaled \$4.4bn at end-September, constituting an increase of 6.3% from a year earlier and a growth of 4.1% from end-2012. The loans-to-deposits ratio rose to 29.2% at end-September 2013 from 28.3% a year earlier.

### **Profits of mid-sized banks down 4% to \$128m in 2012**

The audited consolidated net profits of the Beta Group of banks reached \$127.9m in 2012, constituting a decrease of 4% from \$133.2m in 2011. The Beta Group consists of 16 banks with deposits between \$500m and \$2bn each. Total net operating income rose by 4.1% to \$476.6m in 2012, with aggregate net interest income increasing by 5.5% to \$321.2m and net fees & commissions receipts rising by 9.8% to \$84.2m year-on-year. Also, non-interest income accounted for 29.9% of total income in 2012, down from 30.8% in the preceding year; with net fees & commissions earnings representing 59% of non-interest income last year, up from 54.4% in 2011. The net interest spread decreased to 1.92% in 2012 from 2.02% in the preceding year. Also, total operating expenditures increased by 7.3% year-on-year to \$312m in 2012, with staff expenses rising by 11.4% to \$166m. Further, the cost-to-income ratio increased to 65.3% last year relative to 63.5% in 2011. Net interest income accounted for 70% of total consolidated income in 2012, net commissions represented 18%, and other income accounted for the remaining balance of 12% in 2012.

The banks' total assets reached \$18.27bn at end-2012, constituting a rise of 9.8% from end-2011. Loans accounted for 37% of total assets at end-2012, followed by portfolio securities with 33%, liquid assets with 25%, fixed assets with 3% and other assets with 2%. Further, aggregate loans & advances to customers rose by 19.1% from end-2011 to \$6.46bn, while credit extended to related parties increased by 24% to \$274.1m at end-2012. Corporate loans accounted for 47.8% of total net lending at the end of 2012 compared to 42.1% a year earlier. They were followed by retail lending with 15.3% relative to 17.6% at end-2011; credit to small- and medium-sized enterprises with 14.2% of the total compared to 17.4% a year earlier; and housing loans with 11% of the total relative to 9% at end-2011. Also, customer deposits totaled \$15.1bn at end-2012, constituting a rise of 12.2% from end-2011; while deposits from related parties increased by 11.7% to \$444.7m at end-2012.

In parallel, the banks' loans-to-deposits ratio increased to 43.4% at end-2012 from 40.8% a year earlier. The ratio of loans-to-deposits in local currency reached 25.9% at end-2012 compared to 22% at end-2011, while that in foreign currency was 51.9% at the end of 2012 relative to 49.3% a year earlier. Also, the banks' return on average assets reached 0.73% in 2012 relative to 0.85% a year earlier; while their return on average equity was 9.54% compared to 11.17% in 2011. Further, the net primary liquidity-to-deposits ratio reached 25% at end-2012, down from 25.8% at end-2011. The banks' doubtful loans-to-gross loans ratio regressed to 7.19% at end-2012 from 9.04% a year earlier. Also, the collective provisions-to-net loans ratio was nearly unchanged at 0.38% at end-2012. The banks' capital adequacy ratio stood at 12.4% at end-2012 according to Basel II criteria.

## 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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