



# LEBANON THIS WEEK

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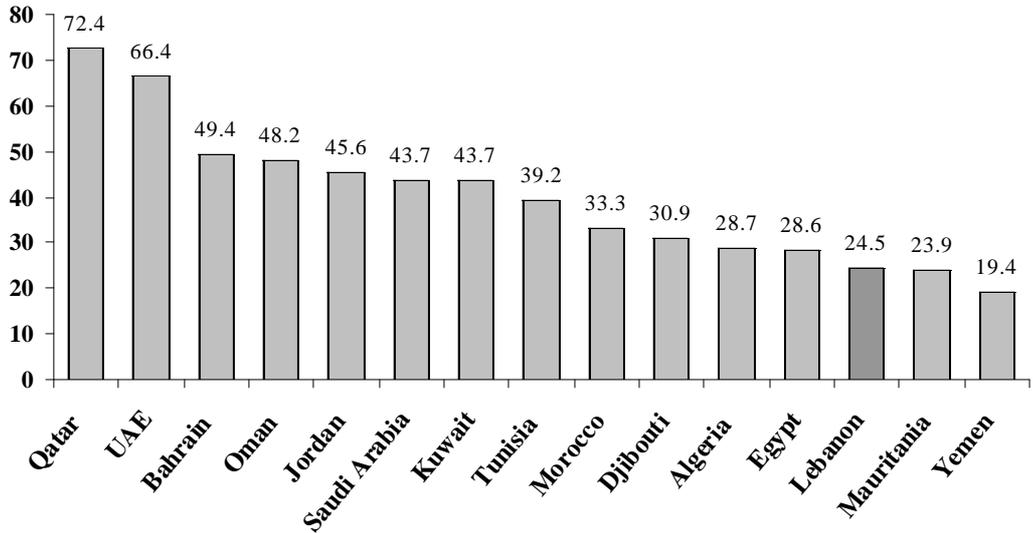
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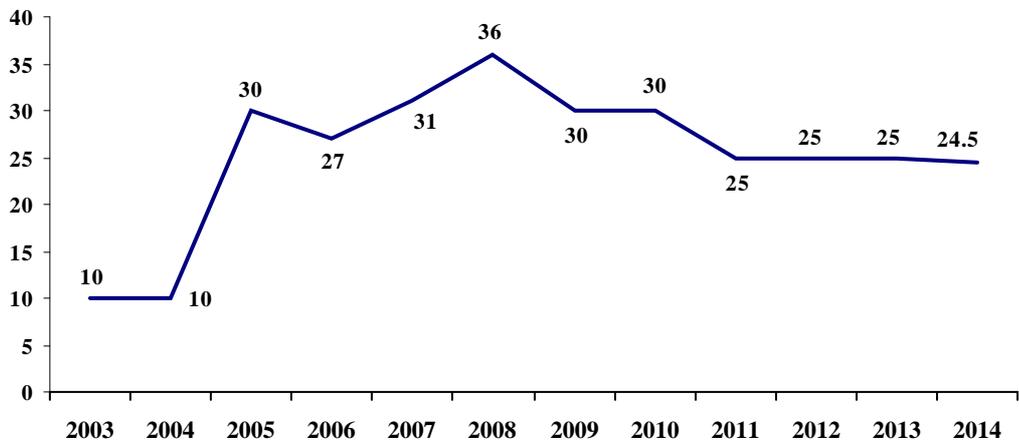
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## Charts of the Week

Freedom from Corruption in Arab Countries in 2014



Freedom from Corruption in Lebanon



Source: Heritage Foundation/Wall Street Journal, Byblos Bank

## Quote to Note

"Improvements are needed in the coverage, quality, and timeliness of economic and social statistics."

*The Institute of International Finance, on Lebanon's weak statistical database*

## Number of the Week

**\$80:** Projected per capita spending on Information Technology products in Lebanon in 2014, according to Business Monitor International

## Economic Indicators

<b>\$m (unless otherwise mentioned)</b>	<b>2012</b>	<b>Oct 12</b>	<b>Jul 13</b>	<b>Aug 13</b>	<b>Sep 13</b>	<b>Oct 13</b>	<b>% Change*</b>
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

<b>\$bn (unless otherwise mentioned)</b>	<b>Dec 2012</b>	<b>Oct 12</b>	<b>Jul 13</b>	<b>Aug 13</b>	<b>Sep 13</b>	<b>Oct 13</b>	<b>% Change*</b>
BdL FX Reserves	29.97	29.46	31.27	31.00	32.03	31.86	8.13
<i>In months of Imports</i>	<i>16.02</i>	<i>16.61</i>	<i>18.20</i>	<i>16.96</i>	<i>20.47</i>	<i>18.13</i>	<i>9.18</i>
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

<b>Most Traded Stocks on BSE</b>	<b>Last Price (\$)</b>	<b>% Change*</b>	<b>Total Volume</b>	<b>Weight in Market Capitalization</b>
Solidere "A"	13.40	4.36	264,337	12.12%
Solidere "B"	13.27	3.03	114,932	7.80%
Byblos Common	1.63	1.87	96,189	5.30%
Byblos Pref. 08	101.50	0.50	350	1.84%
Byblos Pref. 09	101.50	0.00	0	1.84%
BLOM GDR	8.84	0.45	148,569	5.91%
BLOM Listed	8.50	2.78	5,700	16.52%
Audi GDR	6.50	(1.52)	11,519	6.02%
Audi Listed	6.40	0.00	517,820	20.24%
HOLCIM	14.20	(5.33)	201	2.51%

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

<b>Sovereign Eurobonds</b>	<b>Coupon %</b>	<b>Mid Price \$</b>	<b>Mid Yield %</b>
Apr. 2014	7.375	101.28	1.29
Jan. 2015	5.875	102.00	3.74
Apr. 2015	10.00	107.38	3.85
Jan. 2016	8.500	107.75	4.36
Mar. 2017	9.000	111.88	4.88
Nov. 2018	5.150	98.88	5.42
Apr. 2021	8.250	112.13	6.14
Nov. 2026	6.600	99.50	6.66

Source: Byblos Bank Capital Markets

	<b>Jan 20-24</b>	<b>Jan 13-17</b>	<b>% Change</b>	<b>Dec 2013</b>	<b>Dec 2012</b>	<b>% Change</b>
<b>Total Shares Traded</b>	1,247,777	894,950	39.42	3,186,671	6,388,172	(50.12)
<b>Total Value Traded</b>	\$12,213,067	\$11,702,527	4.36	\$30,056,051	\$32,380,727	(7.18)
<b>Market Capitalization</b>	\$11.06bn	\$10.93bn	1.17	\$10.55bn	\$10.42bn	1.19

Source: Beirut Stock Exchange (BSE)



### Economic growth to range between 1% and 5% in 2014, output losses at \$10bn in 2011-13

The Institute of International Finance estimated Lebanon's real GDP growth at 0.9% in 2013 compared to a growth rate of 1.2% in 2012. It attributed the slowdown in economic activity last year to the ongoing political vacuum and spillovers from the Syrian conflict that led to the deterioration of domestic security conditions. It said that most indicators of economic activity posted declines in real terms last year, with the exception of credit to the private sector and resident deposits that continued to grow, but at a slower pace than during the 2007-10 period. It said that real private consumption grew by 1.9% last year compared to a growth rate of 2.8% in 2012, while private investment contracted by 4.2% in real terms following a contraction of 2.6% in 2012. It added that the construction and tourism sectors contracted by 5% and 10%, respectively, last year. Overall, it estimated the aggregate output loss of Lebanon from economic disruptions at \$9.7bn between 2011 and 2013. It estimated the fiscal deficit to have widened to 11.2% of GDP in 2013 from 9.3% of GDP in 2012, and for the primary balance to have posted a deficit of 2.5% of GDP in 2013 relative to a deficit of 0.3% of GDP in 2012. It attributed the deterioration in Lebanon public finances to the worsening economic and security situations and to the cost of hosting the large number of Syrian refugees. It added that the public debt level rose to 144% of GDP in 2013 from 136% of GDP in 2012, constituting the second consecutive annual rise. It said that strengthening Lebanon's public finances would require favorable economic activity, strong political will, and the formation of a government based on a broad national consensus. It considered that urgent fiscal reforms are being obstructed by rent-seeking politicians and the vested interests of the political class.

In parallel, the IIF projected real GDP growth in Lebanon to range between 1% and 5% in 2014 depending on the unfolding scenarios. The IIF's first scenario projects economic growth at 1% in 2014 on the assumption that the ongoing political paralysis would continue and that domestic security conditions would remain precarious. Under this scenario, it said that domestic private investment, foreign direct investment, construction activity and tourist arrivals would remain subdued. It forecast the fiscal deficit to widen to 11.9% of GDP, the primary deficit to deteriorate to 3.1% of GDP and the public debt level to rise to 150.2% of GDP in 2014. It said that, under this scenario, the growth in bank deposits would further decelerate in the coming two years. It noted that the annual growth rate in bank deposits should at least be 5% in order to ensure the financing of the budget deficit without additional exposure by banks. It cautioned that a failure to implement near- and medium-term fiscal consolidation would aggravate existing debt sustainability concerns.

The IIF's second scenario projects economic growth at 5% in 2014 in case a consensual government is formed before the end of January 2013, the local security situation improves significantly, and Iran reaches a comprehensive nuclear agreement with the five permanent members of the UN Security Council plus Germany. It said that further progress in the negotiations with Iran and positive signals from discussions on resolving the crisis in Syria would improve sentiment in Lebanon and stimulate a recovery in economic activity. Under this scenario, it said that domestic private investment, FDI, construction activity and tourist arrivals would rebound in the second half of 2014 and would strengthen in 2015. It forecast the fiscal deficit to narrow to 9.1% of GDP in 2014, the primary deficit to improve to 0.2% of GDP and the public debt level to decrease to 143.5% of GDP this year. But it considered that a stable political environment and structural reforms are required in order to sustain the recovery.

Overall, the IIF considered that the Lebanese economy's outlook remains subject to large uncertainties as long as the fighting in Syria continues and political turmoil in the region persists. It said that market sentiment would improve in the event of a formation of a national unity government and if the election of a new President takes place smoothly in May 2014. It noted that under such circumstances, Lebanon's prospects would be better than those implied under the first scenario. However, it considered that persistent fiscal deficits, high electricity subsidies, a fractured political class and continuing regional turmoil would prevent a quick return to high and sustainable growth over the near-term. It added that Lebanon's medium- and long-term outlook remains contingent on events in Syria and the region more generally, with risks tilted largely to the downside.

	Main Economic Indicators				
	2011	2012	2013	2014	
				Scen. A	Scen. B
Real GDP growth (%)	2.0	1.2	0.9	1.0	5.0
Private Investment (% of GDP)	23.3	22.4	21.3	20.9	21.7
Fiscal balance (% of GDP)	(5.9)	(9.3)	(11.2)	(11.9)	(9.1)
Primary balance (% of GDP)	4.1	(0.3)	(2.5)	(3.1)	(0.2)
Government debt (% of GDP)	133.9	135.7	144.2	150.2	143.5

Source: Institute of International Finance, January 2014

### Cost of sending remittances to Lebanon increases in fourth quarter of 2013

Figures issued by the World Bank show that the cost of sending remittances from the United States to Lebanon reached 10.72% in the fourth quarter of 2013 for a \$200 transfer, constituting an increase from 10.16% in the third quarter of 2013 and from 10.69% in the second quarter, and a decline from 10.74% in the first quarter last year. Also, the cost of sending \$500 from the U.S. to Lebanon reached 5.32% in the fourth quarter of 2013 for a \$500 transfer, constituting an increase from 5.04% in the third quarter of 2013, a decline from 5.79% in the second quarter and a rise from 5.27% in the first quarter last year. The cost includes the transaction fee and exchange rate margin, and represents the average cost of transferring money through commercial banks and money transfer operators (MTOs). In nominal terms, the cost of sending \$200 and \$500 from the U.S. to Lebanon is \$21.44 and \$26.61, respectively in the fourth quarter of 2013; compared to \$20.32 and \$25.2, respectively, in the preceding quarter.

Also, the cost of sending remittances from Germany to Lebanon reached 17.31% in the fourth quarter of 2013 for a transfer of €140, or about \$200, constituting an increase from 17.06% in the third quarter of 2013, 17% in the second quarter and 16.77% in the first quarter of last year. Also, the cost of sending €345, or about \$500, from Germany to Lebanon reached 8.52% in the fourth quarter of 2013 compared to 8.6% in the third quarter, 8.26% in the second quarter and 8.37% in the first quarter of last year. In nominal terms, the cost of sending €140 and €345 from Germany to Lebanon is €24.23 and €29.41, respectively in the last quarter of 2013; relative to €23.88 and €29.67, respectively, in the third quarter of last year.

In parallel, Lebanon ranked as the fourth most expensive destination for sending \$200 from the U.S. among 28 countries with available data after Ghana (13.89%), Cape Verde (11.8%) and Thailand (11.5%). It was the seventh most expensive for sending \$500. The data covered 15 countries in Latin & Central America and the Caribbean, seven countries in East and Southeast Asia, and five countries in Africa, in addition to Lebanon in the Middle East. The United States is the sixth largest source of inward electronic cash transfers to Lebanon. Also, Lebanon came as the most expensive destination for sending €140, or about \$200, from Germany among 13 countries with available data, while it was the second most expensive destination for sending €345, or about \$500, behind Ghana (12.01%).

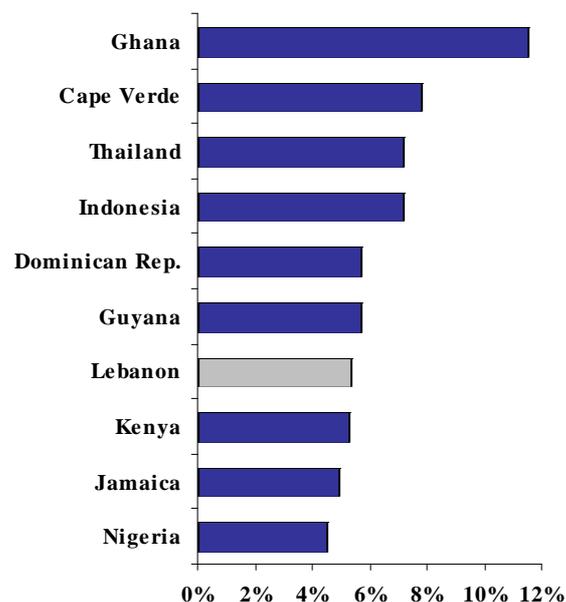
The World Bank indicated that the average cost to send \$500 in remittances through commercial banks to Lebanon was 8% and the average cost through MTOs was 3.98% in the fourth quarter of 2013. In comparison, the average cost to send \$500 in remittances through commercial banks to Lebanon was 8% and the average cost through MTOs was 3.77% in the third quarter of 2013; while it was 8.33% and 4.53%, respectively, in the second quarter of last year. MTOs account for about 70% of all cash electronic transactions to Lebanon, followed by money dealers with 22.4% and commercial banks with 7.5%.

### Consumer Price Index up 1% annually in December 2013

The Central Administration of Statistics' Consumer Price Index increased by 1.1% in December 2013 from December 2012. Prices of alcoholic beverages & tobacco increased by 12.1%, followed by the cost of education (+7%), restaurants & hotels (+5.4%), recreation & entertainment (+4.3%), food & non-alcoholic beverages (+2.9%), miscellaneous goods & services (+2.5%), healthcare costs (+2%), furnishings & household equipment (+1.9%), and water, electricity, gas & other fuels, housing (+0.1%). In parallel, prices of clothing & footwear fell by 7.9% and transportation costs regressed by 2.5%, while communication costs remained unchanged year-on-year.

The Consumer Price Index rose by 0.4% in December 2013 from November 2013. Prices of food & non-alcoholic beverages and those of water, electricity, gas, and other fuels increased by 1% each, followed by recreation & entertainment and transportation (+0.4% each), alcoholic beverages & tobacco, furnishing & household equipment and restaurants & hotels (+0.2% each), and miscellaneous goods & services (+0.1%). Further, the cost of clothing & footwear, housing, healthcare, communication, and education were unchanged month-on-month.

### Costliest Destinations of Remittances from the U.S.\*



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

Source: World Bank, Byblos Research

### Lebanon's GDP output gap is 16th widest among developing economies

The World Bank projected Lebanon's potential GDP growth at 3.6% for 2014, compared to potential growth rates of 2.7% in the developing countries of the Middle East & North Africa region, 5.7% for developing economies worldwide and 3% for the global economy. Lebanon's projected potential growth rate for 2014 would be the 72nd highest among 108 developing economies, and the third highest among nine developing countries in the MENA region. Globally, it would be similar to that of Paraguay, Egypt and Tunisia, higher than that of Honduras (3.5%), Mali (3.4%) and Algeria (3.2%), and lower than that of Namibia, Madagascar and Guyana (3.8% each) and Pakistan (3.7%). Regionally, Lebanon's projected potential growth rate for 2014 would be similar to that of Egypt and Tunisia, and lower than only that of Jordan (4.4%) and Morocco (4.2%).

In parallel, the Bank projected the gap between Lebanon's actual and potential GDP growth rates at -3.2% this year, compared to GDP output gaps of -5.6% in the developing countries of the Middle East & North Africa region, -1.2% for developing economies worldwide and -0.9% for the global economy. Lebanon's GDP output gap for 2014 would be the 16th widest among 68 developing countries that are expected to have a negative output gap this year, and the sixth widest in the region. Globally, it would be better than that of Madagascar (-3.5%), Iran (-3.7%) and Saint Vincent & the Grenadines (-3.8%), and worse than that of Armenia and Chad (-3.1% each) and Bulgaria (-3%). Regionally, it would be better than that of Syria (-46.8%), Egypt (-5.4%), Tunisia (-4.8%), Yemen (-4.6%) and Iran.

The Bank indicated that Lebanon's potential GDP growth rate has been on a downward trend since 2011 as it fell from 5.1% in 2010 to 4.8% in 2011, 4.4% in 2012 and 4% in 2013. In comparison, the compound average of Lebanon's potential GDP growth was 3.6% during the 2000-09 period. Lebanon's potential GDP growth rate was the 59th highest among developing countries and the third highest in the region. Globally, it was similar to that of Nicaragua, Turkey and Eritrea, higher than that of Malawi, Burundi, Gabon, Senegal and the Seychelles (3.9% each), and lower than that of Guyana, Suriname, Benin, Costa Rica and Nepal (4.1% each). Regionally, it was lower than only that of Jordan (4.3%) and Morocco (4.2%). Also, the gap between Lebanon's actual and potential GDP growth rates has shifted to -1.7% in 2013 from 1.6% in 2012, 4.6% in 2011 and 6.4% in 2010. In comparison, the output gap in Lebanon average -1.4% during the 2000-09 period. It was the 35th widest among 69 countries that had a negative output gap, while it was the sixth widest in the region. Globally, it was similar to that of India and Malawi, wider than that of El Salvador (-1.6%), and Mozambique and Senegal (-1.4% each), and narrower than that of South Africa, Guinea-Bissau and Vanuatu (-1.9% each), and Pakistan (-1.8%). Regionally, it was wider than that of only Jordan (-1.2%), Algeria (-0.9%) and Morocco (-0.8%).

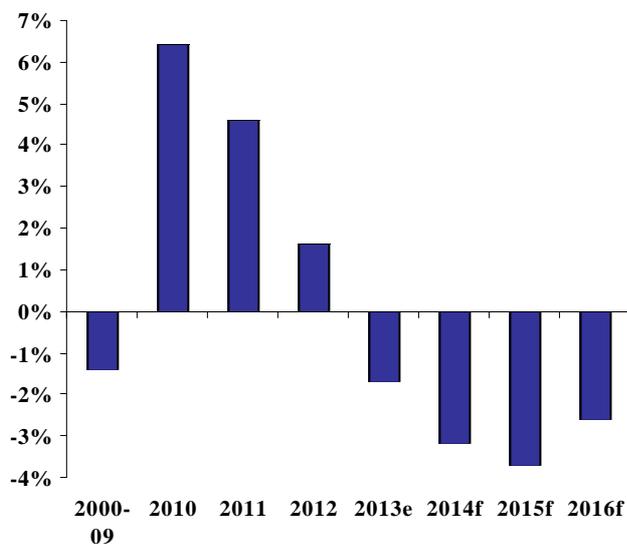
### Number of real estate transactions down 7% in 2013

Figures released by the Ministry of Finance indicate that the total number of real estate transactions reached 69,198 in 2013, constituting a decrease of 7.2% from 74,569 deals in the previous year. In comparison, the number of real estate transactions declined by 10.1% in 2012 and by 12% year-on-year in 2011. Also, the aggregate value of real estate transactions totaled \$8.87bn in 2013, constituting a marginal decrease of 0.6% from \$8.93bn in 2012. The value of real estate deals was \$9.48bn in 2010 and \$8.84bn in 2011. In parallel, the average value per real estate transaction increased by 7.1% year-on-year to \$128,201 in 2013, relative to an average value of \$119,700 in 2012 and \$106,533 in 2011. There were 1,278 real estate transactions by foreigners in 2013, constituting a decline of 7.7% from 1,385 deals in the previous year, and compared to annual decreases of 9.5% in 2012 and 20.3% in 2011. In parallel, the number of real estate transactions by foreigners were equivalent to 1.8% of total real estate deals in 2013, nearly unchanged from 2011 and 2012, but down from 2% in 2010.

### Coincident Indicator continues to reflect economic slowdown

The Central Bank's Coincident Indicator, an index of economic activity in Lebanon, reached 278.8 points in November 2013 compared to 270.5 in October 2013 and 260.8 in November 2012. The Coincident Indicator, an average of 8 weighted economic indicators, increased by 3.1% month-on-month and rose by 6.9% year-on-year in November 2013. The indicator averaged 264.3 in the 12 months ending November 2013, compared to 262.8 in the 12 months ending October 2013 and 256.8 in the 12 months ending November 2012. As a result, the average coincident indicator rose by 0.6% month-on-month and by 2.9% year-on-year, which reflects economic slowdown. In parallel, the indicator improved 16 times and regressed five times in the month of November since 1993. It averaged 256.6 in 2012, 255.7 in 2011, 249.5 in 2010 and 225.9 in 2009.

GDP Output Gap in Lebanon

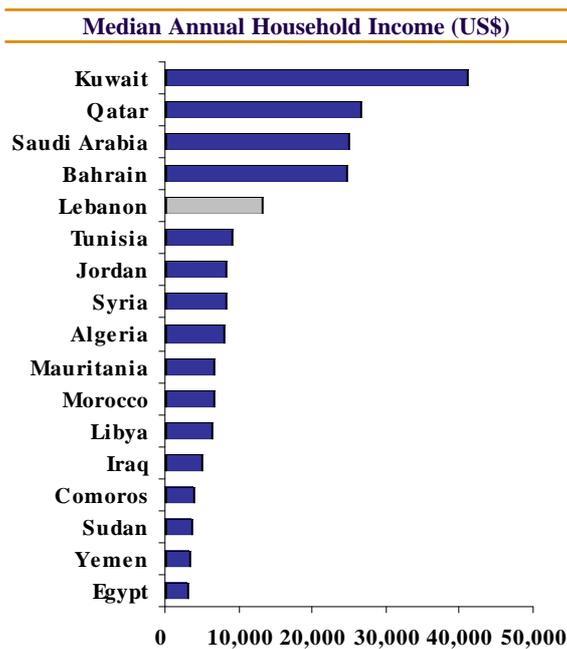


Source: World Bank, Byblos Research

## Median annual household income in Lebanon at \$13,004

Figures released by opinion polling and consulting firm Gallup shows that the median per capita income in Lebanon is \$2,960, which is higher than the global median per capita income of \$2,920. Lebanon's median per capita income is the 49th highest among 131 countries worldwide and the fifth highest among 17 Arab countries. Globally, the median per capita income in Lebanon was higher than that in Mexico (\$2,900), Bulgaria (\$2,829) and Romania (\$2,618), and lower than that in Montenegro (\$3,123), Iran (\$3,115) and Serbia (\$3,020). Regionally, it was lower than that in Kuwait (\$7,487), Qatar (\$5,117), Bahrain (\$4,778) and Saudi Arabia (\$4,762). Norway has the highest median per capita income worldwide of \$19,308, followed by Sweden (\$18,632) and Luxembourg (\$18,418); while Mali (\$165), Burundi (\$129) and Liberia (\$118) have the lowest median per capita income in the world.

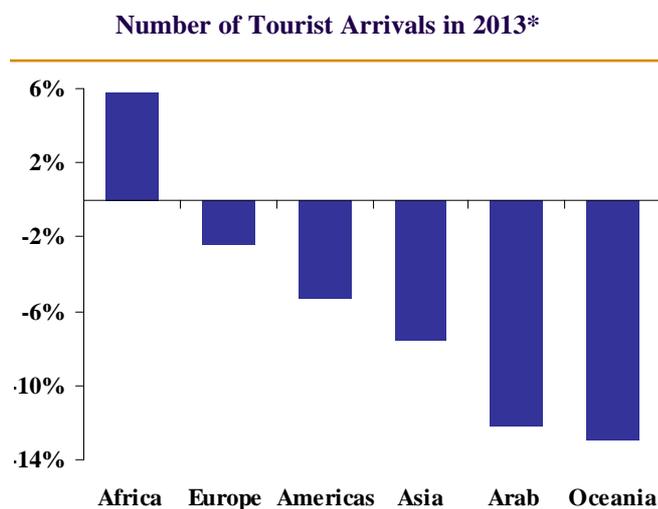
In parallel, the survey indicated that the median annual household income in Lebanon is \$13,004, higher than the global median annual household income of \$9,733. Lebanon's median annual household income is the 40th highest globally and the fifth highest among Arab countries. Globally, the median annual household income in Lebanon was higher than that in Estonia (\$12,577), Hungary (\$12,445) and Lithuania (\$12,375), and lower than that in Poland (\$15,338), Belarus (\$15,085) and Argentina (\$14,432). Regionally, it was lower than that in Kuwait (\$40,854), Qatar (\$26,555), Saudi Arabia (\$24,980) and Bahrain (\$24,633). Luxembourg has the highest median household income worldwide of \$52,493, followed by Norway (\$51,489) and Sweden (\$50,514); while Mali (\$1,983) Madagascar (\$1,013), Liberia (\$781) and Burundi (\$673) have the lowest median household income in the world. The results are based on aggregate responses from multiple surveys conducted in 131 countries and territories from 2006 to 2012. Each survey is based on telephone and face-to-face interviews with approximately 1,000 adults per country.



Source: Gallup, Byblos Research

## Number of tourist arrivals down 7% in 2013

The number of incoming tourists to Lebanon totaled 1,274,362 in 2013, constituting a decrease of 6.7% from 1,365,845 tourists in 2012, a decline of 23% from 1,655,051 tourists in 2011 and a drop of 41.2% from 2,167,989 in 2010. European tourists accounted for 34.1% of total visitors in 2013 and were followed by visitors from Arab countries with 31.6%, the Americas with 16.4%, Asia with 9.2%, Africa with 5.1%, and Oceania with 3.5%. Also, tourists from Iraq accounted for 11.2% of total visitors in 2013, followed by visitors from France with 9.2%, the United States with 8.1%, Jordan with 6.1%, Canada with 5.6% and Egypt with 5%. The number of visitors from Oceania declined by 13% year-on-year in 2013, followed by visitors from Arab countries with a 12.2% decrease, Asia (-7.5%), the Americas (-5.2%), and Europe (-2.4%), while the number of visitors from Africa increased by 5.8%. Further, the number of tourists from the UAE declined by 62.2% annually, followed by Saudi Arabia with a 43.6% decrease, Kuwait (-26.2%), Turkey (-17.4%), Jordan (-12.4%), the United States (-6.4%), Canada (-5.2%), England (-3.4%), France (-2%), Germany (-1.7%), Italy and Sweden (-1.4% each) and Egypt (-0.7%). In parallel, the number of tourists from Iraq rose by 12.1% annually, followed by those from Brazil (1.6%) and Venezuela (1.3%).



\* year-on-year percentage change

Source: Ministry of Tourism, Byblos Research

### **Airport passengers up 5% in 2013**

Figures released by the Hariri International Airport (HIA) show that the number of airport passengers (arrivals, departures, transit) totaled 6,264,685 in 2013, constituting an increase of 5.1% from 2012. The total number of arriving passengers grew by 4.7% year-on-year to 3,029,887 in 2013. Also, the number of departing passengers rose by 6.7% year-on-year to 3,219,169 last year. In parallel, the airport's aircraft movements dropped by 0.4% to 62,978 takeoffs and landings in 2013 compared to 63,211 in 2012. The HIA processed 106,362.9 metric tons of cargo in 2013 that consisted of 105,562.7 metric tons of freight and 800.2 metric tons of mail.

### **Revenues through Port of Beirut at \$2.5bn in first 11 months of 2013**

Figures released by the Port of Beirut show that overall receipts generated through the port reached \$2.48bn in the first 11 months of 2013, constituting a marginal decrease of 0.5% from the same period of 2012. Customs receipts through the port totaled \$1.2bn in the first 11 months of 2013, down 3.9% from \$1.26bn in the same period of 2012; while receipts from the value-added tax reached \$1.1bn, constituting a marginal decrease of 0.8% from the same period of 2012. Also, the port's overall revenues grew by 26.9% year-on-year to \$201.2m in the first 11 months of 2013. Further, the Port of Beirut handled an aggregate weight of 7.5 million tons of freight in the first 11 months of 2013, up by 14% from 6.6 million tons in the same period of the preceding year. Import freight accounted for 87.1% of the weight, while the remaining 12.9% was export cargo. A total of 1,953 ships docked at the port in the first 11 months of 2013 compared to 1,956 vessels in the same period of the previous year.

In parallel, overall revenues generated through the Port of Tripoli reached \$103.8m in the first 11 months of 2013, constituting a marginal drop of 0.6% from \$104.4m in the same period of 2012. Customs receipts through the port reached \$42.2m in the covered period, up 27.4% from \$33.2m in the same period of the previous year; while receipts from the value-added tax reached \$51.9m and dropped by 16.6% from \$62.2m in the first 11 months of 2012. The port's revenues rose by 6.6% year-on-year to \$9.6m in the first 11 months of 2013. Further, the Port of Tripoli handled an aggregate weight of 1.2 million tons of freight in the first 11 months of last year, up 13.5% from 1.1 million tons in the same period of 2012. A total of 506 vessels docked at the port in the first 11 months of 2013, constituting an increase of 10.7% from 457 ships in the same period of the preceding year.

### **Treasury transfers to Electricité du Liban down 4% in first 10 months of 2013**

Figures released by the Finance Ministry show that Treasury transfers to Electricité du Liban totaled \$1.8bn in the first 10 months of 2013, constituting a decrease of 4% from \$1.87bn in the same period of 2012. The ministry said that reimbursements to the Kuwait Petroleum Corporation (KPC) and to Algerian energy conglomerate Sonatrach totaled \$1.75bn, or 97.7% of transfers in the covered period, while EdL's debt servicing represented \$41.9m or 2.3% of the total. It attributed the decrease to a decline of \$36.4m, or 2%, in payments to KPC and Sonatrach, and a decrease of \$29m or 41% in debt servicing during the covered period. It said that the decrease in payments to KPC and Sonatrach reflects an 18% 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 4% lower from the same period in 2012. It pointed out that EdL contributed just 2.7% of repayments to the two oil suppliers during the covered period compared to 3.7% during the same period of 2012. EdL transfers accounted for 21.8% of primary expenditures in the first 10 months, down from 24.4% in the same period of 2012. EdL transfers constitute the third largest expenditures item after debt servicing and salaries & wages in overall fiscal spending.

### **Régie launches new cigarette brand**

The state's tobacco monopoly Régie Libanaise de Tabacs et Tombacs launched a new cigarette brand, the Maestro, constituting its second cigarette brand after Cedars that it launched in 1990. Maestro will be available in full flavor as well as in a lighter one. The Régie manufactured 28 sample from Maestro and distributed them to a sample of 5,000 persons, and only retained the highest rated full flavor and light samples. The sales of the new brand are expected to increase Treasury revenues from Régie from \$565.2m in 2013 to \$1.1bn in the coming three years. The Régie sells around 100 million pack of Cedars annually.

ERC Statistics, part of UK based independent research firm ERC Group, estimated that cigarette consumption in Lebanon was 2,379 cigarettes per person in 2012 compared to a global consumption rate of 882 cigarettes per person. As a result, cigarette consumption in Lebanon was around 119 packs per capita or around 10 packs per person per month in 2012. It noted that cigarette consumption per person in Lebanon grew by around 475% between 1990 and 2012, constituting the second highest rate of increase globally after only Myanmar where cigarette consumption rose by 675% during the same period.

### Top five freight forwarders' import activity up 20% in first 11 months of 2013

Figures released by the Port of Beirut Authority show that overall import shipping operations by the top five freight forwarders reached 317,903 20-foot equivalent units (TEUs) in the first 11 months of 2013, constituting a rise of 19.9% from 265,034 TEUs in the same period last year. They accounted for 64.1% of the total import freight forwarding market during the covered period. Mediterranean Shipping Company (MSC) handled 107,618 TEUs in imports for the local market in the first 11 months of the year, equivalent to 21.7% share of the total freight forwarding import market. It was followed by Sealine Group with 84,541 TEUs (17%), Merit Shipping with 65,522 TEUs (13.2%), Metz Group with 38,893 TEUs (7.8%) and Gezairy Transport with 21,329 TEUs (4.3%). Further, Sealine Group registered the highest growth in import shipping among the top five freight forwarders at 27.7% year-on-year, while Gezairy Transport posted the slowest growth at 9.5% year-on-year.

In parallel, export shipping operations by the top five freight forwarders reached 66,954 TEUs in the first 11 months of 2013, constituting an increase of 31.4% from 50,965 TEUs in the same period of 2012. They accounted for 97.8% of the total export freight forwarding market full with Lebanese cargo during the covered period. Sealine Group handled 33,879 TEUs of freight, equivalent to 49.5% share of the total freight forwarding Lebanese cargo export market. It was followed by Merit Shipping with 19,215 TEUs (28.1%), Metz Group with 5,957 TEUs (8.7%), MSC with 5,490 TEUs (8%) and Gezairy Transport with 2,413 TEUs (3.5%). Further, Metz Group registered the highest growth in export shipping among the top five freight forwarders at 93% year-on-year, while Gezairy Transport posted the steepest drop of 16% year-on-year.

### Net profits of insurance sector up 12% to \$126m in 2012, claims up 9% to \$663m

Figures released by the Insurance Control Commission (ICC) show that the aggregate net profits of 52 insurance companies operating in Lebanon reached \$126.1m in 2012, constituting an increase of 12.3% from \$112.3m in 2011. Net income from the life category reached \$76.3m in 2012 and increased by 18.6% year-on-year, while that of the non-life category amounted to \$49.8m and rose by 3.8% annually. In the life branch, the protection segment posted profits of \$51.1m in 2012, followed by the unit-linked life segment with \$13.9m and the life with savings segment with \$11.3m. In the non-life branch, health generated profits of \$13.3m, followed by transportation with \$9.6m, fire with \$8.4m, accidents with \$8m, motor compulsory with \$6.7m, miscellaneous categories with \$3.4m and other insurance categories that include credit, civil liabilities and C.A.R. with \$2.5m. In parallel, non-compulsory motor insurance posted losses of \$2.2m in 2012.

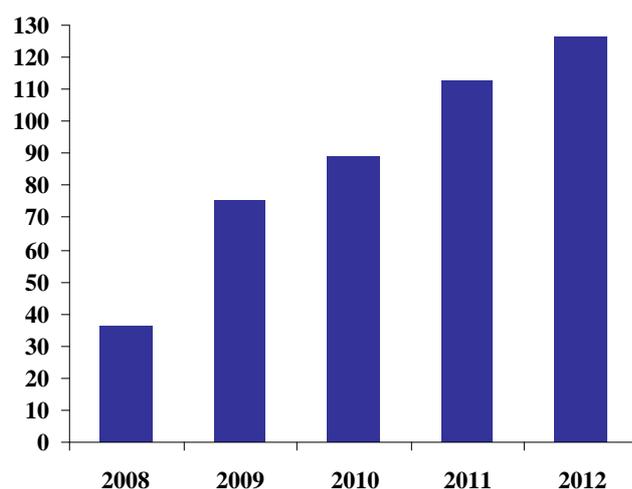
Further, gross written premiums increased by 5.6% to \$1.32bn in 2012 and included \$938.8m in non-life gross premiums that grew by 6% annually and \$380.3m in life gross premiums that rose by 4.4% year-on-year. Written premiums from the health segment totaled \$364.7m and accounted for 27.6% of the insurance sector aggregate premiums,

followed by motor non-compulsory insurance premiums with \$265.9m (20.2%), protection life insurance premiums with \$133.5m (10.1%), life insurance with savings with \$129.9m (9.8%), life with unit-linked with \$116.9m (8.9%), fire premiums with \$88.1m (6.7%), accidents with \$72.7m (5.5%), motor compulsory with \$53.1m (4%), transportation with \$43.8m (3.3%), premiums collected from others insurance categories with \$28.4m (2.2%) and premiums generated by miscellaneous insurance categories with \$22.1m (1.7%). MEDGULF led all insurers with \$119.8m in premiums generated in 2012 and accounted for 9.1% of the sector's aggregate premiums, followed by Allianz SNA with premiums of \$103.7m (7.9%), Metlife ALICO with \$101.4m (7.7%), AROPE with \$92.9m (7%), and Bankers with \$89.8m (6.8%).

In parallel, paid claims totaled \$662.7m in 2012, constituting a rise of 8.9% from \$608.4m in 2011. Paid claims from the non-life category reached \$505.4m in 2012 and increased by 2.4% year-on-year, while claims for the life category amounted to \$157.3m and rose by 36.6% annually. Paid claims from the health segment accounted for 38.5% of total paid claims, followed by motor non-compulsory with 24.2%, life insurance with unit-linked with 11.6%, life with savings with 9%, accidents with 4.3%, fire with 4.1%, protection life with 3.2%, compulsory motor with 2.1%, transportation with 1.3%, other categories with 1% and miscellaneous segments with 0.7%.

In parallel, the sector's loss ratio, or the ratio of claims incurred to earned gross premiums, was 54% in 2012; the commission ratio, or the ratio of acquisition cost to earned gross premiums, reached 17% at end-2012, the reinsurance ratio, or the ratio of net reinsurance income to earned gross premiums, stood at 6% in 2012, the expense ratio, or the ratio of other general expenses to earned gross premiums, was 13%, and the combined ratio, which is the aggregate ratio of the above four ratios, was 90% in 2012.

Net Profits of Insurance Companies (US\$m)



Source: Insurance Control Commission, Byblos Research

### **Rated banks have adequate liquidity**

Standard & Poor's indicated that the ratings on BLOM Bank sal and Bank Audi sal reflect the banks' "adequate" business position, "moderate" capital & earnings, "moderate" risk position, "average" funding, and "adequate" liquidity; while those on BankMed sal reflect its "adequate" business position, "weak" capital & earnings, "moderate" risk position, "average" funding, and "adequate" liquidity. S&P's opinion is part of its annual assessment of the three Lebanese banks that it rates.

It said that the BLOM Bank and Bank Audi's "adequate" business position is mainly supported by their stable customer franchise and good management, while BankMed's business position reflects mainly its improving business capacity. But it noted that the three banks' asset allocation strategy is constrained by their ongoing financing of the Lebanese government's needs. It added that BLOM Bank and Bank Audi's earning diversification is low, despite a sound balance between their corporate and retail income streams. It expected domestic activities to be the main driver of BLOM Bank's asset and revenue growth over the medium-term, given the difficult political and economic environment in the region. It said that BLOM Bank's profitability would be contingent on a stable operating environment in Lebanon and in major countries where it operates, mainly in Egypt and Jordan. It noted that Bank Audi's operating profitability would depend on its ability to protect margins and source new revenues. It pointed out that the bank still faces elevated cost-of-risk due to spillovers from the Syrian conflict and the uncertain regional outlook. It considered that BankMed is closing the gap with its main competitors, and is gradually reducing relative weaknesses in terms of lower earnings diversification and franchise strengths. It expected BankMed's related party financing to remain substantial and to be guaranteed by deposits.

S&P indicated that BLOM Bank and Bank Audi's "moderate" capital & earnings reflects the agency's expectations that each bank's risk-adjusted capital ratio will slightly exceed 5% over the next 12 to 18 months. It forecast BLOM Bank's lending and assets to post high single-digit growth rates and for its net interest margins and cost-to-income ratio to be stable. It added that BLOM Bank's pre-provision profitability is sound, which would enable it to absorb higher provisioning in case of need. It said that Bank Audi's cost of risk reflects its rapid lending growth in Turkey and the potential rise in delinquent loans in Lebanon. It said that its assessment of BankMed's capital & earnings reflects a risk-adjusted capital of between 4% and 5% over the next 12 to 18 months, which would remain below its 2012 level as the bank's bottom line generation would not be in line with the expected growth in its risk assets.

Further, it said that the three banks' risk position is "moderate" due to their high exposure to the Lebanese sovereign. It noted that BLOM Bank's exposure to the sovereign was about 4 times its common shareholders' equity at-2012, that of Bank Audi stood at about 3.3 times and that of BankMed reached 3.1 times its common shareholders' equity at-2012. It anticipated that regional and domestic operating conditions would continue to test the three banks' asset-quality. In parallel, it pointed out that the banks' liquidity is "moderate" despite their high liquidity ratios.

### **Arab Re plans to relocate headquarters from Lebanon**

Lebanon-based Arab Reinsurance Company sal (Arab Re) announced that it plans to relocate the firm's headquarters to a different country. It mainly attributed its decision to the current level of the Lebanese sovereign rating that negatively affects its own rating. It also attributed its decision to bureaucratic obstacles in the public administration. It said that the Lebanese government is attempting to invalidate the concessions and exemptions it previously granted the company at the time of its establishment. It expected the feasibility study of the relocation process to be ready by the end of the first quarter of 2014.

Arab Re declared net profits of \$7.8m in 2012, constituting an increase of 41.2% from \$5.5m in 2011. Net insurance premium revenue reached \$53.5m in 2012, up 17.2% from the previous year. Its audited balance sheet shows total assets of \$235.2m at end-2012, up 5.6% from \$222.7m at end-2011. Shareholders' equity totaled \$104.2m at end-2012, up 4.6% from 2011. Established in 1972, Arab Re provides conventional and Islamic reinsurance services. It reinsures fire, general accident, engineering, cargo, hull, aviation, medical and life policies.

### **M1 Harvest acquires minority stake in Sudan venture**

M1 Harvest, a subsidiary of Lebanon-based M1 Group, announced that it has acquired a minority stake in GLB Invest sal, a Lebanese offshore company based in Sudan. GLB is currently developing a center-pivot irrigated Alfalfa farm in Sudan. The company secured 87,200 hectares of land under a 99-year renewable lease as well as 900 million cubic meters in water rights from the Nile River. The project is expected to be developed over five phases and to reach 1,000 center-pivots, 50,000 hectares of arable land, and an Alfalfa production capacity of up to 750,000 tons per year by 2018. Alfalfa is a nutrient rich hay plant mostly used to feed lactating cattle. The first phase of the project was completed and the first harvest is anticipated in January 2014. Alfalfa production is expected to reach 40,000 metric tons in 2014, and will be mainly sold to the UAE and Saudi Arabia.

M1 Group is a diversified investment group owned by the Mikati family. It is active in numerous sectors including telecom, real estate, banking, fashion and aviation, among others. GLB Invest was founded in 2004 and specializes in the trade of agricultural commodities, such as wheat, barley, maize and rice. Bemo Securitization sal (BSEC) and Bemo Saudi Fransi Finance (BSFF) acted as joint sell-side advisers to GLB Invest sal.



## Ratio Highlights

(in % unless specified)	2011	2012	2013	Change*
Nominal GDP (\$bn)	40.1	42.5	44.3	
Public Debt in Foreign Currency / GDP	52.2	57.4	61.1	370
Public Debt in Local Currency / GDP	81.6	78.4	82.7	430
Gross Public Debt / GDP	133.9	135.7	143.9	820
Total Gross External Debt / GDP	169.0	169.9	172.7	280
Trade Balance / GDP	(34.7)	(34.6)	(32.8)	180
Exports / Imports	27.9	27.6	27.0	(60)
Fiscal Revenues / GDP	23.3	22.1	20.9	(120)
Fiscal Expenditures / GDP	29.1	31.4	32.1	70
Fiscal Balance / GDP	(5.9)	(9.3)	(11.2)	(190)
Primary Balance / GDP	4.1	(0.3)	(2.5)	(220)
Gross Foreign Currency Reserves / M2	79.2	69.4	70.6	120
M3 / GDP	242.5	244.7	248.9	420
Commercial Banks Assets / GDP	350.6	357.4	367.6	1,020
Private Sector Deposits / GDP	288.6	294.1	302.3	820
Private Sector Loans / GDP	98.2	102.2	106.4	420
Private Sector Deposits Dollarization Rate	65.9	64.8	65.7	90
Private Sector Lending Dollarization Rate	78.4	77.6	76.5	(110)

\* Change in basis points 12/13

Source: Institute of International Finance, Association of Banks in Lebanon, International Monetary Fund, Byblos Research Estimates & Calculations

Note: M2 includes money in circulation and deposits in LBP, M3 includes M2 plus Deposits in FC and bonds

## Risk Outlook

Lebanon	May 2012	Apr 2013	May 2013	Change*	Risk Level
Political Risk Rating	55.0	53.0	53.0	▼	High
Financial Risk Rating	35.0	35.0	33.5	▼	Moderate
Economic Risk Rating	34.0	34.0	28.5	▼	High
Composite Risk Rating	62.0	61.0	57.5	▼	High

Regional Average	May 2012	Apr 2013	May 2013	Change*	Risk Level
Political Risk Rating	59.8	58.6	58.5	▼	High
Financial Risk Rating	41.8	41.5	41.2	▼	Very Low
Economic Risk Rating	37.4	36.3	36.4	▼	Low
Composite Risk Rating	69.5	68.2	68.0	▼	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	B1		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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