



LEBANON THIS WEEK

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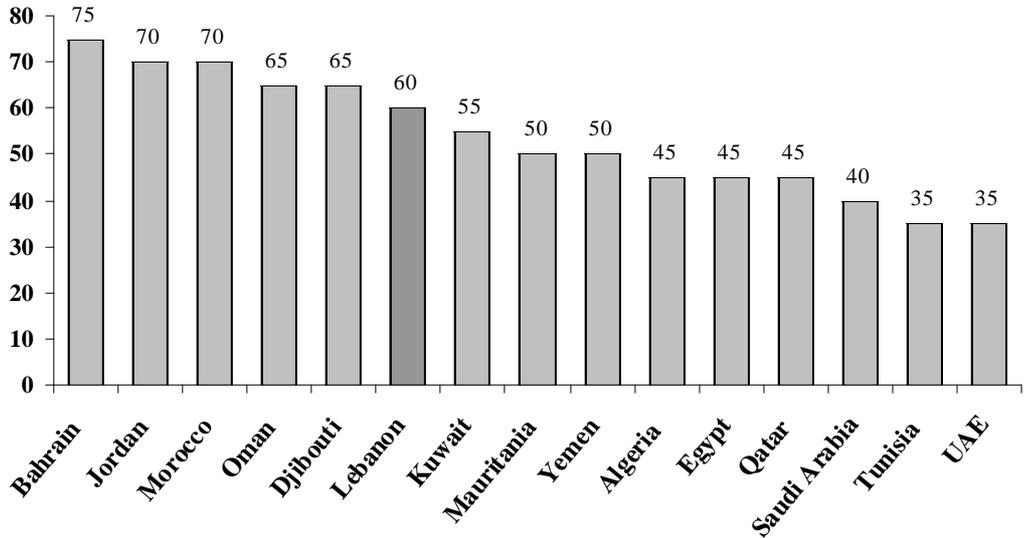
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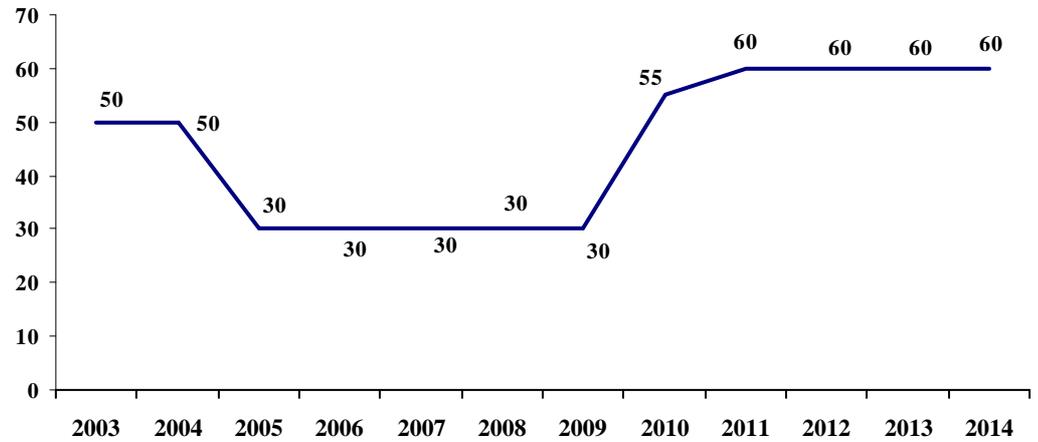
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Charts of the Week

Investment Freedom Index in Arab Countries in 2014



Investment Freedom Index in Lebanon



Source: Heritage Foundation/Wall Street Journal, Byblos Bank

Quote to Note

"The deep-seated structural issues facing the Lebanese economy, such as the persistent fiscal deficits, large power subsidies and fractured politics, would weigh on the prospects for a quick return to high and sustainable growth in the months ahead."

The Institute of International Finance, on the challenges facing the Lebanese economy

Number of the Week

67%: Percentage of adult Lebanese with a net wealth of \$10,000 or less as at June 2013, according to global investment bank Credit Suisse

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
<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

Most Traded Stocks on BSE	Last Price (\$)	% Change*	Total Volume	Weight in Market Capitalization
Solidere "A"	12.81	(3.47)	68,903	11.68%
Solidere "B"	12.79	(2.37)	20,215	7.58%
Byblos Common	1.64	0.00	61,067	5.37%
Byblos Pref. 08	101.50	0.00	0	1.85%
Byblos Pref. 09	101.50	0.00	0	1.85%
BLOM GDR	8.90	0.56	514,678	6.00%
BLOM Listed	8.50	0.00	603,499	16.66%
Audi GDR	6.60	2.64	37,000	6.17%
Audi Listed	6.31	(1.41)	142,400	20.12%
HOLCIM	14.50	(3.33)	798	2.58%

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

Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
Apr. 2014	7.375	101.10	1.05
Jan. 2015	5.875	102.00	3.66
Apr. 2015	10.00	107.38	3.68
Jan. 2016	8.500	107.75	4.29
Mar. 2017	9.000	112.10	4.76
Nov. 2018	5.150	99.50	5.28
Apr. 2021	8.250	112.75	6.03
Nov. 2026	6.600	100.13	6.58

Source: Byblos Bank Capital Markets

	Feb 3-7	Jan 27-31	% Change	Jan 2014	Jan 2013	% Change
Total Shares Traded	1,506,692	714,590	(110.85)	3,299,492	2,975,129	10.90
Total Value Traded	\$14,148,497	\$6,250,973	(126.34)	\$33,310,730	\$15,350,339	117.0
Market Capitalization	\$10.97bn	\$11.05bn	(0.73)	\$11.05bn	\$10.85bn	1.80

Source: Beirut Stock Exchange (BSE)



Lebanon has 88th lowest barriers globally for investing in oil & gas exploration and production

The 2013 Global Petroleum Survey's Policy Perception Index showed that Lebanon has the 88th lowest barriers for investments in oil & gas exploration and production among 157 countries and jurisdictions around the world, and the 11th lowest barriers among 18 countries in the Middle East and North Africa. Lebanon also has the 14th lowest barriers among 38 jurisdictions in 31 Upper Middle Income Countries (UMICs) included in the survey. Lebanon had the 71st lowest barriers among 147 countries and jurisdictions around the world, and the ninth lowest barriers in the MENA region in the 2012 survey. As such, Lebanon's rank regressed by 18 spots, constituting the 43rd steepest drop globally as well as the second steepest drop among Arab countries behind only Tunisia with a fall of 22 spots. Also, Lebanon's rank regressed by nine spots when including countries that were included in both the 2012 and 2013 survey, constituting the 45th steepest decline globally as well as the third steepest decline in the MENA region behind Tunisia (-15 spots) and Israel (-9 spots). The Global Petroleum Survey is issued by Canada-based independent think tank Fraser Institute.

The survey captures the opinions of managers and executives about the level of investment barriers in oil & gas exploration and production in jurisdictions their companies are familiar with. Respondents evaluated their company's decision-making process to invest in various jurisdictions based on 16 factors that are grouped in three sub-indices that are the Commercial Environment Index, the Regulatory Climate Index, and the Geopolitical Risk Index. Jurisdictions with the lowest score have lower barriers to investment in oil & gas exploration and production and a better rank, while higher scores reflect greater barriers and a lower rank.

Barriers to Investment in Oil & Gas Exploration and Production (lowest to highest barriers)

	Score	MENA Rank	Global Rank
Qatar	24.16	1	18
UAE	26.49	2	25
Oman	27.84	3	31
Bahrain	34.51	4	44
Jordan	34.60	5	45
Morocco	36.18	6	51
Kuwait	39.56	7	60
Israel	45.33	8	70
Mauritania	48.55	9	77
Tunisia	49.35	10	78
Lebanon	52.22	11	88
Egypt	62.62	12	117
Yemen	64.42	13	120
Algeria	71.04	14	126
Syria	78.53	15	143
Libya	79.98	16	145
Iraq	82.88	17	149
Iran	97.17	18	155

Source: Fraser Institute, Byblos Research

Globally, Lebanon has lower barriers to investment in oil & gas exploration and production than Tanzania, Guyana and Mozambique, but higher barriers than Suriname, Cameroon, and the Ivory Coast. Regionally, Lebanon has lower investment barriers than Egypt, Yemen and Algeria, and higher barriers than Tunisia, Mauritania and Israel. Lebanon received a score of 52.22 points on the Policy Perception Index, better than the UMICs average of 60.5 points and the MENA average of 53.1 points, but worse than the Arab average of 50.8 points and the global average of 49.5 points. Lebanon's score deteriorated by 6.61 points from 45.61 points in 2012, constituting the 58th steepest deterioration globally and the fourth largest in the MENA region.

In parallel, Lebanon came in 82nd place globally and in ninth place in the region on the Commercial Environment Sub-Index. This category ranks jurisdictions based on five factors that are the taxation regime, trade barriers, quality of infrastructure, labor availability, as well as the government's requirements on royalty payments, production shares and licensing fees. The survey indicated that 62.6% of respondents consider that the lack of qualified labor in Lebanon is a deterrent to investment, 44.5% of respondents said the same about the country's trade barriers, 43.8% of participants shared similar views about the domestic infrastructure quality, 30.4% of respondents said that Lebanon's taxation regime constitutes a deterrent to investment, and 26.8% said the same about the government's requirements on royalty payments, production shares and licensing fees.

Further, Lebanon ranked in 82nd place globally and in 10th place in the region on the Regulatory Climate Sub-Index. This category ranks jurisdictions according to investors' perceptions of the regulatory hurdles they impose, including regulatory uncertainty and duplication, labor regulations, fairness and transparency of the legal system, enforcement of regulations, the cost of compliance, and environmental regulations. The survey pointed out that 62.5% of participants consider that Lebanon's legal system is deterrent to investment, 54.2% of respondents shared similar views about the country's administration or enforcement of regulations, 41.7% of participants said the same about regulatory uncertainty and duplication, 36.8% said that the cost of compliance is deterrent to investment, 33% of respondents shared similar views about the country's labor regulations and 25% said the same about environmental regulations.

In parallel, Lebanon was the 37th riskiest jurisdiction globally and the ninth riskiest in the region on the Geopolitical Risk Sub-Index. The category focuses on political risks, security of personnel, and physical assets. The survey said that 56.4% of participants considered the level of political stability in Lebanon is a deterrent to investment, the 43rd highest share globally and the ninth highest percentage in the region. Also, the survey pointed out that 68.8% of participants considered the security situation in Lebanon is a deterrent to investment, the 29th highest share globally and the eighth highest percentage in the region.



Lebanon among seven most vulnerable economies in MENA region

The World Bank considered Lebanon to be among the seven most vulnerable economies in the Middle East and North Africa region. The other countries are Egypt, Tunisia, Iran, Jordan, Yemen and Libya. It indicated that the Lebanese economy has been severely affected by domestic tensions that include the political vacuum and poor security conditions, and by external factors, mainly spillovers from the Syrian conflict. It said that the tourism sector is still suffering from heightened insecurity, while activity in the real estate sector remains slow. It expected the rise in the number of Syrian refugees to weigh on economic growth, stimulate poverty, increase the unemployment rate and keep the fiscal deficit in double digits. It projected Lebanon's real GDP growth at 1.5% in 2014, unchanged from 2013. Lebanon's projected growth rate for this year would make it the second-slowest growing economy among the seven covered countries, behind only Iran with a growth forecast of 1%. It projected Lebanon's fiscal deficit to remain high at about 10% of GDP this year and for the inflation rate to reach 3.2% this year relative to 3.8% last year.

In parallel, the World Bank estimated Lebanon's unemployment rate at 13% in 2013, compared to rates of 13.3% in Egypt, 15% in Libya, 15.3% in Iran and 16.7% in Tunisia. It noted that the unemployment rate doubles among youth aged below 25 years as well as among highly educated Lebanese. It said that the large number of Syrian refugees that are entering the Lebanese labor market increases labor supply and maintains the unemployment rate at high levels. It estimated that the influx of Syrian refugees has increased labor supply by 30% in 2013 and expected another 40% rise in labor supply this year. It noted that informal employment remains high given that more than one-third of those employed are in the informal sector.

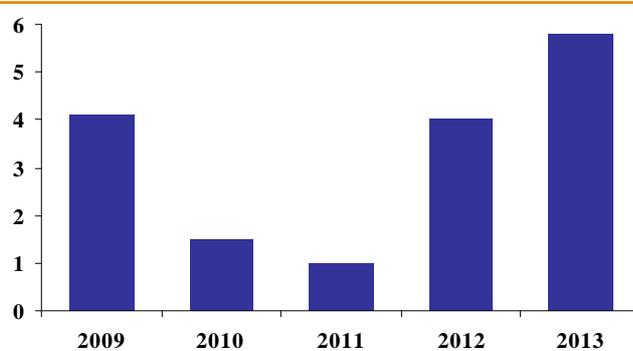
Further, the Bank indicated that Lebanese authorities have not addressed the country's chronic challenges that include infrastructure deficiency, inadequate public services, overcrowded public schools and limited access to healthcare services for low-income individuals. It added that skill mismatches and labor market rigidities, among other factors, have resulted in labor market inefficiencies. It noted that the rising number of refugees is worsening these deficiencies. It said that Lebanon's minimum wage is among the highest in the region, but becomes broadly in line with the regional average when adjusted for the cost of living. As such, it called on authorities to implement reforms that would create a dynamic economy, generate jobs and reduce the unemployment and poverty levels. It noted that this would require investment, reforms in infrastructure, and improvements in the business climate and labor market. It considered that a medium-term fiscal strategy aimed at reducing the debt level would revive market confidence and create fiscal space for higher social and capital spending.

Net public debt at \$53.2bn at end-2013

Lebanon's gross public debt reached \$63.46bn at the end of 2013, constituting a rise of 10% from end-2012 and compared to increases of 7.5% in 2012, 2% in 2011, 2.9% in 2010 and 8.7% in 2009. In nominal terms, the gross public debt grew by \$5.78bn in 2013 relative to increases of \$4bn in 2012, \$1bn in 2011, \$1.5bn in 2010 and \$4.1bn in 2009. Domestic debt totaled \$37.3bn at the end of 2013, up by 12.2% from end-2012 and relative to a rise of 1.7% in 2012, while foreign currency debt stood at \$26.1bn, growing by 7.1% from end-2012 and compared to an increase of 16.5% in 2012. Local currency debt accounted for 58.9% of the gross public debt at the end of 2013 compared to 57.7% a year earlier, while foreign currency-denominated debt represented 41.1% of the total at the end of December relative to 42.3% at end-2012. The weighted interest rate on outstanding Treasury bills was 6.86%, while the weighted interest rate on Eurobonds was 6.5% at the end of 2013. Further, the weighted life on Eurobonds was 5.6 years, while that on Treasury bills was 1,274 days.

Commercial banks accounted for 53.1% of the local public debt at the end of 2013 compared to 54.3% a year earlier. They were followed by the Central Bank with 30.5%, up from 30% at end-2012; while public agencies, financial institutions and the general public accounted for 16.4% of local debt compared to 15.7% at end-2012. Eurobond holders, foreign private sector loans and special T-bills in foreign currencies accounted for 90.8% of the foreign currency-denominated debt, followed by multilateral institutions with 4.7%, 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 8.3% to \$53.2bn. 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. Lebanon's public debt level was equivalent to 145.9% of GDP in 2013 relative to 139.5% of GDP in 2012, constituting the second consecutive annual rise in the debt level, following five consecutive years of decline.

Nominal Growth of the Public Debt (US\$bn)



Source: Association of Banks in Lebanon, Byblos Research

Lebanon's CDS spreads almost unchanged in fourth quarter of 2013

Figures released by CDS and bond pricing firm S&P Capital IQ show that the average spreads on five-year credit default swaps (CDS) for Lebanon ended the fourth quarter of 2013 at 395 basis points, tightening by 0.6bps from 395.6bps at the end of the third quarter of 2013, by 83.6bps from 478.6 basis points at the end of the second quarter and by 23bps from 418 bps at the end of the first quarter of 2013, as well as narrowing by 46bps from 441bps at the end of 2012.

The firm noted that Lebanon's 5-year CDS spreads were the 11th widest among 76 countries during the fourth quarter of last year. They were tighter than only Argentina with 1,742bps, Venezuela (1,148bps), Cyprus (820.9bps), Ukraine (807.8bps), Pakistan (791bps), Puerto Rico (669bps), Greece (627.4bps), Egypt (603.4bps), El Salvador (438.7bps) and Serbia (410.5bps). It said that Lebanon's CDS spreads tightened by a marginal 0.1% from the preceding quarter.

Further, S&P Capital IQ indicated that Lebanon ended the fourth quarter of 2013 with a five-year cumulative probability of default (CPD) of 25.15%, almost unchanged from 25.2% at the end of the third quarter of 2013, but constituting a decrease from 29.6% at the end of the second quarter of 2013, a decline from 26.3% at the end of the first quarter of 2013, a drop from 27.5% at the end of the fourth quarter of 2012. It said the CPD quantifies the probability of an issuer being unable to honor its debt obligations over a given time period. It added that the CPD is a function of the market's recovery level, which varies according to several factors and distance to default. It calculates the CPD using an industry standard model and proprietary credit data.

Lebanon's CPD at the end of December 2013 shows that Lebanese debt was the 12th riskiest globally, but it was less risky than the debt of Argentina (66.3%), Venezuela (55.4%), Cyprus (51.5%), Puerto Rico (49.5%), Ukraine (43.7%), Pakistan (43.6%), Egypt (34.7%), Greece (34.2%), El Salvador (27.2%), Portugal (27.1%) and Serbia (25.7%). Norway, Sweden and Finland had the lowest CPD among the 76 sovereigns covered in the survey, with rates of 1.3%, 1.6% and 2%, respectively.

S&P Capital IQ did not include Lebanon among the 10 riskiest sovereigns for the first time since the second quarter of 2012. Also, Lebanon's CPD at the end of 2013 was the lowest since the 22.2% reached at the end of June 2011.

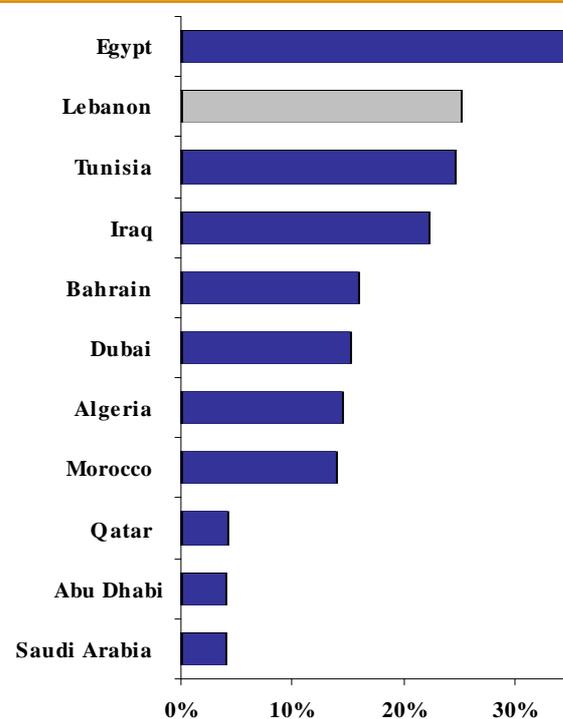
J.P. MorganChase changes its recommendation on Lebanon's external debt

Global financial institution J.P. MorganChase changed its recommendation on Lebanon's external debt to 'Under Weight' from 'Market Weight' in its Emerging Markets Bond Index Global (EMBIG) model portfolio. Lebanon's external debt rating of 'Under Weight' places it in the same category as Croatia, Costa Rica, Egypt, El Salvador, South Africa, Vietnam and Zambia.

J.P. MorganChase indicated that Lebanon's tight spreads relative to the EMBIG do not fully reflect the heightened risks it is facing. It said that Lebanon's political class have so far failed to reach a consensus and to form a new Cabinet since April 2013. It added that the focus is gradually shifting towards the presidential elections scheduled in May 2014. It considered that the political crisis would deepen and that the country would suffer from a broader political vacuum if Parliament fails to agree on a consensus presidential candidate. It cautioned that this would increase domestic tensions and would affect the already weak economic growth. In October 2013, J.P. MorganChase changed its recommendation on Lebanon's external debt to 'Market Weight' from 'Under Weight' in its EMBIG model portfolio, due to spread underperformance at the time as well as to easing in regional tensions.

J.P. Morgan included a total of \$14.5bn of Lebanon's dollar-denominated Eurobonds, which accounts for 2.56% of the total debt included in the EMBIG. The index includes 14 Lebanese Eurobonds that mature between 2015 and 2027. Lebanon's allocation in the portfolio is the 11th highest in the EMBIG, lower than only Mexico (11.7%), Russia (10.67%), Brazil (7.55%), Venezuela (7.39%), Turkey (7.08%), Indonesia (6.56%), the Philippines (4.63%), China (2.83%), Colombia (2.8%) and Hungary (2.57%).

Cumulative Probability of Default in the Arab World (at December 2013)



Source: S&P Capital IQ, Byblos Research

Lebanon's mobile and fixed broadband markets have low penetration rates and high prices

Figures released by the World Bank show that the price of mobile broadband subscription in Lebanon was \$54.63 per month in 2012, compared to an average price of \$43.96 in the Middle East & North Africa region. The price of monthly mobile broadband subscription in Lebanon was the fourth highest among 15 countries in the MENA region, lower than only Libya (\$453.32), Djibouti (\$157.5) and Syria (\$58.3). Jordan had the lowest price of monthly mobile broadband subscription in the region at \$13.61, followed closely by Oman (\$14.79) and Qatar (\$15.74). Further, mobile broadband penetration in Lebanon, which is the number of subscriptions to the service per 100 inhabitants, was 26.65 in 2012, compared to an average 3.84 subscriptions per 100 inhabitants in Mashreq countries and 22.2 subscriptions per 100 inhabitants in the MENA region. Lebanon had the ninth highest mobile broadband penetration rate in the region, lower than only Bahrain (74.24%), the UAE (69.23%), Kuwait (67.78%), Qatar (64.44%), Oman (56.95%), Egypt (56.37%), Saudi Arabia (55.89%) and Jordan (52.69%).

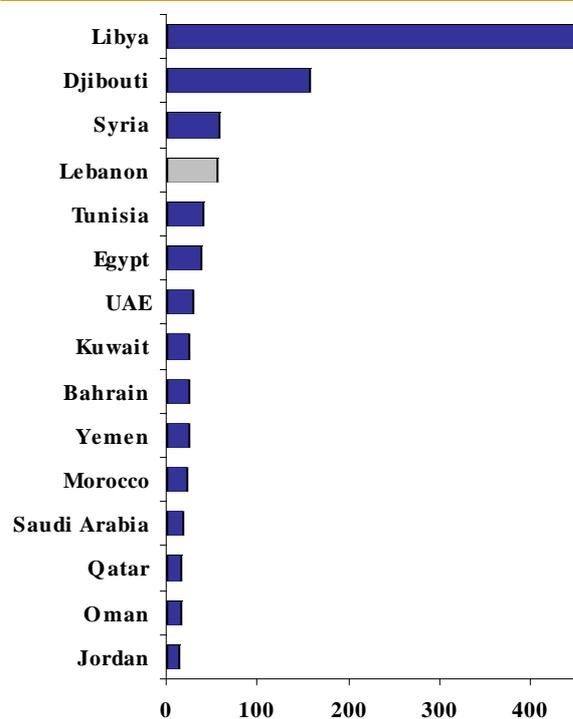
In addition, the mobile phone penetration rate in Lebanon was 89 subscriptions per 100 inhabitants in 2012, compared to an average of 107 subscriptions per 100 inhabitants in Mashreq countries and 118 subscriptions per 100 inhabitants in the MENA region. Lebanon had the fifth lowest penetration rate in the region, higher than only the West Bank & Gaza (87%), Syria (63%), Yemen (51%) and Djibouti (24%). Kuwait had the highest mobile phone penetration rate at 209 subscriptions per 100 inhabitants in 2012, followed closely by Saudi Arabia with 203 subscriptions per 100 inhabitants. Further, mobile broadband subscriptions accounted for 29.92% of the overall Lebanese mobile market in 2012, compared to an average of 3.59% in Mashreq countries and 16.75% in the MENA region. Lebanon had the eighth highest share in the region, lower than only Egypt (47.91%), Bahrain (47.88%), the UAE (40.38%), Qatar (37.53%), Jordan (35.96%), Kuwait (32.46%) and Oman (30.71%).

The World Bank indicated that the mobile broadband market in Lebanon was at a "developing" stage, similar to the markets in Egypt, Oman, Kuwait, Jordan, Saudi Arabia, Qatar and the UAE. It added that the Lebanese market is characterized by lower penetration and high prices. Bahrain was the only economy to have a "mature" mobile broadband market, while Djibouti, Libya, Yemen, Syria, Tunisia and Morocco are the "emerging" stage. Algeria and the West Bank & Gaza did not provide mobile broadband services, while mobile broadband penetration in each of Iran and Iraq was below 1%.

In parallel, the price of fixed broadband subscription in Lebanon was \$27.18 per month in 2012, compared to an average price of \$21.52 in the MENA region. The price of monthly fixed broadband subscriptions in Lebanon was the ninth highest in the region, lower than only the UAE (\$53.99), Qatar (\$52.46), Djibouti (\$45.1), the West Bank & Gaza (\$39.19), Tunisia (\$35.94), Algeria (\$35.21), Bahrain (\$34.58) and Oman (\$29.58). Iraq had the lowest price of monthly fixed broadband subscription in the region at \$3.76, followed closely by Saudi Arabia at \$7.3. Further, fixed broadband penetration in Lebanon, which is the number of subscriptions to the service per 100 inhabitants, was 29.6 in 2012, compared to an average of 17.1 subscriptions per 100 inhabitants in the MENA region. Lebanon had the sixth highest mobile broadband penetration in the region, lower than only Bahrain (88.9%), the UAE (69.4%), Qatar (66.4%), Saudi Arabia (51.7%) and Kuwait (32.1%).

The World Bank indicated that the fixed broadband market in Lebanon was at a "developing" stage, similar to the markets in the West Bank & Gaza, Oman, Kuwait, Jordan, Saudi Arabia, Qatar and the UAE. It added that the Lebanese market is characterized by lower penetration rates and high prices. Bahrain was the only economy to have a "mature" fixed broadband market, while Algeria, Iran, Iraq, Djibouti, Libya, Yemen, Syria, Tunisia, Morocco, and Egypt are at the "emerging" stage.

Cost of Mobile Broadband Subscription per Month (US\$)



Source: World Bank, Byblos Research

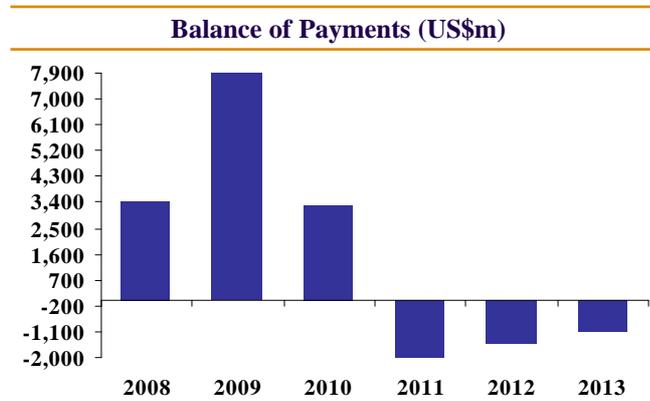
Lebanon's solid and liquid financial system mitigates risks

Merrill Lynch indicated that its recommendation on Lebanon's external debt is 'Market Weight' given that the strong domestic investor base and the Central Bank's solid foreign currency reserves mitigate the deterioration in macroeconomic and political fundamentals resulting from the Syrian crisis. Merrill Lynch projected Lebanon's real GDP growth at between 1% and 2% in 2014, unchanged from last year and relative to growth rates of 2% to 2.5% during the 2011-12 period and 8% to 10% between 2007 and 2010. It attributed the slowdown in economic activity to the ongoing political uncertainty and the direct and indirect spillovers from the crisis in Syria. It considered that the recent progress in forming a national unity government is positive, but it noted that such progress would not significantly reduce domestic divisions. It anticipated that economic activity would remain weak and political tensions would remain elevated following the steady deterioration in fundamentals during the 2011-12 period. It said that the rise in political tensions reflects the failure to achieve a credible and lasting peace in Syria in the near-term. It forecast the fiscal deficit to remain close to 10% of GDP due to subdued public revenues and rising spending.

In parallel, it said that Lebanon's solid and liquid financial system continues to mitigate risks. It noted that the Central Bank is capable of converting nearly all local-currency denominated deposits of the non-financial sector to US dollars if required, given its \$31bn in foreign currency reserves and \$11bn in gold stock. It added that the Central Bank's foreign currency reserves cover 120% of foreign currency denominated public debt and are equivalent to about 70% of money supply (M2). It pointed out that banks in Lebanon continue to be able to finance the government's deficit without increasing their exposure, given the sustained rise in banks' deposits.

Balance of payments posts deficit of \$1.1bn in 2013

Central Bank figures show that Lebanon's balance of payments posted a deficit of \$1.13bn in 2013 compared to a deficit of \$1.54bn in the preceding year. The balance of payments posted a surplus of \$533.9m in December 2013 compared to a deficit of \$192m in November 2013 and a surplus of \$312.1m in December 2012. The December 2013 surplus was caused by a surplus of \$666.5m in the net foreign assets of banks and financial institutions, which offset the deficit of \$132.6m in those of the Central Bank. The cumulative deficit over 2013 was caused by a deficit of \$2.97bn in the banks and financial institutions' net foreign assets, and was partly offset by a surplus of \$1.85bn in those of the Central Bank. The balance of payments posted a deficit of \$2bn in 2011, and surpluses of \$3.3bn in 2010 and \$7.9bn in 2009.



Source: Central Bank of Lebanon

Public-sector salaries and benefits down 4% in first 10 months of 2013

Figures issued by the Ministry of Finance show that salaries, wages and related benefits paid to public-sector employees totaled \$2.3bn in the first 10 months of 2013, constituting a decrease of 3.6% from the same period of 2012. They represented the largest component of total primary spending and accounted for 28% of such expenditures in the covered period compared to 31% in the same period of 2012. The figures include basic salaries, indemnities, allowances, contributions to civil servants' cooperatives, as well as contributions to other mutual funds providing health insurance for specific categories of civil servants, mainly judges, religious judges and Parliament employees. The payments exclude retirement and end-of-service indemnities as well as salaries, wages and benefits of employees at public institutions. Salaries and benefits of military personnel reached \$1.4bn and accounted for 62% of the total, followed by educational personnel with \$494.2m (21.3%), civil staff with \$360.9m (15.6%), and customs employees with \$24.5m (1.1%). The distribution of military personnel salaries and benefits shows that the Lebanese Army's salaries totaled \$913.4m in the first 10 months of 2013 and represented 63.6% of total military personnel salaries and benefits. They were followed by salaries of the Internal Security Forces with \$416.6m (29%), General Security Forces with \$79.6m (5.5%), and State Security Forces with \$25.9m (1.8%).

The ministry attributed the decrease in salaries, wages and related benefits paid to public-sector employees to a decrease of \$41.1m, or 2.3%, in basic salaries that reached \$1.7bn. The breakdown of basic salaries shows a decline of \$37.8m in outlays to educational personnel, an increase of \$11.3m in payments to military personnel, and a decrease of \$15.3m in payments to civil personnel. Also, indemnities rose by 5.5% to \$114.8m year-on-year; while allowances declined by 7.8% annually to \$312.4m and other expenses, mainly composed of payments to employees of the Civil Servants Cooperative, fell by 13.2% year-on-year to \$130.7m.

IDAL processes nine projects in 2013

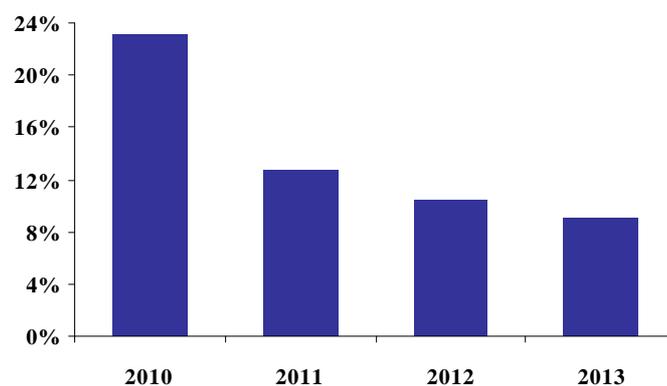
The Investment Development Authority of Lebanon (IDAL) indicated that it has processed in 2013 nine projects that met the minimum investment requirements set by Investment Law No. 360. According to IDAL, the nine projects have an aggregate value that exceeds \$175m and are estimated to generate 892 permanent jobs over time. It said that tourism accounted for 75% of the value of new projects, followed by industry with 21%, agro-industry with 2%, and agriculture and technology with 1% each. Also, it noted that Mount Lebanon attracted 46% of projects last year, followed by Bekaa and Beirut with 27% of projects each. Further, it claimed that tourism projects would generate 52% of new jobs created, followed by projects in the industrial sector with 28%, agro-industry with 7%, agriculture with 6%, information & communications technology with 4% and technology with 3%.

Commercial banks' assets reach \$165bn at end-2013

The consolidated balance sheet of commercial banks operating in Lebanon shows that total assets reached \$164.8bn at the end of 2013, constituting an increase of 8.5% from the end of 2012 and relative to increases of 8% in 2012 and of 9% in 2011. Private sector deposits totaled \$136.2bn at end-2013, increasing by 9% from a year earlier and relative to a rise of 8% in 2012. Deposits in Lebanese pounds reached \$46.1bn and rose by 4.9% from the end of 2012 compared to an increase of 11.5% in 2012, while deposits in foreign currencies totaled \$90.1bn and increased by 11.2% in 2013 relative to a rise of 6.2% in 2012. Non-resident foreign currency deposits totaled \$25.1bn at the end of 2013, up by 20.9% from a year earlier and relative to a rise of 11.8% in 2012. Total non-resident deposits reached \$28.5bn at the end of 2013, constituting a growth of 18.2% from the end of 2012 compared to an increase of 13.3% in 2012. 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, \$1.1bn in November and \$3.1bn in December; 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, \$528.7m in November and \$1.87bn in December 2012; while they declined by \$130m in July 2012. In parallel, deposits of non-resident banks reached \$5bn at the end of 2013, constituting a decrease of 15.1% from end-2012 and relative to a rise of 1.5% in 2012. The dollarization rate of deposits reached 66.1% at the end of 2013 up from 64.8% at the end of 2012 and from 65.9% at end-2011. Further, the average deposit rate in Lebanese pounds reached 5.44% in December 2013, up from 5.41% a year earlier; while the same rate in US dollars was 2.95%, up from 2.86% in December 2012.

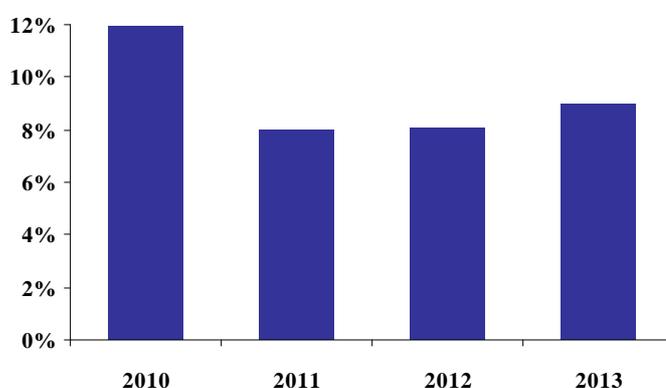
Loans to the private sector totaled \$47.4bn at end-2013, constituting an increase of 9% from end-2012 and relative to a rise of 10.4% in 2012. Lending to the resident private sector totaled \$41.5bn, increasing by 9.7% from end-2012 compared to a rise of 10.6% in 2012, while credit to the non-resident private sector reached \$5.9bn, increasing by 4.9% from end-2012 relative to a rise of 8.9% in 2012. The dollarization rate in private sector lending regressed to 76.5% at end-2013 from 77.6% a year earlier. The average lending rate in Lebanese pounds was 7.29% in December 2013 compared to 7.07% a year earlier, while the same average in US dollars was 6.88% compared to 6.87% in December 2012. In addition, claims on non-resident banks reached \$14bn at end-2013, posting a decrease of 3% from a year earlier and relative to a decline of 1.6% in 2012. Claims on the public sector stood at \$37.66bn, constituting an increase of 21% from a year earlier and relative to an increase of 6.5% in 2012. The ratio of private sector loans-to-deposits in foreign currencies stood at 40.3%, down from 41.6% at end-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 2012. The ratio of total private sector loans to deposits was 34.8% at the end of December 2013, unchanged from a year earlier. The banks' aggregate capital base stood at \$14.2bn, down by 0.8% month-on-month and up by 12.3% from \$12.6bn in December 2012.

Private Sector Lending Growth (% Change)



Source: Association of Banks in Lebanon, Byblos Research

Private Sector Deposit Growth (% Change)



Source: Association of Banks in Lebanon, Byblos Research

Net profits of life insurance segment up 19% to \$76.3m in 2012, claims up 37% to \$157.3m

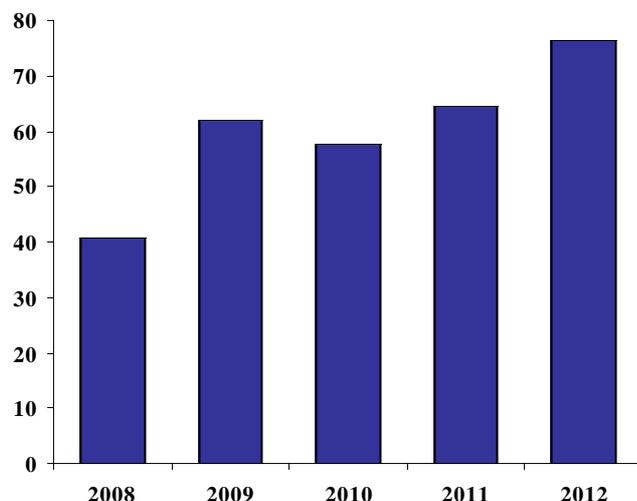
Figures released by the Insurance Control Commission (ICC) show that the aggregate net profits of 36 insurance companies active in the life branch in Lebanon reached \$76.3m in 2012, constituting an increase of 18.6% from \$64.3m in 2011. The 'protection life' segment posted profits of \$51.1m in 2012 and accounted for 67% of the life branch's aggregate net profits, followed by the 'unit-linked life' segment with \$13.9m (18.2%), and the 'life with savings' segment with \$11.3m (14.8%). There were 32 active insurance companies in the 'protection life' segment in 2012, and 21 companies in both the 'unit-linked life' and the 'life with savings' segments.

Further, gross written premiums from the life category increased by 4.4% to \$380.3m in 2012. Written premiums from the 'protection life' segment totaled \$133.5m and accounted for 35.1% of aggregate life insurance premiums, followed by the 'life with savings' segment with \$130m (34.2%), and the 'unit-linked life' segment with \$117m (30.7%). Also, the number of policies in the 'protection life' segment reached 286,892 in 2012; while those of the 'life with savings' and 'unit-linked life' segments totaled 229,342. ALICO led all life insurers with \$75.1m in total premiums in 2012 and accounted for 19.7% of the sector's aggregate insurance premiums, followed by Allianz SNA with premiums of \$52.9m (13.9%), Bancassurance with \$47m (12.4%), LIA with \$41.2 (10.8%), and AROPE with \$39.5m (10.4%).

In both the 'unit-linked life' and the 'life with savings' segments, the top three companies in terms of premiums, generated premiums of \$147.3m and accounted for 59.7% of the segment's overall premiums; the next three firms had premiums of \$75.2m (30.5%); the seventh, eighth and ninth companies had premiums of \$14.3m (5.8%); and the remaining 12 companies generated premiums of \$10.1m (4.1%). Also, the top six companies in both the 'unit-linked life' and the 'life with savings' segments accounted for 95.2% of the total number of policies in 2012. In the 'life protection segment', the top five companies generated premiums of \$60m or 44.9% of the segment's overall premiums; the following five insurers had premiums of \$35.2m (26.4%); firms ranked between 11th and 15th place had premiums of \$20.6m (15.4%); companies ranked between 16th and 20th place had premiums of \$11.1m (8.3%); while the remaining 12 companies generated premiums of \$6.6m (5%). Also, the top five companies in the 'life protection' segment accounted for 44.8% of total number of policies in 2012.

In parallel, paid claims totaled \$157.3m in 2012, constituting a rise of 36.6% from \$115.1m in 2011. Paid claims from the 'unit-linked life' segment reached \$76.7m and accounted for 48.8% of the total, followed by 'life with savings' with \$59.4m (37.8%), and 'protection life' with \$21.1m (13.4%). The number of claims in the 'protection life' segment reached 10,139 in 2012, while those of the 'life with savings' and 'unit-linked life' segments totaled 16,524. In both the 'unit-linked life' and the 'life with savings' segments, the top three companies in terms of premiums paid \$66.3m in claims and accounted for 48.7% of the segment's overall paid claims; the next three firms paid \$41.3m (30.4%); the seventh, eighth and ninth insurers paid \$17.3m (12.7%); and the remaining 12 companies paid \$11.3m (8.3%) in claims. Also, the top six companies in both the 'unit-linked life' and the 'life with savings' segments accounted for 98.9% of the branch's total number of claims in 2012. In the 'life protection' segment, the top five companies paid \$9.4m or 44.5% of overall paid claims; the following five firms disbursed \$4.4m (20.9%); firms ranked between 11th and 15th place paid \$3.5m (16.5%); companies ranked between 16th and 20th place \$2.6m (12.5%); while the remaining 12 companies disbursed \$1.2m (5.7%) in claims. Also, the top five companies in the 'life protection' segment accounted for 91.6% of total number of claims in 2012.

Net Profits from the Life Insurance Segment (US\$m)



Source: Insurance Control Commission, Byblos Research

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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