



LEBANON THIS WEEK

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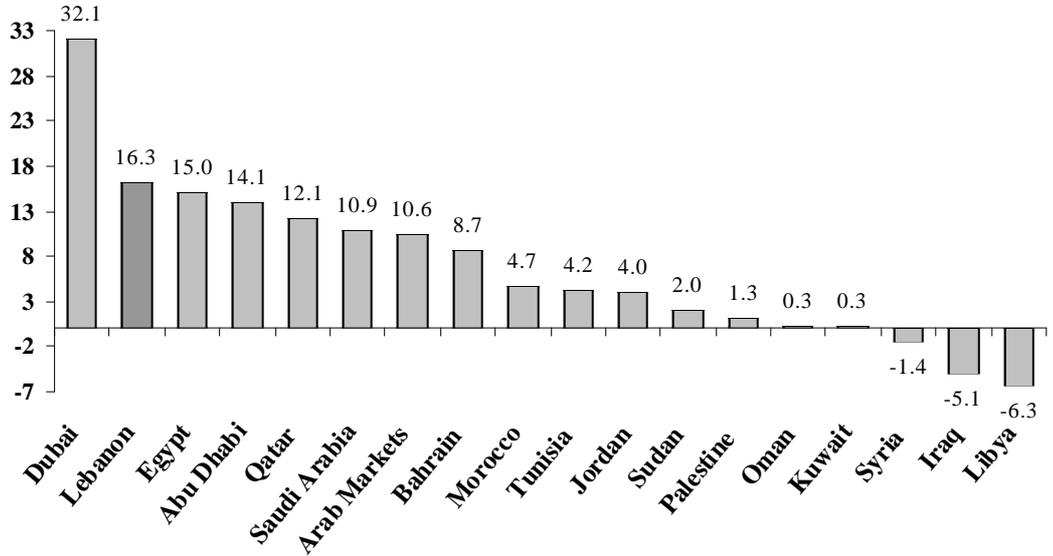
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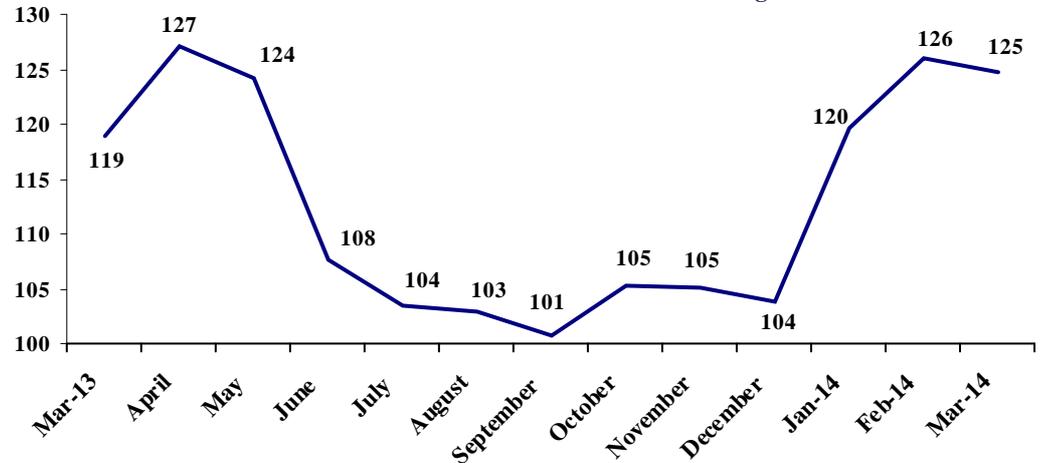
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Charts of the Week

Performance of Arab Stock Markets in the First Quarter of 2014 (% change)



Performance of the Beirut Stock Exchange*



* Banque du Liban Market Value Weighted Index average monthly values
 Source: Local Stock Markets, Dow Jones Indices, Banque du Liban, Byblos Bank

Quote to Note

"The quality of the Lebanese banks' loan portfolio will be negatively affected if the adverse economic situation continues."

Deutsche Bank, on the impact of the ongoing economic stagnation on the banking sector

Number of the Week

14%: Funds received by the United Nations' agencies and partners as a percentage of the total amount requested to cover the needs of Syrian refugees and host communities in Lebanon in 2014

Economic Indicators

\$m (unless otherwise mentioned)	2012	Dec 12	Sep 13	Oct 13	Nov 13	Dec 13	% Change*
Exports	4,486	381	288	391	263	243	(36.22)
Imports	21,281	1,871	1,565	1,757	1,772	1,797	(3.96)
Trade Balance	(16,795)	(1,490)	(1,277)	(1,366)	(1,509)	(1,554)	4.30
Balance of Payments	(1,538)	312	504	(794)	(192)	534	71.15
Checks Cleared in LBP	14,976	1,337	1,473	1,516	1,451	1,562	16.83
Checks Cleared in FC	56,044	4,670	4,513	4,698	4,584	4,728	1.24
Total Checks Cleared	69,787	6,007	5,986	6,214	6,035	6,290	4.71
Budget Deficit/Surplus	(3,925)	(132.36)	(668.16)	(228.92)	(126.15)	(137.58)	3.94
Primary Balance	(109.87)	134.56	(262.33)	233.07	340.22	171.23	27.26
Airport Passengers	5,960,414	495,760	539,297	524,741	407,869	510,367	2.95

\$bn (unless otherwise mentioned)	Dec 2012	Dec 12	Sep 13	Oct 13	Nov 13	Dec 13	% Change*
BdL FX Reserves	29.97	29.97	32.03	31.86	31.78	31.70	5.77
<i>In months of Imports</i>	16.02	16.02	20.47	18.13	17.93	17.64	10.13
Public Debt	57.69	57.69	62.39	62.44	63.26	63.46	10.01
Net Public Debt	49.12	49.12	52.15	52.50	52.75	53.18	8.28
Bank Assets	151.88	151.88	159.26	160.63	161.92	164.82	8.52
Bank Deposits (Private Sector)	124.99	124.99	131.26	132.10	133.15	136.21	8.97
Bank Loans to Private Sector	43.45	43.45	45.88	46.50	46.81	47.38	9.05
Money Supply M2	43.17	43.17	44.49	44.72	45.05	45.60	5.63
Money Supply M3	104.01	104.01	108.49	109.02	109.34	111.16	6.87
LBP Lending Rate (%)	7.07	7.07	7.36	7.59	7.01	7.29	22b.p
LBP Deposit Rate (%)	5.41	5.41	5.37	5.44	5.47	5.44	3b.p
USD Lending Rate (%)	6.87	6.87	6.95	6.85	6.88	6.88	1b.p
USD Deposit Rate (%)	2.86	2.86	2.91	2.94	2.97	2.95	9b.p
%* Change in CPI**	4.68	4.68	4.81	5.04	4.96	3.89	(79b.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"	12.92	0.23	57,483	11.52%
Solidere "B"	12.85	0.71	63,328	7.45%
Byblos Common	1.67	(1.76)	20,334	5.35%
Byblos Pref. 08	101.50	0.00	0	1.81%
Byblos Pref. 09	103.10	0.00	0	1.84%
BLOM GDR	9.35	1.63	202,700	6.16%
BLOM Listed	9.01	(0.44)	25,690	17.27%
Audi GDR	6.45	0.00	0	5.89%
Audi Listed	6.50	1.40	48,524	20.27%
HOLCIM	13.55	(6.55)	2,107	2.36%

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

Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
Apr. 2014	7.375	100.20	7.13
Jan. 2015	5.875	102.25	2.95
Apr. 2015	10.000	107.00	3.23
Jan. 2016	8.500	107.75	3.98
Mar. 2017	9.000	112.00	4.62
Nov. 2018	5.150	100.00	5.15
Apr. 2021	8.250	112.88	5.98
Nov. 2026	6.600	100.13	6.59

Source: Byblos Bank Capital Markets

	Mar 31-Apr 4	Mar 24-28	% Change	Mar 2014	Mar 2013	% Change
Total Shares Traded	425,000	1,485,282	(71.39)	8,071,585	4,985,295	61.91
Total Value Traded	\$4,496,538	\$4,913,405	(8.48)	\$42,927,320	\$31,728,425	35.30
Market Capitalization	\$11.22bn	\$11.21bn	0.07	\$11.13bn	\$10.90bn	2.18

Source: Beirut Stock Exchange (BSE)



Lebanon ranks 82nd globally, 10th among Arab countries in trade competitiveness

The World Economic Forum's Enabling Trade Index (ETI) for 2014 ranked Lebanon in 82nd place among 138 countries around the world and in 10th place among 15 Arab countries. Lebanon also came in 26th place among 37 upper-middle income countries (UMICs) included in the survey. The 2014 results of the ETI are not comparable to the 2012 survey due to changes in the methodology.

The ETI, which is issued every two years, measures the extent to which individual economies have developed institutions, policies and services that facilitate the free flow of goods over borders and to destinations. The index is composed of four sub-indices that are Market Access, Border Administration, Transport & Communications Infrastructure, and the Operating Environment. The scores of the index and its sub-indices range from one to seven, with seven reflecting the lowest barriers to trade.

Globally, Lebanon has lower barriers to trade than Ukraine, Sri Lanka and Honduras, and higher trade barriers than the Dominican Republic, Jamaica and Namibia. It also has lower trade barriers than Brazil, Botswana and Serbia, and higher ones than the Dominican Republic, Jamaica and Namibia among UMICs. Lebanon received a score of 3.83 points, lower than the global average of 4.05 points, the Arab average of 4.03 points, and the UMIC's average of 3.92 points. Also, Lebanon's score was lower than the Gulf Cooperation Council (GCC) countries' average score of 4.59 points, but higher than the average score of non-GCC Arab countries of 3.66 points.

The World Economic Forum indicated that Lebanon's most problematic factors for exporting include identifying potential markets & buyers, meeting the quantity & quality requirements of buyers, abiding by technical requirements & standards abroad, accessing imported inputs at competitive prices, and delays caused by domestic transportation. As for importing, the most problematic factors include corruption at the border, burdensome import procedures, high tariffs, inappropriate telecommunications infrastructure, and delays caused by international & domestic transportation.

Lebanon ranked ahead of Nepal, Turkey and Botswana, and came behind Bangladesh, Jamaica and Qatar on the Market Access Sub-Index. This category measures the extent that the policy framework of the country welcomes foreign goods into the country and enables access to foreign markets for its exporters. Regionally, Lebanon ranked behind Libya, Jordan, Tunisia, Morocco, Oman and Qatar. It also ranked ahead of Turkey and behind Jamaica among UMICs. Also, Lebanon ranked ahead of Serbia, Tunisia and Brazil, and came behind India, Senegal and Jamaica on the Border Administration Sub-Index. This category assesses the extent that the administration at the borders is transparent, and facilitates the entry and exit of goods. Regionally, Lebanon ranked ahead of Tunisia, Algeria, Egypt, Libya, Yemen and Mauritania. It also ranked ahead of Serbia and behind Jamaica among UMICs.

Further, Lebanon came ahead of Jamaica, Argentina and Tunisia, and ranked behind Georgia, the Dominican Republic and Armenia on the Transport and Communications Infrastructure Sub-Index. This category evaluates the level of transport and communications infrastructure necessary to facilitate the movement of goods within a country and across the border. Regionally, Lebanon ranked ahead of Tunisia, Algeria, Libya, Mauritania and Yemen. It also ranked ahead of Jamaica and behind the Dominican Republic among UMICs. Finally, Lebanon came ahead of Ukraine, Serbia and Mongolia, and ranked behind Bangladesh, Moldova and Tanzania on the Operating Environment Sub-Index. This category looks at the quality of governance as well as the regulatory and security environments that impact the business of importers and exporters active in the country. Regionally, Lebanon ranked ahead of Egypt, Mauritania, Algeria, Libya and Yemen. It also ranked ahead of Serbia and behind Mexico among UMICs. Singapore has the highest score on the Index, while Chad has the lowest score globally.

Enabling Trade Index 2014			
	Score	Arab Rank	Global Rank
UAE	5.00	1	16
Qatar	4.93	2	19
Oman	4.67	3	31
Bahrain	4.61	4	33
Jordan	4.42	5	40
Morocco	4.36	6	43
Saudi Arabia	4.31	7	48
Kuwait	3.99	8	74
Tunisia	3.94	9	76
Lebanon	3.83	10	82
Egypt	3.61	11	97
Libya	3.51	12	106
Algeria	3.20	13	120
Yemen	3.03	14	128
Mauritania	3.03	15	129

Source: World Economic Forum 2014

Components of the 2014 Enabling Trade Index for Lebanon

	Global Rank	Arab Rank	UMIC Rank	Lebanon Score	Global Avg Score	Arab Avg Score	UMIC Avg Score
Market Access	60	7	19	3.77	3.68	3.60	3.75
Border Administration	77	9	21	4.18	4.39	4.36	4.23
Transport & Communications Infrastructure	74	10	19	3.70	3.91	3.94	3.73
Operating Environment	102	10	27	3.67	4.22	4.22	3.97

Source: World Economic Forum, Byblos Research



Beirut is 10th most expensive city in the world for expatriate housing

EuroCost International's annual survey on house rental prices for 2014 ranked Beirut in 10th place globally compared to seventh place in 2013, eighth place in 2012, 10th place in each of 2011 and 2010 and 28th place in 2009. Beirut remained the most expensive city in the Middle East for expatriate housing in the 2014 survey, unchanged since the 2010 survey. The survey evaluates the average rental cost of two- and three-bedroom apartments for expatriates, and converts the average rent per location to euros. It said the data reflects the local rental market for expatriates and, therefore, differs from the rental market for the local population in terms of price level and evolution.

Beirut was considered to be more expensive than Sydney, Shanghai and Zurich, and less expensive than Juba in South Sudan, Luanda in Angola and Geneva. Beirut was the only city from the Middle East among the 20 most expensive cities globally in terms of expatriate housing, while Doha was the second most expensive Middle Eastern city and ranked in 23rd place worldwide.

Beirut's rank regressed by three spots year-on-year, constituting the third steepest drop in ranking among the top 20 most expensive locations worldwide, behind only Osaka in Japan whose rank fell by eight spots and Bombay in India whose rank dropped by four spots. The rankings of 11 cities increased and seven declined from the 2013 survey, while two new cities joined the top 20 in the new survey.

EuroCost International added that the locations selected for the survey are residential areas frequented by expatriates. It noted that it only includes residential units that are of very high quality, as multinationals are aware that housing is a crucial component of expatriates' comfort and satisfaction and, therefore, seriously take into consideration their staff's living conditions. London overtook Tokyo as the most expensive rental city in the world for expatriates in 2014. EuroCost International specializes in cost of living services for expatriates in over 250 locations worldwide.

Ranking of Most Expensive Rental Cities

	2014	2013
London	1	2
Moscow	2	4
Tokyo	3	1
Hong Kong	4	3
New York City	5	6
Singapore City	6	5
Geneva	7	11
Luanda	8	9
Juba	9	12
Beirut	10	7
Sydney	11	10
Shanghai	12	14
Zurich	13	15
Paris	14	16
San Francisco	15	17
Osaka	16	8
Bombay	17	13
Seoul	18	20
Washington	19	21
Beijing	20	23

Source: EuroCost, Byblos Research

Economic growth to remain below potential due to ongoing Syrian conflict and lack of reforms

Business Monitor International projected Lebanon's real GDP growth rate at 2.4% in 2014 and at 2.9% in 2015 relative to an estimated growth rate of 2.1% in 2013, but added that high political instability from the conflict in Syria would keep economic activity below its potential in coming quarters. It said that the formation of a new government in February 2014 is unlikely to improve the domestic economic situation and that the political situation is not likely to stabilize in coming quarters. It anticipated that the new Cabinet would face several challenges that include the organization of the presidential elections before the end of May 2014. Further, it said that the rising number of Syrian refugees is worsening the already highly unstable domestic political conditions and is weighing on public finances. It expected the influx of refugees to continue to be a heavy burden on Lebanon this year given that the international community is not likely to provide the necessary support to improve the prevailing conditions.

In parallel, BMI indicated that Lebanon's medium-term economic prospects are uncertain given the low probability of a resolution of the Syrian conflict over the foreseeable future. It said that the divisions within Lebanon's political class would delay the implementation of structural reforms. It expected the unemployment rate to remain elevated given the rigid employment regulations and the state's heavy interference and growing presence in the economy. As such, it forecast Lebanon's real GDP growth to average 3.1% annually during the 2014-18 period relative to an annual average growth rate of 4.1% between 2009 and 2013.

In parallel, BMI projected private consumption in Lebanon to grow by 3% in real terms this year and by 3.5% in 2015, well below the country's potential. It said that political instability would continue to deter consumer demand in coming quarters. Also, it forecast government consumption to grow by 3.5% in real terms in 2014 and by 3% in 2015 given that authorities would not implement significant austerity measures in coming quarters. Further, it projected Lebanon's gross fixed capital formation growth at 3.5% in real terms in both 2014 and 2015, mainly due to a deceleration in construction activity. It considered that the prospects for fixed investments would improve over the medium-term if the government proceeds with the licensing for offshore oil and gas exploration and production. But it considered that the auctions would not take place before the second half of 2014 at the earliest and that prospects for a recovery in foreign direct investment inflows this year are minimal. In addition, BMI anticipated that Lebanon's net export position will remain a major drag on economic activity this year. It noted that supply chains and trade routes that have been disrupted due to the conflict in Syria would not be restored over the coming months, and that production would remain low due to the ongoing uncertainties. As such, it forecast total exports to increase by 1% in 2014 and by 2% in 2015 and for imports to grow by 4% in both 2014 and 2015.

Parliament ratifies rental law

The Lebanese Parliament ratified the draft rental law that would liberalize old rent contracts in Lebanon. According to the law, all contracts signed prior to July 23, 1992 would be automatically renewed for nine years, and would include a gradual increase in rent. The value of the new rent would be equivalent to 5% of the apartment's present market value, and can be determined by mutual agreement between the property owner and the tenant, or through legal experts. The law stipulates that annual rent will rise by 15% of the difference between the old and new rents during each of the first four years, and by 20% during each of the fifth and sixth years. As such, rent paid by the sixth year would be equivalent to the full value of the new adjusted rent. Tenants would continue to pay the full value of the new adjusted rent during the seventh, eighth and ninth year.

The law stipulates the formation of a fund that will cover in part or in full the difference between the old rent and the adjusted rent of tenants whose monthly income is less than three-times the minimum wage. The law indicated that the fund would be financed from contributions by the Ministry of Finance and through grants and donations. The fund will pay the full amount of the difference between the old and new rent if the tenant's monthly income does not exceed twice the minimum wage. If the tenant's monthly income exceeds twice the minimum wage but is less than three-times the minimum wage, then the fund would pay the difference, if it exists, between 30% of the tenants' monthly income and the value of the adjusted rent. Tenants who are benefiting from the fund's assistance and are still eligible for assistance can ask their landlord for a three-year contract extension during which they continue to pay the same annual rent.

In parallel, the law indicates that if the property owner wishes to reclaim the apartment for family reasons during the first year of the contract's period, then the owner should pay the tenant an indemnity equivalent to four-times the annual new rent. It added that if the property owner wishes to reclaim the apartment in order to demolish the building during the first year of the contract's period, then the owner should pay the tenant an indemnity equivalent to six-times the annual new rent. It pointed out that if the property owner wishes to reclaim the apartment for other than family purposes or demolition, then the owner should inform the tenants during the first three months of each year. It noted that both parties should agree on the value of the indemnity that would be paid to the tenant. It added that if the property owner took a credit to pay the indemnity to the tenant, the loan should be classified as a housing loan.

Cabinet extends management contracts of mobile phone operators till end-June 2014

The Ministry of Telecommunications extended the management contracts of Orascom Telecom and Zain, which operate the state-owned mobile phone networks Mobile Interim Company 1 (MIC 1) and Mobile Interim Company 2 (MIC 2), respectively, until the end of June 2014. The decision constitutes the sixth contract extension since early 2013. It indicated that it successfully negotiated an agreement with the two companies to reduce their operating fees by around \$5.5m in the next three months, while it also saved the Treasury an additional \$5.5m in the first quarter of the year. As such, savings to the Treasury are estimated at \$11m in the first half of 2014.

The government previously extended the management contracts of the two firms for a period of one year that started on February 1, 2012. Upon the contracts' expiration at the end of January 2013, the government extended the deals for one month to decide what to do and then extended them till the end of June 2013. It then extended both firms' contracts three consecutive times till the end of September, then until the end of December 2013 and then until the end of March 2014. Zain has been running MIC 2 since June 2004 and Orascom Telecom has been managing MIC 1 since January 2008. The two operators were receiving a total of \$150m per year in management fees. In January 2008, the government said that the duration of both contracts was for one year renewable for one time only. But the contracts of both companies have been renewed repeatedly since then. Touch and Alfa's collective income reached \$1.6bn in 2011, the latest available figure, of which \$1.4bn were transferred as revenues to the Lebanese Treasury. Touch has a market share of about 53% while Alfa accounts for the remaining 47%.

Term savings attract 87% of customer deposits at end-September 2013

Figures issued by the Central Bank about the distribution of bank deposits show that term savings was the preferred type of account for resident and non-resident depositors in Lebanese pounds as well as in foreign currencies at the end of September 2013. As such, term saving deposits totaled \$52.1bn and accounted for 82.2% of resident deposits in foreign currencies. They were followed by checking and current accounts with \$9.6bn (15.1%), sight saving accounts with \$1.4bn (2.2%) and other creditor accounts with \$334m (0.5%). Further, term saving accounts attracted the equivalent of \$38.5bn, or 91.9% of resident deposits in Lebanese pounds, followed by checking and current accounts with the equivalent of \$2.9bn (6.9%) and sight saving accounts with the equivalent of \$494.7m (1.2%). Non-residents also favored term saving accounts, which totaled \$20.2bn and accounted for 88.6% of their foreign currency deposits, and reached the equivalent of \$3.16bn, or 97.2%, of their Lebanese pound deposits. Term saving deposits in all currencies totaled \$113.9bn at end-September 2013, accounting for 86.7% of deposits in Lebanese pounds and foreign currencies. In parallel, Beirut and its suburbs attracted 69.2% of private sector deposits and 47.7% of depositors. It was followed by Mount Lebanon with 13.5% of deposits and 17.6% of beneficiaries; South Lebanon with 6.5% of deposits and 11.6% of beneficiaries; North Lebanon with 5.9% of deposits and 14.7% of depositors; and the Bekaa with 5% of deposits and 8.5% of beneficiaries.

Average monthly income of a Syrian refugee in Lebanon at \$277, 57% earn \$300 or less

A survey commissioned by the International Labor Organization shows that 47% of Syrian refugees in Lebanon are economically active compared to an economic activity rate of 43% for Lebanese residents. The economic activity rate among Syrian refugees varies across locations, with the South of Lebanon having the highest rate of 61% and Akkar the lowest rate of 50%. The survey considered that the high economic activity rate among Syrian refugees reflects their need for an income. The data was collected from 2,004 individuals in 400 households in Akkar, Tripoli, the Bekaa and the South. All four areas have higher than average poverty rates and very high numbers of Syrian refugees.

The ILO noted that the unemployment rate for Syrian refugees is 30%, with a rate of 68% among females and 21% among males. It added that 27% of refugees are employed as personal service workers, such as drivers and housekeepers, 24% of Syrians are skilled agricultural workers and 12% are in the construction sector, while only 4% of refugees are in occupations that require higher skill levels, such as technicians and professionals.

In parallel, the ILO estimated the average monthly income of a Syrian refugee at LBP418,000, equivalent to \$277.3. It noted that the average monthly income of a female is LBP248,000, or \$164.5, which is 42.6% lower than the average income per male of LBP432,000 or \$286.6. Syrian refugees working in the South earn on average LBP560,000 per month, followed by refugees working in the Bekaa (LBP401,000), Tripoli (LBP368,000) and Akkar (LBP357,000). In comparison, a Lebanese worker earns on average around LBP778,000 per month in the Bekaa, nearly LBP696,000 in the North and LBP679,000 in the South. The distribution of Syrian refugee workers by monthly income shows that 6% of them earn LBP750,000 or more; 16% make between LBP750,000 and LBP600,000; 21% are paid between LBP600,000 and LBP450,000; 32% earn between LBP450,000 and LBP300,000; 18% make between LBP300,000 and LBP150,000 and 7% are paid LBP150,000 or less. The survey indicated that 36% of respondents acknowledged that they have sources of income other than the wage of a household member. It noted that 50% of households receive assistance from the United Nations High Commissioner for Refugees, 22% have personal savings and 10% receive remittances from family members abroad.

Further, the ILO indicated that refugees take about 74 days on average to find a job in Lebanon. But it noted that time spent by a refugee to find a job varies significantly across regions as it takes a refugee 118 days to find work in Tripoli, 64 days to be hired in the Bekaa, 97 days to get a job in Akkar and around 30 days to find a job in the South. It added that 72% of refugees are hired on an hourly, daily, weekly or seasonal basis, while only 23% of refugees receive a regular monthly salary.

Council of Ministers renews terms of Central Bank Vice-Governors

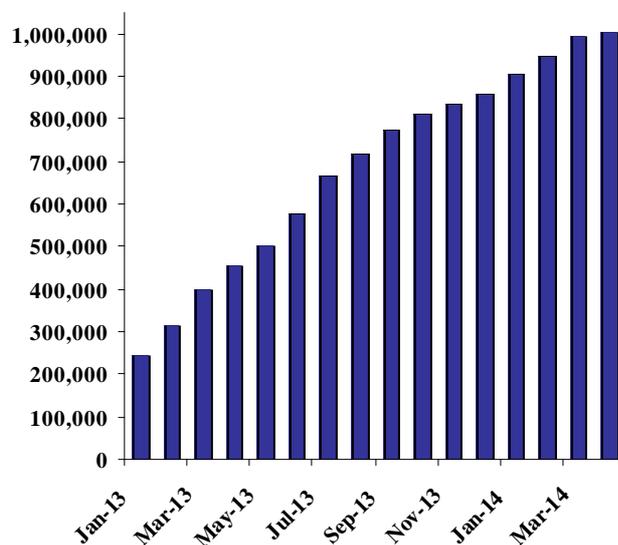
The Council of Ministers renewed the five-year mandate of three Vice-Governors of the Central Bank, while it extended the term of the Fourth Vice-Governor until a new replacement is found. All four Vice-Governors have been in office since April 2009.

The First Vice-Governor, Mr. Raed Charaffedine, currently heads the Information Security Management and the Islamic Banking Regulatory committees. He oversees several areas such as the Statistics & Economic Research, the Information Technology, the Cash Operations, and the Branches departments. Also, he is a member of the Open Market and the Reserves' Investment committees. The Second Vice-Governor, Dr. Saad Andari, is a member of the Bank's Open Market Committee and chairs the joint BdL-Banking Control Commission, Financial Stability & Early Warning System Committee, and the Scientific, Technical & Ethical Qualifications Committee. Also, he oversees the Banks' Financial Stability Unit and the Training & Development Institute.

The Third Vice-Governor, Mr. Muhammad Baasiri, is a member of the Higher Banking Commission, the Chairman of the National Committee for Coordinating Anti-Money Laundering Policies, and oversees the Legal and Real Estate departments, as well as the Financing and the Corporate Governance units and the Translation Section. The Fourth Vice-Governor, Dr. Haroutioun Samuelian, is in charge of the Accounting & Reporting, the Financial Markets and the National Payment & Settlement Systems departments. Also, he chairs the National Payment Systems and the Oracle Implementations committees; and is a member of the Open Market and the Reserves' Investment committees.

According to the rules, the Minister of Finance proposes the would-be Vice-Governors to the Council of Ministers after consulting the Governor. They are then appointed by decree that is signed by the Finance Minister and authorized by the Council of Ministers for a renewable five-year term.

Syrian Refugees Registered & Awaiting to be Registered in Lebanon with the UNHCR*



* As of April 3, 2014

Source: UNHCR, Byblos Research

Foreign investments of financial sector at \$6.3bn at end-September 2013, commercial banks account for 56% of long-term debt securities and for 23% of equity investments

Figures issued by the Central Bank show that the net investment portfolio of Lebanese banks and financial institutions in foreign debt and equity securities totaled \$6.3bn at end-September 2013, constituting a decrease of 7.1% from \$6.8bn at end-2012 and a decline of 10.5% from a year earlier. Investments in long-term debt securities totaled \$3.76bn at end-September 2013 and accounted for 59.6% of the total, followed by investments in equities with \$2.5bn, or 39.8% of the total, while short-term debt securities reached \$44.1m or 0.7% of the total. According to the Central Bank, the figures cover the net assets of resident financial institutions in tradable debt and equity instruments of non-resident issuers. They help provide a clearer picture about the flow of funds from Lebanon and, therefore, about the balance of payments.

The distribution of investments by institutions indicates that commercial banks' net portfolio in foreign long-term debt securities totaled \$2.1bn and accounted for 55.8% of total investments in such securities at end-September 2013. The figure includes banks' investment for their own account, on behalf of their clients and on a custodial basis. They were followed by medium and long-term banks with \$1bn (27.2%), financial institutions with \$488.8m (13%) and insurance firms with \$149m (4%). Commercial banks also represented 78.6% of investments in short-term debt securities, followed by medium and long-term banks with 11.6%, insurance companies with 6.6% and financial institutions with 3.2%.

In parallel, financial institutions' net assets in equity securities totaled \$1.1bn, accounting for 43% of total investments in such securities. They were followed by medium and long-term banks with \$715m (28.5%), commercial banks with \$568.2m (22.7%) and insurance companies with \$144.5m (5.8%).

The distribution of investments by destination shows that the United States was the leading recipient of equity investments by financial institutions operating in Lebanon, as it reached \$1.37bn or 54.8% of the total at end-September 2013. It was followed by Bahrain with \$249.8m (10%), France with \$133.3m (5.3%), Jordan with \$110.2m (4.4%) and Luxembourg with \$88.9m (3.5%), while other countries accounted for the remaining 22%. In parallel, the United Kingdom represented \$570.8m, or 15.2% of investments in long-term debt securities, followed by France with \$493.3m (13.1%), the United States with \$458.3m (12.2%), the Netherlands with \$415.5m (11.1%), and the United Arab Emirates with \$309.7m (8.3%), while other countries accounted for the remaining 40.2%. Further, the United Arab Emirates accounted for 35.2% of investments in short-term debt securities, followed by Australia with 34.9% and the United States with 9.2%.

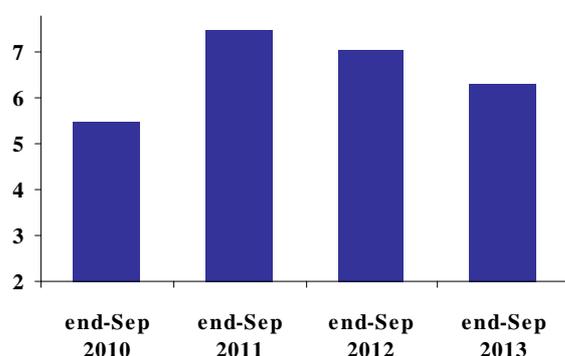
Industrial activity improves in third quarter of 2013

The Central Bank's quarterly business survey indicated that industrial production improved in relative terms during the third quarter of 2013, with a balance of opinion standing at 5 compared to -5 in the preceding quarter and to -2 during the same quarter of 2012. The balance of opinions was the lowest in the North at -12, followed by Beirut & Mount Lebanon (-1), the Bekaa (+28), and the South (+34). The business survey reflects the opinions of enterprise managers on the evolution of their businesses, in order to depict the evolution of a number of key economic variables. The balance of opinions for overall demand for industrial goods stood at 2 in the third quarter of 2013 compared to -9 in the preceding quarter and -4 during the same quarter of 2012. The balance of opinions about overall demand for industrial goods was the lowest in Beirut & Mount Lebanon where it reached -8, followed by the North (-5), the South (+22) and the Bekaa (+26). Further, the balance of opinions for the volume of investments in industrial goods stood at -2 in the third quarter of 2013 compared to +3 in the preceding quarter and to +1 during the same quarter of 2012. The balance of opinion about the volume of investments was the lowest in the North at -20, followed by Beirut & Mount Lebanon (-7), the South (+1), and the Bekaa (+19). Also, the balance of opinion for foreign demand stood at -13 during the third quarter of 2013, unchanged from the preceding quarter and compared to -15 in the same quarter of 2012. The balance of opinions is the difference between the proportion of surveyed managers who consider that there was an improvement in a particular indicator and the proportion of those who reported a decline in the same indicator.

Industrial Activity: Evolution of opinions				
Aggregate results	Q3-10	Q3-11	Q3-12	Q3-13
Production	27	0	-2	5
Total demand	22	-4	-4	2
Foreign demand	6	-12	-15	-13
Volume of investments	24	-2	1	-2
Inventories of finished goods	8	-3	-7	-7
Inventories of raw material	6	3	-4	-7
Registered orders	5	-11	-10	-5

Source: Central Bank Business Survey for Third Quarter of 2013

Foreign Investments of Financial Sector (US\$bn)



Source: Central Bank, Byblos Research

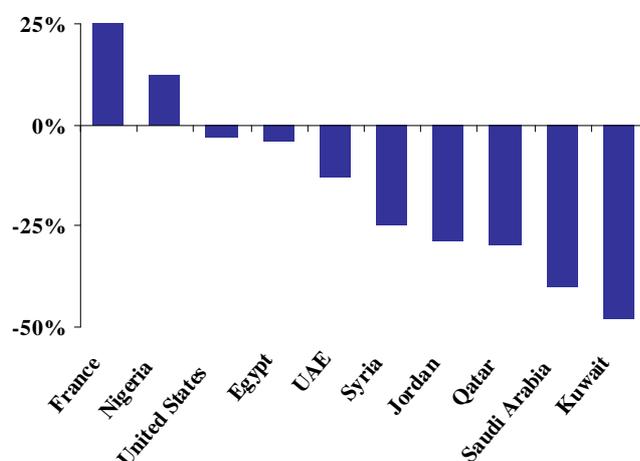
Tourism spending in Lebanon down 15% annually in first quarter of 2014

Figures issued by Global Blue, the VAT refund operator for international shoppers, show that total spending by tourists in Lebanon decreased by 15% in the first quarter of 2014 compared to the first quarter in 2013. Visitors from the UAE accounted for 14% of total tourist expenditures in the first quarter, followed by visitors from Saudi Arabia with 12%, Egypt with 7%, Syria and France with 6% each, Kuwait and Nigeria with 5% each, and Jordan, Qatar and the United States with 3% each. Beirut attracted 81% of total spending in the first quarter of 2014, followed by the Metn area with 14%, Baabda with 3% and the Keserwan region with 1%. Fashion & clothing accounted for 70% of total spending in the first quarter of 2014, followed by watches & jewelry with 14%, home & garden products with 4%, department stores with 3%, souvenirs & gifts, and consumer electronics & household appliances with 2% each.

Spending by visitors from France increased by 25% from the same quarter of 2013 and expenditures by visitors from Nigeria rose by +12% year-on-year; while spending by visitors from Kuwait contacted by 48%, followed by those from Saudi Arabia (-40%), Qatar (-30%), Jordan (-29%), Syria (-25%), the UAE (-13%), Egypt (-4%) and the United States (-3%). Spending on souvenirs & gifts decreased by 38% from the same quarter of 2013, followed by fashion & clothing (-17%), department stores (-13%), consumer electronics & household appliances (-8%) and home & garden products (-7%); while spending on watches & jewelry remained almost unchanged from the first quarter of 2013. Also, the total number of refund transactions by visitors in the first quarter of 2014 fell by 16% annually. The total number of refund transactions by visitors from Nigeria rose by 12% from the same quarter of 2013, followed by the United States (+3%) and France (+1%). In contrast, the number of refund transactions by visitors from Kuwait and Saudi Arabia decreased by 41% each, followed by Jordan (-37%), the UAE (-22%), Qatar (-19%), Syria (-13%) and Egypt (-5%).

In parallel, total spending by tourists in Lebanon increased by 21% in the first quarter of 2014 from the fourth quarter of 2013. Spending by visitors from Nigeria rose by 158%, followed by the United States (+60%), Qatar (+51%), France (+33%), Saudi Arabia (+26%), the UAE (+8%) and Egypt (+5%); while spending by visitors from Jordan contracted by 29%, followed by visitors from Syria (-13%) and Kuwait (-11%). Also, the total number of refund transactions by visitors rose by 22% in the first quarter of 2014 from the fourth quarter of 2013. The number of refund transactions by visitors from Nigeria increased by 210% in the first quarter of 2014, followed by those from France (+53%), the United States (+49%), Qatar (+36%), Saudi Arabia (+23%), the UAE (+19%) and Syria (+1%). In contrast, refund transactions by visitors from Jordan fell by 32%, and those from Kuwait regressed by 2%; while the number of refunds by visitors from Egypt was unchanged.

Total Spending by Visitors in First Quarter of 2014 (Annual Change)



Source: Global Blue, Byblos Research

Stock market activity up 99% to \$119m in first quarter of 2014

Figures released by the Beirut Stock Exchange indicate that the total trading volume reached 17.4 million shares in the first quarter of 2014, constituting an increase of 84.2% from the same quarter of 2013; while aggregate turnover amounted to \$119.4m, up 98.7% from a turnover of \$60.1m in the first quarter of 2013. Market capitalization increased by 2.2% from end-March 2013 to \$11.1bn, of which 78.5% was in banking stocks, followed by real estate stocks with 18.5%, industrial stocks with 2.6% and trading stocks with 0.3%. The market liquidity ratio was 1.1% compared to 0.6% in the first quarter of 2013. Banking stocks accounted for 87.1% of aggregate trading volume in the first quarter of the year, followed by real estate stocks with 12.8% and industrial stocks with 0.1%. Also, banking stocks accounted for 75.5% of the aggregate value of shares traded, followed by real estate stocks with 24.4% and industrial stocks with 0.1%. The average daily traded volume for the period was 300,152 shares for an average daily value of \$2.1m. The figures reflect increases of 87% in volume and 102% in value year-on-year.

Fransabank's net income at \$161m in 2013

Fransabank sal, one of Lebanon's top 14 banks, announced unaudited consolidated net profits of \$160.7m in 2013, unchanged from 2012. Net operating income grew by 3% year-on-year to \$434m, with net interest income increasing by 3% to \$348.4m and net fees & commissions receipts declining by 3.3% year-on-year to \$54.9m. Non-interest income accounted for 20.9% of total income, down from 21.5% in 2012; with net fees & commissions representing 55.7% of non-interest earnings relative to 57.5% in 2012. Further, the bank's interest margin was 2.41%, down from 2.55% in 2012; while its spread fell to 2.28% from 2.39% in 2012. Total operating expenditures increased by 5.8% to \$246.8m, with staff expenses rising by 5.8% to \$154.1m. Also, the bank's return on average assets reached 0.98% in 2013 relative to 1.06% in the previous year; while its return on average equity was 10.24%, down from 11.52% in 2012. The cost-to-income ratio increased to 52.4% from 50.8% in 2012.

In parallel, total assets reached \$17bn at end-2013, constituting an 8% rise from end-2012; while loans & advances to customers, excluding loans & advances to related parties, grew by 11.7% from a year earlier to \$5.3bn. Also, customer deposits, excluding deposits from related parties, totaled \$13.7bn at end-2013, constituting an increase of 7.2% from end-2012. The loans-to-deposits ratio rose to 37.4% at end-2013 from 37% a year earlier. In parallel, the bank's shareholders' equity rose by 11% from end-2012 to \$1.7bn at end-2013.

IBL posts net profits of \$54m in 2013

IBL Bank sal announced unaudited consolidated net profits of \$53.6m in 2013, up 14.1% from 2012. Net operating income grew by 11.3% year-on-year to \$101.5m, with net interest income decreasing by 67.2% to \$20.7m and net fees & commissions receipts increasing by 62.7% to \$8.1m. Non-interest income accounted for 80.4% of total income, up from 33.6% in 2012 with net fees & commissions accounting for 9.5% of non-interest earnings down from 15.5% in 2012. Further, the bank's interest margin was 0.46% in 2013 relative to 1.56% a year earlier, and its spread declined to 0.45% from 1.54% in 2012. Total operating expenditures increased by 5.3% to \$38.1m, with staff expenses growing by 5.4% to \$19.7m. Also, the bank's return on average assets reached 1.17% in 2013 relative to 1.15% in the previous; while its return on average equity was 17.06% relative to 16.7% in 2012. The cost-to-income ratio decreased to 36.2% in 2013 relative to 38.2% in 2012.

In parallel, total assets reached \$4.7bn at end-2013, constituting an 8.5% rise from a year earlier; while loans & advances to customers, excluding loans & advances to related parties, rose by 4.6% from end-2012 to \$896.1m. Also, customer deposits, excluding deposits from related parties, totaled \$4.3bn at end-2013, reflecting growth of 8.2% from end-2012. The loans-to-deposits ratio decreased to 21.2% at end-2013 from 22% a year earlier. In parallel, the bank's shareholders' equity rose by 11.9% from end-2012 to \$331.7m at end-2013.

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	59.0	160
Public Debt in Local Currency / GDP	81.6	78.4	84.4	600
Gross Public Debt / GDP	133.9	135.7	143.4	770
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	372.4	1,500
Private Sector Deposits / GDP	288.6	294.1	307.7	1,360
Private Sector Loans / GDP	98.2	102.2	107.0	480
Private Sector Deposits Dollarization Rate	65.9	64.8	66.1	130
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	July 2012	June 2013	July 2013	Change*	Risk Level
Political Risk Rating	53.5	53.0	53.0	▼	High
Financial Risk Rating	35.0	33.5	33.5	▼	Moderate
Economic Risk Rating	34.0	28.5	28.5	▼	High
Composite Risk Rating	61.2	57.5	57.5	▼	High

Regional Average	July 2012	June 2013	July 2013	Change*	Risk Level
Political Risk Rating	59.8	58.4	58.3	▼	High
Financial Risk Rating	41.9	41.0	41.3	▼	Very Low
Economic Risk Rating	37.2	36.7	36.6	▼	Low
Composite Risk Rating	69.4	68.0	68.1	▼	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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