*Issue 337*

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BYBLOS BANK SAL

Economic Research & Analysis Department

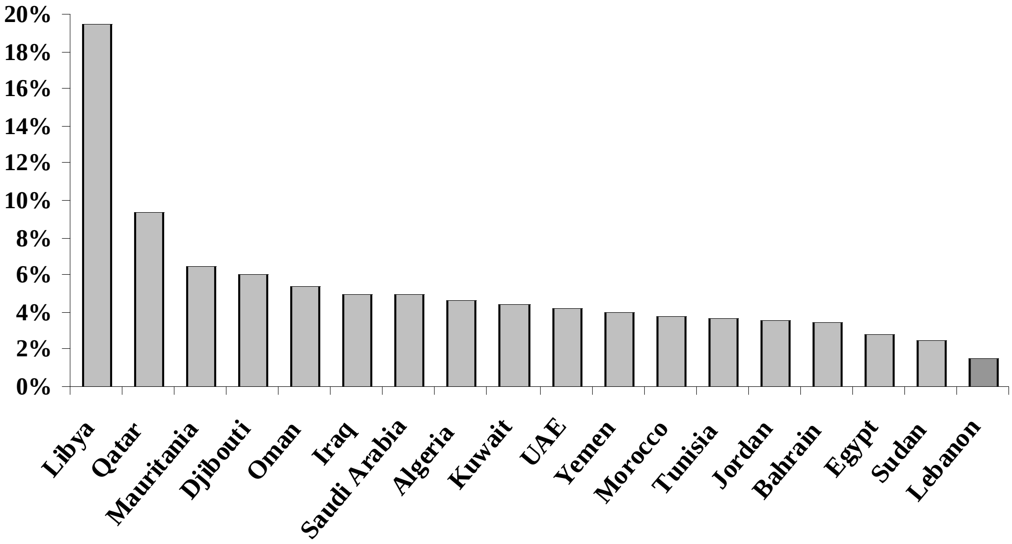
# LEBANON THIS WEEK

## *In This Issue*

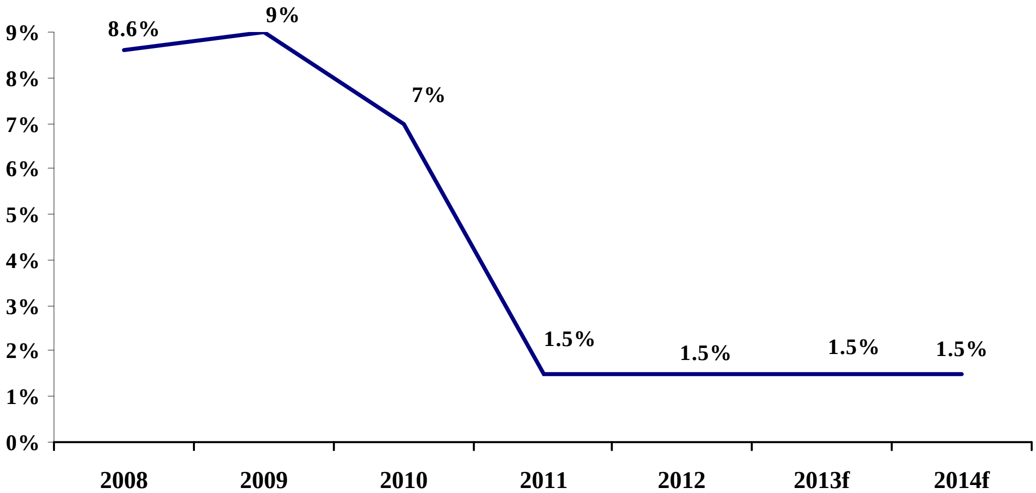


## Charts of the Week

**Projected Non-Oil Real GDP Growth Rate of Arab Countries in 2014 (%)**




**Real GDP Growth Rate in Lebanon (%)**




*Source: International Monetary Fund - November 2013, Byblos Bank*

## Quote to Note

"The broader political standoff should continue to weaken domestic confidence, weigh on economic activity and the budget deficit."

*Merrill Lynch, on the cost of political paralysis in Lebanon*

## Number of the Week

**112:** Lebanon's rank out of 189 countries in terms of the ease of registering property, according to the 2014 World Bank/IFC Ease of Doing Business Index

## Economic Indicators

| **$m** *(unless otherwise mentioned)* | 2012 | Oct 12 | Jul 13 | Aug 13 | Sep 13 | Oct 13 | % Change* |
|---|---|---|---|---|---|---|---|
| Exports | 4,486 | 440 | 260 | 279 | 288 | 391 | (11.14) |
| Imports | 21,281 | 1,774 | 1,718 | 1,828 | 1,565 | 1,757 | (0.96) |
| Trade Balance | (16,795) | (1,334) | (1,438) | (1,549) | (1,277) | (1,366) | 2.40 |
| Balance of Payments | (1,538) | (97) | (575) | (223) | 504 | (794) | 718.56 |
| Checks Cleared in LBP | 14,976 | 1,353 | 1,513 | 1,354 | 1,473 | 1,516 | 12.05 |
| Checks Cleared in FC | 56,044 | 4,732 | 4,938 | 4,495 | 4,513 | 4,698 | (0.72) |
| Total Checks Cleared | 69,787 | 6,085 | 6,451 | 5,849 | 5,986 | 6,214 | 2.12 |
| Budget Deficit/Surplus | (3,925) | (617.49) | (171.51) | (551.43) | (668.16) | (228.92) | (62.93) |
| Primary Balance | (109.87) | (215.20) | 82.10 | (382.69) | (262.33) | 233.07 | - |
| Airport Passengers | 5,960,414 | 473,046 | 581,605 | 727,086 | 539,297 | 524,741 | 10.93 |

| **$bn** *(unless otherwise mentioned)* | Dec 2012 | Oct 12 | Jul 13 | Aug 13 | Sep 13 | Oct 13 | % Change* |
|---|---|---|---|---|---|---|---|
| BdL FX Reserves | 29.97 | 29.46 | 31.27 | 31.00 | 32.03 | 31.86 | 8.13 |
| *In months of Imports* | *16.02* | *16.61* | *18.20* | *16.96* | *20.47* | *18.13* | *9.18* |
| Public Debt | 57.69 | 56.64 | 60.23 | 60.50 | 62.39 | 62.44 | 10.24 |
| Net Public Debt | 49.12 | 48.38 | 51.14 | 51.74 | 52.15 | 52.50 | 8.50 |
| Bank Assets | 151.88 | 149.38 | 157.81 | 158.56 | 159.26 | 160.63 | 7.53 |
| Bank Deposits (Private Sector) | 125.00 | 122.60 | 131.18 | 131.38 | 131.26 | 132.10 | 7.75 |
| Bank Loans to Private Sector | 43.45 | 42.76 | 45.17 | 45.57 | 45.88 | 46.50 | 8.75 |
| Money Supply M2 | 43.62 | 42.31 | 44.18 | 44.42 | 44.49 | 44.72 | 5.69 |
| Money Supply M3 | 104.71 | 102.43 | 107.33 | 108.28 | 108.49 | 109.02 | 6.44 |
| LBP Lending Rate (%) | 7.47 | 7.31 | 7.13 | 7.24 | 7.36 | 7.59 | 28b.p |
| LBP Deposit Rate (%) | 5.46 | 5.43 | 5.43 | 5.47 | 5.37 | 5.44 | 1b.p |
| USD Lending Rate (%) | 7.05 | 7.15 | 7.02 | 7.16 | 6.95 | 6.85 | (30b.p) |
| USD Deposit Rate (%) | 2.94 | 2.87 | 2.89 | 2.91 | 2.91 | 2.94 | 7b.p |
| %* Change in CPI** | 3.66 | 7.75 | 3.15 | 3.81 | 4.81 | 5.04 | (271b.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" | 11.68 | 5.13 | 56,558 | 10.91% |
| Solidere "B" | 11.64 | 4.77 | 39,328 | 7.07% |
| Byblos Common | 1.60 | 3.23 | 8,800 | 5.37% |
| Byblos Pref. 08 | 101.00 | 0.00 | 0 | 1.89% |
| Byblos Pref. 09 | 101.50 | 0.00 | 30 | 1.90% |
| BLOM GDR | 8.69 | (1.25) | 70,557 | 6.00% |
| BLOM Listed | 8.27 | 0.24 | 5,000 | 16.61% |
| Audi GDR | 6.60 | 0.00 | 0 | 6.29% |
| Audi Listed | 6.30 | 0.00 | 8,240 | 20.58% |
| HOLCIM | 15.66 | 0.00 | 0 | 2.85% |

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

| Sovereign Eurobonds | Coupon % | Mid Price $ | Mid Yield % |
|---|---|---|---|
| Apr. 2014 | 7.375 | 101.45 | 1.46 |
| Jan. 2015 | 5.875 | 102.00 | 3.82 |
| Apr. 2015 | 10.00 | 107.38 | 4.01 |
| Jan. 2016 | 8.500 | 107.50 | 4.56 |
| Mar. 2017 | 9.000 | 111.63 | 5.00 |
| Nov. 2018 | 5.150 | 99.13 | 5.37 |
| Apr. 2021 | 8.250 | 111.63 | 6.23 |
| Nov. 2026 | 6.600 | 98.50 | 6.78 |

*Source: Byblos Bank Capital Markets*

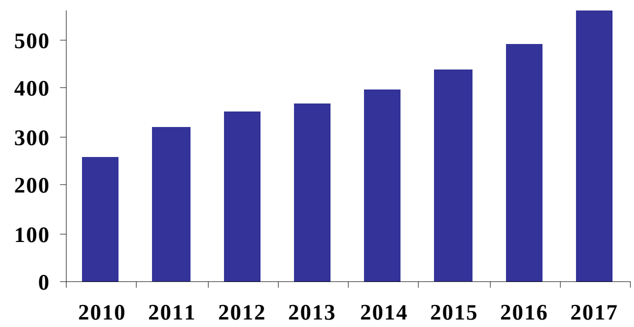
| | Jan 7-10 | Dec 30 - Jan 3 | % Change | Dec 2013 | Dec 2012 | % Change |
|---|---|---|---|---|---|---|
| **Total Shares Traded** | 183,363 | 473,413 | (61.27) | 3,186,671 | 6,388,172 | (50.12) |
| **Total Value Traded** | $1,899,627 | $3,488,335 | (45.54) | $30,056,051 | $32,380,727 | (7.18) |
| **Market Capitalization** | $10.71bn | $10.59bn | 1.09 | $10.55bn | $10.42bn | 1.19 |

*Source: Beirut Stock Exchange (BSE)*

### Information Technology market to reach $398m in 2014, high telecom cost is biggest obstacle to market growth

Business Monitor International estimated the size of the Lebanese information technology (IT) sector at $368.7m in 2013, constituting an increase of 5.1% from $350.7m in 2012. It projected the size of the Lebanese IT sector to rise by 7.8% to $397.6m in 2014 despite the direct and indirect spillovers from the Syrian conflict. It forecast the market to grow at a compound annual rate (CAGR) of 11% during the 2014-17 period and to reach $560m by 2017. Also, it forecast Lebanon's per-capita spending on IT products at $80.1 in 2014, constituting an increase of 4.7% from $76.5 in 2013. It anticipated per-capita spending on IT products to rise by a CAGR of 9.8% during the 2014-17 period and to reach $111.1 in 2017.

**Information Technology Market Size (US$m)**




*Sources: Business Monitor International*

BMI projected the size of Lebanese computer hardware market at $244.5m in 2014, which would account for 61.5% of the aggregate domestic IT market, followed by the IT services market at $117.1m (29.5%), and the legal software market at $36m (9.1%). It anticipated that the legal software market would grow by 12.2% in 2014, the IT services segment would expand by 8.4% and the computer hardware market would increase by 7% during the year. It forecast the legal software market to grow at a CAGR of 13.9% between 2014 and 2017, the IT services market to post a CAGR of 11.7%, and for the domestic computer hardware market to expand at a of CAGR of 10.2% during the covered period. Further, it estimated overall personal computer sales in Lebanon, including notebooks and accessories, at $202.5m in 2014, which would constitute a 7% rise from $189.3m in 2013 and would account for 82.8% of the country's computer hardware market. It said that the sale of personal computers in Lebanon would grow at a CAGR of 10.2% between 2014 and 2017.

BMI identified the strengths of the sector as an IT literate and linguistically-skilled workforce. It added that the market is well-positioned to become a regional hub, is far from saturation and has potential for fast growth. It considered the sector's weaknesses include ongoing political instability that continues to be a drag on the development of the IT market, high telecommunications costs, low quality and coverage of telecom services, and high rates of software piracy. It identified a number of challenges to the sector that include improving ICT infrastructure, overcoming the digital divide, investing in IT skills, and launching e-government. It noted that the high cost of telecommunications constitutes the key barrier to the development of Lebanon's IT market. However, it pointed out that the sector presents significant opportunities, mainly due to telecoms and banking sectors' growing demand for IT products and services, as well as to the upgrade of IT products in large companies and government departments.

In parallel, BMI indicted that consumers in Lebanon are increasingly choosing to purchase tablets instead of desktops and notebooks. It considered that this trend will sustain the growth in the number of tablets sold, but will negatively affect the growth of the computer hardware segment, given that the average selling price of tablets is declining. Further, it expected software piracy to continue to negatively impact the development of the domestic software market, despite the implementation of some public and private projects to limit piracy in Lebanon. It added that the dominance of locally-assembled personal computers constitutes a major barrier to reducing software piracy. It pointed out that cyber security issues have the potential to be a disruptive factor in the development of the IT market in Lebanon. It cautioned that a successful cyber attack, mainly on critical infrastructure, would have the potential to undermine confidence in IT systems and solutions, which would affect the sector's growth.

### Industrial exports up 8% to $2.64bn in first 10 months of 2013

Figures released by the Ministry of Industry show that industrial exports totaled $2.64bn in the first 10 months of 2013, constituting an increase of 8.1% from $2.44bn in the same period last year. Industrial exports reached $218.7m in October 2013, down by 6.8% from $234.6m in September 2013 and by 9.6% from $241.9m in October 2012. Base metals & articles of base metals accounted for $461.2m, or 17.5% of total industrial exports in the first 10 months of the year, followed by machinery and mechanical appliances with $438.7m (16.6%), and prepared foodstuffs with $360.2m (13.6%). Arab countries accounted for 54.9% of total industrial exports in October, followed by African economies with 16.5%, Asian countries with 12.3% and European countries with 10.4%. In parallel, industrial imports reached $264.3m in the first 10 months of the year, up 10.4% from $239.4m in the same period of 2012. Italy was the main source of such imports and accounted for 22.3% of the total. It was followed by Germany with 16.2% and China with 15%. Further, imports of industrial equipment and machinery reached $20.5m in October 2013, up by about 6.9% from $19.1m in the same month last year. Italy was the main source of imports of industrial equipments and accounted for 16.9% of total industrial imports during the covered month, followed by China with 13.4% and Germany with 13.2%.

# Lebanon in the News

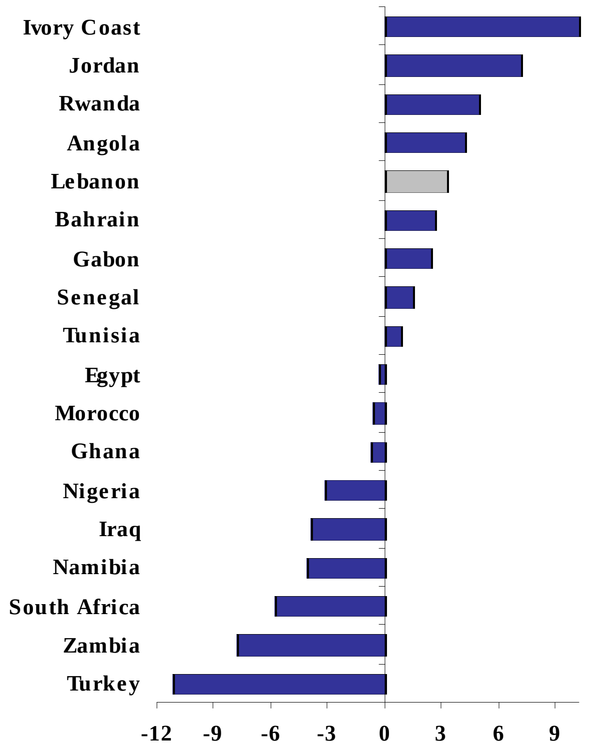
## Lebanon's external debt posts 18th highest return in emerging markets, fifth highest in the Middle East & Africa

Figures issued by Merrill Lynch indicate that Lebanon's external debt posted returns of 3.31% in 2013, constituting the 12th highest return among 35 markets in the Eastern Europe, the Middle East & Africa (EMEA) region as well as the 18th highest return among the 63 emerging markets included in Merrill Lynch's Sovereign Plus Debt Index. Lebanon outperformed the EMEA region's returns of -1.74% and the overall emerging markets returns of -4.56% in 2013. Also, Lebanon's external debt outperformed the 0.09% returns posted by sovereigns rated 'BB' and lower.

Further, Lebanon's external debt posted the fifth highest return among 18 countries in the Middle East & Africa region in 2013, ahead of Bahrain (+2.65%), Gabon (+2.44%), Senegal (+1.48%), Tunisia (+0.84%), Egypt (-0.28%), Morocco (-0.66%), Ghana (-0.67%), Nigeria (-3.15%), Iraq (-3.86%), Namibia (-4.04%), South Africa (-5.83%), Zambia (-7.77%), Turkey (-11.13%). It was outperformed by the Ivory Coast (+10.25%), Jordan (+7.17%), Rwanda (+4.93%) and Angola (+4.26%). In US dollar terms, Lebanon's external debt posted returns of 3.28% in 2013, constituting the 10th highest in the EMEA region and 16th highest among emerging markets.

In parallel, Lebanon's external debt posted returns of 0.69% in December 2013 similar to Uruguay's returns, and constituted the 14th highest return in the EMEA region and the 24th highest return in emerging markets during the covered month. Lebanon outperformed the EMEA returns of 0.21% as well as those of emerging markets of 0.51%, while it underperformed the 1.61% returns of sovereigns rated 'BB' and lower for the same month.

**External Debt Performance in Midde East & Africa in 2013 (%)**




*Source: Merrill Lynch, Byblos Research*

Further, Lebanon's external debt posted the fifth largest return in the Middle East & Africa region in December 2013. It was outperformed by Egypt (+2.9%), Iraq (+2.02%), Rwanda (+1.11%), and Senegal (+0.88%). It outperformed Ivory Coast (+0.64%), Bahrain (+0.59%), Angola (+0.54%), Nigeria (+0.48%), South Africa (+0.39%), Morocco (+0.26%), Jordan (+0.22%), Gabon (-0.06%), Tunisia (-0.1%), Namibia (-0.28%), Zambia (-0.62%), Ghana (-1.57%) and Turkey (-2.47%).

Merrill Lynch indicated that the spread on Lebanese Eurobonds ended 2013 at 404 basis points, constituting the 11th widest spread in the EMEA region and the 22nd widest among emerging markets. It was wider than the EMEA spread of 285 basis points as well as the emerging markets' overall spread of 316 basis points at end-2013. Lebanon has a weight of 3.88% on Merrill Lynch's Sovereign Plus Debt Index, the fifth highest in the EMEA universe and the 10th highest among emerging economies. Lebanon accounted for 7.4% of allocations in the EMEA region.

## Net public debt at $52.7bn at end-November 2013

Lebanon's gross public debt reached $63.25bn at the end of November 2013, constituting a rise of 9.6% from the end of 2012 and an increase of 9.9% from end-November 2012. Domestic debt totaled $37.1bn at end-November, up by 11.4% from end-2012 and by 9% annually, while external debt stood at $26.1bn, increasing by 7.2% from end-2012 and by 11.2% from a year earlier. Local currency debt accounted for 58.7% of the gross public debt at the end of November 2013 compared to 59.2% a year earlier, while foreign currency-denominated debt represented 41.3% of the total at the end of November relative to 40.8% a year earlier. The weighted interest rate on outstanding Treasury bills was 6.87%, while the weighted interest rate on Eurobonds was 6.49% at the end of November. Further, the weighted life on Eurobonds was 5.66 years, while that on Treasury bills was 1,298 days.

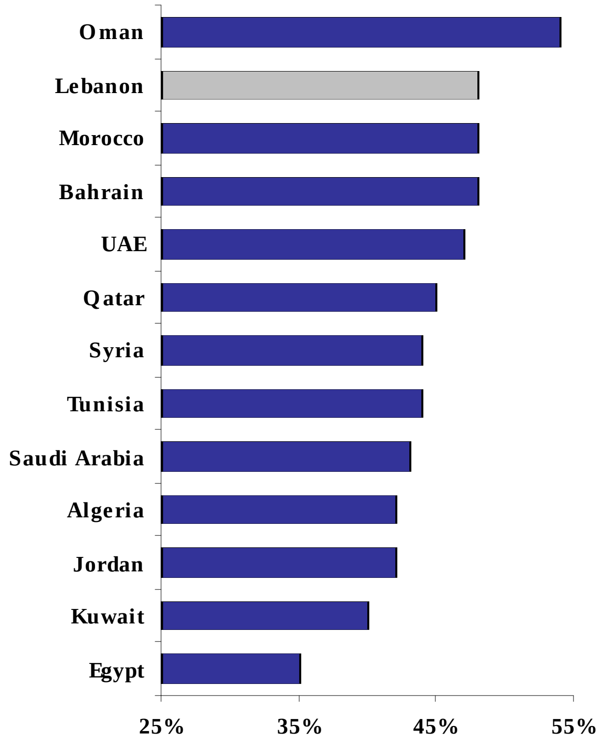
Commercial banks accounted for 53.3% of the local public debt at the end of November 2013 compared to 52% a year earlier. They were followed by the Central Bank with 30.2%, down from 32.2% at end-November 2012; while public agencies, financial institutions and the general public accounted for 16.6% of local debt compared to 15.8% at end-November 2012. Eurobond holders, foreign private sector loans and special T-bills in foreign currencies accounted for 90.9% of the external debt, followed by multilateral institutions with 4.6%, foreign governments with 3.9%, and Paris II loans with 0.5%. The net public debt, which excludes the public sector's deposits at the Central Bank and at commercial banks from overall debt figures, increased annually by 7.9% to $52.7bn. In parallel, the gross market debt accounted for about 65% of total public debt. Gross market debt is the total public debt less the portfolios of the Central Bank, the National Social Security Fund, bilateral and multilateral loans, as well as Paris II and Paris III related debt.

### Vast majority of Lebanese say salary and benefits are most important factors in choosing job

A survey conducted by regional job portal Bayt.com and market research agency YouGov about career aspirations in the Middle East & North Africa indicated that 38% of respondents in Lebanon acknowledged that they accepted the job offer at their current employment because it was the only or the first job offer they received; 21% of participants said they accepted their current job because it was in the industry they wanted to join; 11% of respondents attributed their acceptance to the salary & benefits that were offered; and 11% of participants accepted the job offer because of the reputation of the organization. In comparison, 33% of respondents in Arab countries said that they accepted the job offer at their current employment because it was the only or the first job offer they received, 20% said they accepted their current job because it was in the industry they wanted to join, 16% of respondents attributed their acceptance to the salary & benefits, and 14% of participants said that they accepted the job offer because of the reputation of the organization. The survey was conducted between October 22 and November 5, 2013. The survey's results are based on online interviews with about 7,445 adults residing in Algeria, Bahrain, Egypt, Jordan, Kuwait, Lebanon, Morocco, Oman, Qatar, Saudi Arabia, Syria Tunisia, and the UAE.

Further, 70% of participants in Lebanon said that salary & benefits is the most important factor in choosing their ideal job, followed by opportunities for career growth (66% of respondents), challenging work (28% of participants), work-life balance (25% of respondents), feeling of accomplishment and job security (24% of participants each), fair evaluation (20% of respondents), reputable organization (19% of participants), flexible working hours (13% of respondents), manageable workload (7% of participants) and a pre-defined number of working hours (4% of respondents).

**% of Respondents who said there are many Opportunities for Career Advancement in their Industry**




*Source: Bayt.com*

In parallel, 45% of respondents in Lebanon consider that their current employer lacks opportunities for career advancement, 29% of participants said that their industry does not offer opportunities for career advancement and 29% noted that promotions are not based on a fair system that is based on individual ability or achievement. Further, 47% of participants in Lebanon indicated that the lack of growth opportunities is the main barrier to personal career growth, followed by poor management within their current company (24% of respondents), lack of experience, lack of training and the fact that their educational qualification is not related to their current job profile (21% of participants each), favoritism in the workplace (18% of respondents), lack of funding (15% of participants), poor labor laws (11% of respondents), personal, social obligations or considerations and high level of competition (8% of respondents each), and gender stereotypes in the workplace (4% of participants).

### Central Bank's foreign assets down 1% to $35.3bn in 2013

The Central Bank's interim balance sheet reached $77bn at the end of 2013 compared to $78.6bn at the end of September 2013 and to $76.7bn at the end of 2012. Assets in foreign currencies reached $35.3bn at the end of 2013, constituting a decrease of 1.2% from $35.7bn at the end of 2012 and a drop of 1.3% from $35.7bn at end-September 2013. Assets in foreign currencies increased by $251.4m in January, by $2bn in April and by $411.3m in June; while they declined by $133.3m in February, $528.7m in March, $535.3m in May, $737m in July, $287.9m in August, $401.3m in September, $111.4m in October, $141.3m in November and $198.3m in December 2013. This resulted in an aggregate decrease of nearly $445.1m in 2013, with decreases of $410.6m in the first quarter, $1.4bn in the third quarter and $451.1m in the fourth quarter of 2013, and a rise of $1.8bn in the second quarter of the year.

The value of the Central Bank's gold reserves contracted by 27.5% year-on-year and by 9.9% in the fourth quarter to $11.1bn in 2013, compared to the peak of $16.7bn reached at end-August 2011. Its securities portfolio increased by 13.1% annually and by 2% in the last quarter of the year to $12.2bn. Further, deposits of the financial sector rose by $3bn, or 5.5% annually to $57.3bn; while deposits of the public sector increased by 24% year-on-year to $7.3bn at end-2013. Assets in foreign currencies increased by $3.5bn in 2012, $1.63bn in 2011, $2.3bn in 2010, $8.3bn in 2009 and $7.34bn in 2008.

# Lebanon in the News

## Energy Ministry extends deadline for oil and gas exploration bids

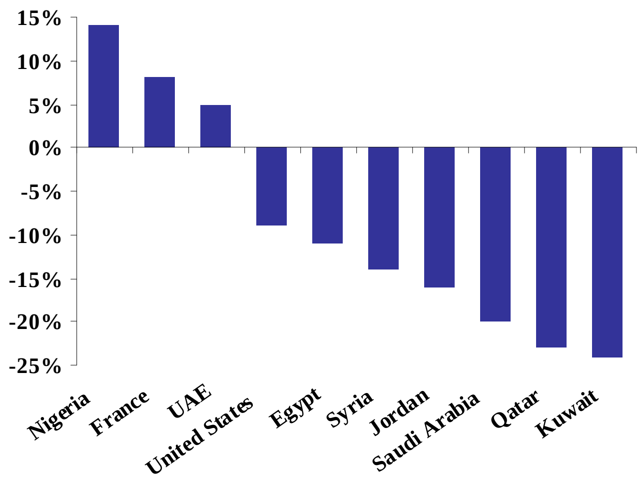
The Ministry of Energy & Water announced that it has extended from January 10, 2014 to April 10, 2014 the deadline for pre-qualified firms to submit their offers for Lebanon's first licensing round for offshore oil and gas exploration and production. The decision constitutes the third extension as the ministry previously postponed the deadline from November 4, 2013 to December 10, 2013, and then to January 10, 2014. The ministry started accepting bids on May 2, 2013. It attributed the delay to the government's failure to ratify two decrees that are required to set the guidelines for exploration and production-sharing agreements, in order to allow Lebanon to grant exploration and production licenses. It noted that the first decree establishes a model exploration and production sharing contract, while the second one specifies the number of blocks that will be auctioned. It added that the ministry and the Petroleum Administration have approved a decree to auction 10 separate blocks off Lebanon's coast and submitted it to the Cabinet for endorsement. But it noted that the Cabinet resigned last March before discussing the decree. It said that blocks 1, 4, 5, 6 and 9 would be available for bidding once the government holds a session to endorse the two decrees.

The list of pre-qualified companies includes 12 operators and 34 non-operators. The pre-qualified operators are the United States' Exxon Mobil, Chevron and Anadarko Petroleum Corporation, France's Total, Anglo-Dutch's Royal-Dutch Shell, Italy's Eni, Brazil's Petrobras, Malaysia's Petronas, Spain's Repsol, Denmark's Maersk, Norway's Statoil and Japan's INPEX. The ministry previously expected the bids' evaluation to be completed in January 2014 and for negotiations and contracts to be signed with the selected firms in February of the same year. It said that awarded contracts will cover 10 plots with a size ranging between 1,259 square kilometers and 2,374 square kilometers each. It anticipated the exploration process to take up to 18 months from the contracts' signing date. It previously estimated that drilling would begin by the end of 2015, followed by the development phase in 2016 and production thereafter.

## Tourism spending in Lebanon down 9% in 2013

Figures issued by Global Blue, the VAT refund operator for international shoppers, show that total spending by tourists in Lebanon increased by 4% in the fourth quarter of 2013 compared to the fourth quarter in 2012. Visitors from the UAE accounted for 15% of total tourist expenditures in the fourth quarter, followed by visitors from Saudi Arabia with 12%, Egypt and Syria with 8% each, Kuwait with 7%, Jordan with 6%, France with 5%, the United States with 3%, and Qatar and Nigeria with 2% each. Beirut attracted 81% of total spending in the fourth quarter of 2013, followed by the Metn area with 13%, Baabda with 4% and the Keserwan region with 1%. Fashion & clothing accounted for 69% of total spending in the fourth quarter of 2013, followed by watches & jewelry with 14%, home & garden with 4%, department stores, souvenirs & gifts, and consumer electronics & household appliances with 3% each.

**Total Spending by Visitors in 2013 (% Change)**




*Source: Global Blue, Byblos Research*

Spending by visitors from Jordan increased by 39% from the same quarter of 2012, followed by expenditures by visitors from the UAE (+16%), Syria (+13%), France (+11%), Nigeria (+10%), and the United States (+2%); while spending by visitors from Qatar contracted by 15%, followed by Kuwait (-8%), Egypt (-6%), and Saudi Arabia (-2%). Spending on consumer electronics & household appliances increased by 71% from the same quarter of 2012, followed by souvenirs & gifts (+16%), home & garden (+14%), department stores (+7%), and fashion & clothing (+2%); while spending on watches & jewelry fell by 2%. Also, the total number of refund transactions by visitors in the fourth quarter of 2013 rose by 9% annually. The total number of refund transactions by visitors from Egypt rose by 25% from the same quarter of 2012, followed by Jordan (+23%), the UAE (+17%), Nigeria (+13%), Kuwait (+9%), and Saudi Arabia and France (+2% each). In contrast, the number of refund transactions by visitors from Syria decreased by 5% and that of Qatar fell by 4%; while the number of refund transactions by visitors United States remained unchanged.

In parallel, total spending by tourists in Lebanon decreased by 9% in 2013. Spending by visitors from Nigeria rose by 14%, followed by France (+8%) and the UAE (+5%); while spending by visitors from Kuwait contracted by 24%, followed by visitors from Qatar (-23%), Saudi Arabia (-20%), Jordan (-16%), Syria (-14%), Egypt (-11%) and the United States (-9%). Also, the total number of refund transactions by visitors contracted by 10% in 2013. The number of refund transactions by visitors from Nigeria increased by 17% in 2013 and those by visitors from the UAE rose by 6%. In contrast, refund transactions by visitors from Kuwait fell by 28%, followed by those from Qatar (-23%), Saudi Arabia and Syria (-21% each), Jordan (-17%), the United States (-9%) and Egypt (-5%); while the number of refunds by visitors from France was unchanged.

### U.S. firm to conduct survey on potential locations of onshore petroleum and gas deposits

The Ministry of Energy & Water announced that U.S. firm NEOS GeoSolutions will conduct an airborne survey to assemble data on potential locations of petroleum and gas deposits within the Lebanese territory. It said that the survey will cover 6,000 square kilometers in the northern parts of Lebanon and will take 18 months to be completed, along with the analysis of the acquired data. It noted that the first phase of the survey will cover 3,000 square meters and will take up to two months, while data acquisition will be completed within 18 months. It added that the second phase of the survey will cover the remaining area and will start immediately after the end of the first phase.

In February 2013, the ministry and British firm Spectrum Energy & Information Technology launched a three-dimensional onshore seismic survey to assemble data on potential locations of petroleum and gas deposits within the Lebanese territory. The survey covered 500 kilometers of land that exclude previously surveyed areas in 1947 and 1968. In October 2011, the Cabinet approved the start of onshore oil exploration in Lebanon, as it authorized the launch of a tender process to survey the Lebanese territory and locate areas with potential oil deposits. It also recommended the preparation of a draft law that regulates oil exploration on Lebanese soil, followed by a tender process for onshore exploration. The decisions constituted at the time the government's first official step for launching onshore oil exploration.

### Value of cleared checks up 1.5%, returned checks up 2.4% in first 11 months of 2013

The value of cleared checks reached $64.7bn in the first 11 months of 2013, constituting an increase of 1.5% year-on-year, compared to a decrease of 1.2% in the same period of 2012 and an increase of 4.4% in the first 11 months of 2011. The value of cleared checks in Lebanese pounds rose by 13.5% annually to the equivalent of $15.5bn in the first 11 months of 2013, while the value of cleared checks in US dollars regressed by 1.5% year-on-year to $50.6bn. The dollarization rate of cleared checks decreased to 78.2% from 80.5% in the same period of the preceding year. Also, the value of returned checks in domestic and foreign currency increased by 2.4% to $1.4bn in the first 11 months of 2013, relative to a rise of 5.6% in the same period of 2012 and an increase of 0.4% in the first 11 months of 2011. In parallel, the number of cleared checks totaled 12.1 million checks in the first 11 months of 2013, up 1.4% from the same period last year. Also, the number of returned checks totaled 246,000 checks, down by 4.3% from 257,000 in the same period of 2012.

### Construction permits down 10% in first 11 months of 2013

Figures released by the Association of Engineers of Beirut & Tripoli show that construction permits issued in the first 11 months of 2013 reached 11.7 million square meters, constituting a decrease of 10.3% year-on-year, compared to a drop of 11.4% in the same period last year and a decline of 6% in the first 11 months of 2011. Mount Lebanon accounted for 5.4 million square meters or 46.4% of total construction permits in the covered period. It was followed by the North with 2.3 million square meters (20%), the Bekaa with 1.3 million square meters (10.8%), South Lebanon with 1.2 million square meters (10.4%), Nabatieh with 943,264 square meters (8%), and Beirut with 499,967 square meters (4.3%). In parallel, cement deliveries totaled 4.8 million tons in the first 10 months of 2013 and increased by 8.2% annually relative to a decrease of 6.5% in the same period of 2012 and an increase of 8.3% in the first 10 months of 2011.

### CDR completes $7.66bn in projects between 1992 and 2012

The Council for Development and Reconstruction (CDR) indicted that it signed contracts for an aggregate value of $11.42bn during the 1992-2012 period that include $7.66bn, or 67.1% of the total, in completed projects and $3.76bn worth of projects that still need to be implemented. The transportation sector attracted $2.85bn of signed contracts during the covered period, followed by the solid waste sector with $1.83bn, the electricity sector with $1.47bn, education with $1.17bn, potable water with $881.9m, post & telecommunications with $798.5m, sanitary water systems with $709.2m and agriculture & irrigation with $469.7m. Further, the CDR said that foreign funding totaled $4.78bn, with $1.28bn for electricity projects, $1.1bn for transportation, $616.2m for potable water, $531.1m for education projects, $407.1m for sanitation projects, $275.8m for agriculture and irrigation, and $217.8m for public health.

In parallel, it pointed out that realized external financing totaled $9.77bn between 1992 and 2012, with soft loans totaling $6.94bn, or 71% of the total, and grants amounting $2.84bn or 29% of the total. It said that the Arab Fund for Economic & Social Development provided 13.8% of overall financing during the covered period, followed by the World Bank with 11.7%, the European Investment Bank and the Kuwait Fund For Arab Economic Development with 10.9% each, the Islamic Development Bank with 10.5%, the Saudi Fund for Development with 9.6%, the European Union with 5.7%, the Italian government with 5.5%, the French government and the French Development Agency together with 4.4%, Qatar with 3.3%, commercial banks with 3.1%, Germany with 2%, and Japan and the United States with 1.6% each. It noted that the infrastructure sector attracted 37.7% of total realized external financing between 1992 and 2012, followed by social sectors such as education, public health, housing compensation, youth, sports and the environment with 25% of the total; productive sectors and other sectors such as agriculture, irrigation, industry and tourism with 19.4%; and basic services sector such as potable water, sanitation and solid waste with 17.8%.

## Treasury transfers to Electricité du Liban down 3% in first nine months of 2013

Figures released by the Finance Ministry show that Treasury transfers to Electricité du Liban totaled $1.69bn in the first nine months of 2013, constituting a decrease of 3% from $1.74bn in the same period of 2012. The ministry said that reimbursements to the Kuwait Petroleum Corporation (KPC) and to Algerian energy conglomerate Sonatrach totaled $1.6bn, or 97.6% of transfers in the covered period, while EdL's debt servicing represented $41.3m or 2.4% of the total. It attributed the decrease to a decline of $43.4m, or 2.6%, in payments to KPC and Sonatrach, and a decrease of $9.6m or 18.8% in debt servicing during the covered period. It said that the decrease in payments to KPC and Sonatrach reflects a 13% decline in imported fuel oil as well as lower average crude oil prices. It noted that the average international oil price used to make the payments was 3% lower from the same period last year. It pointed out that EdL contributed just 2.5% of repayments to the two oil suppliers during the covered period compared to 3.6% in the same period last year. EdL transfers accounted for 22.3% of primary expenditures in the first nine months, down from 26.6% in the same period of 2012. EdL transfers constitute the third largest expenditures item after debt servicing and salaries & wages in overall fiscal spending.

## Net wealth of Lebanese billionaires at $14bn

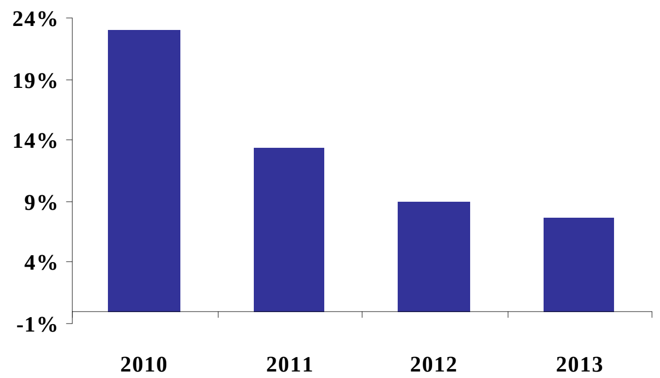
The Wealth-X and UBS Billionaire Census shows that the net wealth of billionaires in Lebanon reached $14bn as of June 2013, and accounted for 4% of the aggregate net wealth of billionaires in the Middle East region and for 0.2% of the net wealth of billionaires around the world. The net wealth of billionaires in Lebanon was the 44th highest among 78 countries globally, similar to that in Denmark, higher than that in Belgium and Bermuda ($13bn each), and lower than that in Liechtenstein and Argentina ($15bn each). It was also the sixth highest among 10 countries in the Middle East region, lower than only Saudi Arabia ($204bn), the UAE ($45bn), Kuwait ($34bn), Israel ($29bn),and Qatar ($20bn).

Also, the number of billionaires in Lebanon stood at eight individuals at the end of June 2013, and accounted for 5.1% of the region's total number of billionaires and for 0.4% of billionaires worldwide. Lebanon has the 42nd highest number of billionaires globally, higher than Argentina and Nigeria with seven billionaires each and lower than South Africa, Qatar, Norway, Greece and Belgium with nine billionaires each. Regionally, Lebanon has the sixth highest number of billionaires, lower than only Saudi Arabia with 64 billionaires, the UAE with 37 billionaires, Israel and Kuwait with 17 billionaires each, and Qatar with nine billionaires. The United States has the highest net wealth $2,064bn and the highest number of billionaires of 515 individuals.

### Commercial banks' assets reach $162bn at end-November 2013

The consolidated balance sheet of commercial banks operating in Lebanon shows that total assets reached $161.9bn at the end of November 2013, constituting an increase of 6.6% from the end of 2012 and a rise of 7.7% from end-November 2012. Private sector deposits totaled $133.2bn, increasing by 6.5% from end-2012 and by 8.1% from end-November 2012. Deposits in Lebanese pounds reached $45.7bn and rose by 4% from the end of 2012 and by 4.9% from end-November 2012, while deposits in foreign currencies totaled $87.4bn and increased by 7.9% from end-2012 and by 9.9% from a year earlier. Non-resident foreign currency deposits totaled $23.8bn at the end of November 2013, up by 14.4% from the end of 2012 and by 19.1% year-on-year. Total non-resident deposits reached $27.1bn at the end of November 2013 and grew by 12.5% from the end of 2012 and by 16.8% from a year earlier. Total private sector deposits increased by $558.2m in January, $745m in February, $1.8bn in March, $1.95bn in May, $1.2bn in June, $203m in August, $739m in October and $1.1bn in November; while they decreased by $11.3m in April, by $88m in July and by $22m in September 2013. In comparison, they rose by $976m January, $726m in February, $806m in March, $533m in April, $141.3m in May, $986m in June, $1.4bn in August, $589.7m in September, $845.1m in October and $528.7m in November 2012; while they declined by $130m in July of last year. In parallel, deposits of non-resident banks reached $5.1bn at the end of November 2013 and decreased by 13.9% from end-2012 and by 18.3% from a year earlier. The dollarization rate of deposits reached 65.7% at the end of November 2013 up from 64.8% at the end of 2012 and from 64.6% at end-November 2012. Further, the average deposit rate in Lebanese pounds reached 5.47% in November 2013, up from 5.38% a year earlier; while the same rate in US dollars was 2.97%, up from 2.85% in November 2012.

**Private Sector Lending Growth* (% Change)**




**in first 11 months of each year*
*Source: Association of Banks in Lebanon, Byblos Research*

Loans to the private sector totaled $46.8bn, constituting an increase of 7.7% from end-2012 and a rise of 9% from a year earlier. Lending to the resident private sector totaled $41.3bn, increasing by 9.1% from end-2012 and by 9.7% year-on-year, while credit to the non-resident private sector reached $5.5bn, decreasing by 1.7% from end-2012 and increasing by 4% from end-November 2012. The dollarization rate in private sector lending regressed to 76.5% at end-November 2013 from 77.5% a year earlier. The average lending rate in Lebanese pounds was 7.01% in November 2013 compared to 7.11% a year earlier, while the same average in US dollars was 6.88% compared to 7.09% in November 2012. In addition, claims on non-resident banks reached $12.4bn at end-November 2013, posting decreases of 13.6% from end-2012 and 3.5% from a year earlier. Claims on the public sector stood at $37.5bn, constituting an increase of 20.5% from end-2012 and a rise of 21.9% year-on-year. The rise was mainly triggered by an increase of 9% month-on-month in September and consisted of a growth in claims of LBP2,394bn in Treasury bills and of $1.51bn in foreign currency-denominated issues. The ratio of private sector loans-to-deposits in foreign currencies stood at 40.9%, down from 41.9% at end-November 2012 and well below the Central Bank's limit of 70%. In parallel, the same ratio in Lebanese pounds was 24.1%, up from 22.1% at the end of November 2012. The ratio of total private sector loans to deposits was 35.2% at the end of November compared to 34.9% a year earlier. The banks' aggregate capital base stood at $14.1bn, down by 0.4% month-on-month and up by 16.3% from $12.1bn in November 2012.

### Bank stocks offer good value despite political risks

In its 2014 investment outlook for the Middle East and North Africa equity markets, regional investment bank EFG Hermes considered that the prices of Lebanese stocks listed on the Beirut Stock Exchange already incorporate the subdued domestic economic activity and regional political instability. EFG Hermes maintained its weight of the Beirut bourse at 'neutral', similar to that of Qatar, Kuwait, Egypt, Morocco, Oman and Jordan. It said that its assessment reflects persistent political risks despite the deep value in Lebanese banks' stocks. It said that the price of listed Lebanese bank stocks are cheap, adding that banks continue to offer good dollar yields on low payout ratios. But it noted that domestic catalysts for improved activity on the bourse that do not currently exist. It pointed out that the political situation is the main potential catalyst for a re-rating of Lebanese stocks. It noted that an improved political situation would stimulate Lebanon's growth prospects and would result in a better market performance. It anticipated that the cost of equity would fall in Lebanon if regional tensions ease.

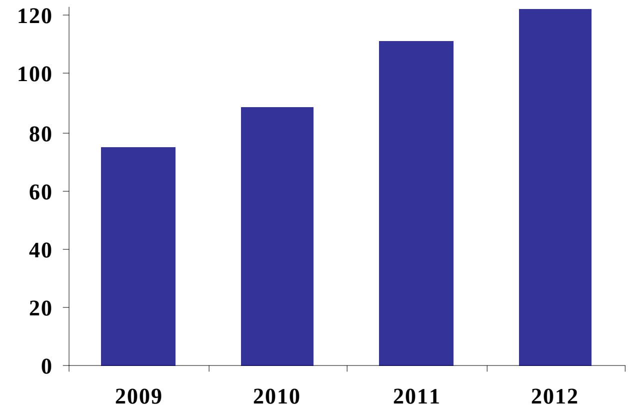
# Corporate Highlights

## Net profits of insurance sector up 10% to $112.4m in 2012, claims up 8.4% to $659.8m

Figures released by the Association of Insurance Companies in Lebanon (ACAL) show that the net profits of 46 insurance companies operating in Lebanon that submitted data reached $122.4m in 2012, constituting an increase of 9.9% from $111.4m in 2011. Net income from the life category reached $75m in 2012 and increased by 9.8% year-on-year, while that of the non-life category amounted to $47.4m and rose by 10.1% annually. In the non-life branch, the health category generated profits of $11.7m, followed by fire with $9.1m, cargo with $6.3m, motor with $4.3m, civil liabilities with $2.9m, credit with $0.6m and engineering with $0.1m, while other segments generated profits of $12.4m.

Further, gross written premiums increased by 6% to $1.32bn in 2012 and included $931.1m in non-life gross premiums that grew by 6.7% annually, and $386.2m in life gross premiums that rose by 4.5% year-on-year. Written premiums from the unit-linked life insurance segment totaled $386.2m and accounted for 29.3% of the insurance sector's aggregate premiums, followed by the health segment with $362.2m (27.5%), motor insurance premiums with $328.5m (24.9%), fire premiums with $87.1m (6.6%), cargo with $32.6m (2.5%), cargo with $32.6m (2.5%), civil liabilities with $12.2m (0.9%), engineering with $10.1m (0.8%) and credit with $5.6m (0.4%), while premiums generated by miscellaneous insurance categories with $92.9m (7.1%).

**Net Profits of Insurance Companies (US$m)**




*Source: ACAL, Byblos Research*

In parallel, paid claims totaled $659.8m in 2012, constituting a rise of 8.4% from $608.7m in 2011. Paid claims from the non-life category reached $510.6m in 2012 and increased by 1.7% year-on-year, while claims for the life category amounted to $149.2m and rose by 39.8% annually. Paid claims from the health segment accounted for 39.1% of total paid claims, followed by motor with 27.3%, unit-linked life insurance with 22.6%, miscellaneous categories with 4.9%, fire with 4.1%, cargo with 1%, engineering with 0.5%, civil liabilities 0.4% and credit with 0.1%.

Further, the sector's loss ratio, or the ratio of claims incurred to earned gross premiums, was 53.2% in 2012; the commission ratio, or the ratio of acquisition cost-to-earned gross premiums, reached 17.4% at end-2012; the expense ratio, or the ratio of other general expenses to earned gross premiums, was 13.2%; the reinsurance ratio, or the ratio of net reinsurance income to earned gross premiums, stood at 6.1% in 2012; and the combined ratio, which is the aggregate ratio of the above four ratios, was 89.8% in 2012.

## Lebanon & Gulf Bank's profits at $23m in 2013

Lebanon & Gulf Bank sal, one of Lebanon's top 13 banks, announced unaudited consolidated net profits of $22.7m in 2013, up 21.5% from last year. Net operating income rose by 19.6% year-on-year to $53.9m in 2013, with net interest income increasing by 42.5% to $42.3m and net fees & commissions receipts rising by 10.9% to $9.2m. Total operating expenditures increased by 12.4% to $27.1m, with staff expenses increasing by 4.2% to $15.1m. Also, the bank's return on average assets reached 0.9% in 2013 relative to 0.82% a year earlier; while its return on average equity was 10.45% relative to 10.26% in 2012. The cost-to-income ratio regressed to 43% in 2013 from 50.2% a year earlier.

In parallel, total assets reached $2.72bn at end-2013, constituting an increase of 13% from end-2012; while loans & advances to customers, excluding loans & advances to related parties, increased by 16.5% from end-2012 to $1bn. Also, customer deposits, excluding deposits from related parties, totaled $2.36bn at end-2013, constituting a rise of 9.9% from a year earlier. The loans-to-deposits ratio increased to 44.8% at end-2013 from 42.3% in 2012.

## Ratio Highlights

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

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

## Risk Outlook

| Lebanon | Apr 2012 | Mar 2013 | Apr 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 | Apr 2012 | Mar 2013 | Apr 2013 | Change* | Risk Level |
|---|---|---|---|---|---|
| Political Risk Rating | 60.3 | 58.6 | 58.6 | ↓ | High |
| Financial Risk Rating | 42.1 | 41.5 | 41.5 | ↓ | Very Low |
| Economic Risk Rating | 37.2 | 36.4 | 36.3 | ↓ | Low |
| Composite Risk Rating | 69.8 | 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 | | Negative |
| Fitch Ratings | B | B | Negative | B | | Negative |
| 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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