



# LEBANON THIS WEEK

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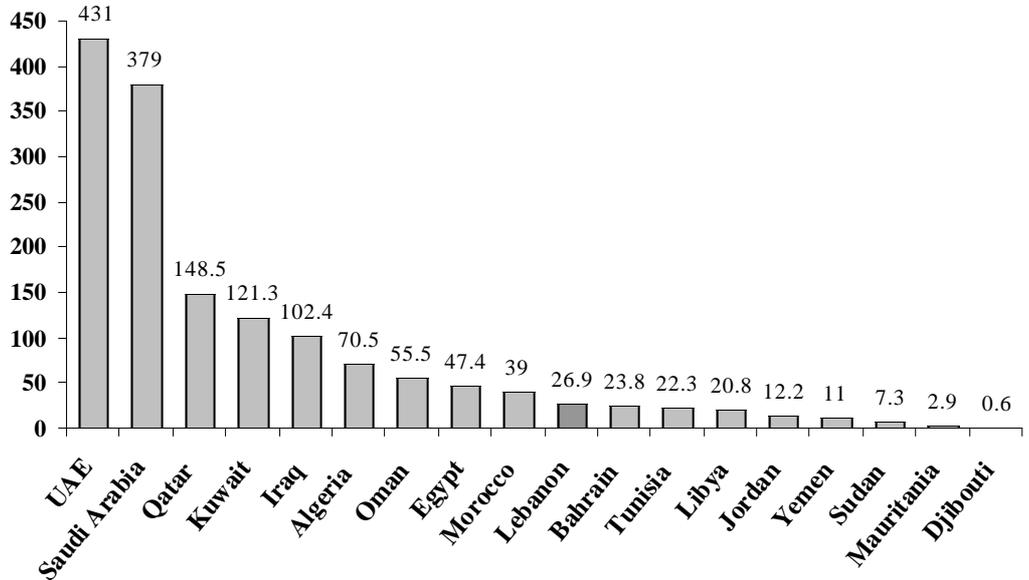
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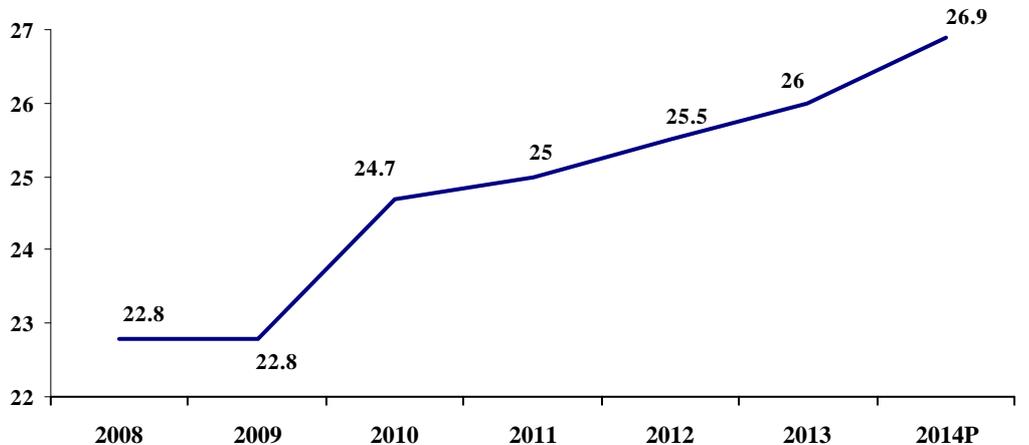
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## Charts of the Week

Projected Exports of Goods & Services from Arab Countries in 2014 (US\$bn)



Exports of Goods & Services from Lebanon (US\$bn)



Source: International Monetary Fund - May 2014, Byblos Bank

## Quote to Note

"The ongoing debate on the public sector's salary scale adjustment has diverted attention away from the need for broader fiscal consolidation."

*The International Monetary Fund, on the need to prioritize fiscal reforms*

## Number of the Week

**\$33.6bn:** The Central Bank of Lebanon's gross foreign currency reserves at the end of March 2014

## Economic Indicators

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

<b>\$bn (unless otherwise mentioned)</b>	<b>Dec 2012</b>	<b>Dec 12</b>	<b>Sep 13</b>	<b>Oct 13</b>	<b>Nov 13</b>	<b>Dec 13</b>	<b>% Change*</b>
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

<b>Most Traded Stocks on BSE</b>	<b>Last Price (\$)</b>	<b>% Change*</b>	<b>Total Volume</b>	<b>Weight in Market Capitalization</b>	<b>Sovereign Eurobonds</b>	<b>Coupon %</b>	<b>Mid Price \$</b>	<b>Mid Yield %</b>
Solidere "A"	13.31	(3.74)	102,987	12.10%	Jan 2015	5.875	101.50	3.59
Solidere "B"	13.20	(3.53)	31,311	7.80%	Apr 2015	10.000	106.25	3.27
Byblos Common	1.55	(8.82)	31,084	5.07%	Jan 2016	8.500	107.75	3.71
Byblos Pref. 08	100.00	(3.38)	14,195	1.82%	Mar 2017	9.000	112.00	4.47
Byblos Pref. 09	100.00	(3.01)	10,440	1.82%	Nov 2018	5.150	100.50	5.03
BLOM GDR	9.27	0.76	29,700	6.23%	May 2019	6.000	102.50	5.43
BLOM Listed	8.70	0.00	0	17.01%	Mar 2020	6.375	103.88	5.59
Audi GDR	6.49	3.02	3,076	6.05%	Apr 2021	8.250	113.63	5.83
Audi Listed	6.09	(0.16)	159,410	19.37%	Oct 2022	6.100	99.50	6.18
HOLCIM	14.80	0.00	0	2.63%	Nov 2026	6.600	100.75	6.51

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

Source: Byblos Bank Capital Markets

	<b>May 12-16</b>	<b>May 5-9</b>	<b>% Change</b>	<b>Apr 2014</b>	<b>Apr 2013</b>	<b>% Change</b>
<b>Total Shares Traded</b>	500,772	313,613	59.68	1,817,870	4,184,711	(56.56)
<b>Total Value Traded</b>	\$9,819,191	\$4,533,688	116.58	\$17,838,999	\$28,430,668	(37.25)
<b>Market Capitalization</b>	\$11.00bn	\$10.99bn	0.02	\$11.05bn	\$10.07bn	9.76

Source: Beirut Stock Exchange (BSE)



### Economic growth to lag regional peers, fiscal deficit to remain wide

In its semi-annual economic outlook for the Middle East and Central Asia region, the International Monetary Fund projected Lebanon's real GDP growth at 1% in 2014, unchanged from 2013 and compared to an average growth rate of 9% during the 2009-10 period. In comparison, it forecast growth at 3.2% for the Middle East & North Africa this year, 2.7% for the region's oil importers and 2.9% for Arab countries in transition excluding Libya. The Fund also projected real GDP growth of 2.5% in 2015 compared to 4.5% for MENA countries, 4.2% for the region's oil importers, and 4.3% for Arab countries in transition ex-Libya. Lebanon's projected growth rate in 2014 would make it the slowest growing economy in the Arab world as it forecast Libya's real GDP to shrink by 7.8% and as it continues to exclude Syria from its coverage. In comparison, Lebanon had the second and third-fastest growing economies in 2009 and 2010, respectively, while it had the second slowest growing economy in each of 2011 and 2013 and the slowest-growing economy in 2012.

The Fund estimated the country's nominal GDP at \$45.5bn in 2014 relative to \$44.3bn in 2013, which would account for 7.6% of Arab oil importers' aggregate GDP. The Lebanese economy would be the 13th largest economy in the Arab world, bigger than Yemen (\$43.2bn), Jordan (\$36.5bn), Bahrain (\$33.5bn), the West Bank & Gaza (\$12bn), Mauritania (\$4.5bn) and Djibouti (\$1.6bn). It projected Lebanon's inflation rate to average 2% in 2014 compared to 8.8% in MENA economies, 8.9% for the region's oil importers and 8.4% in Arab countries in transition ex-Libya. Also, it forecast broad money to grow by 8% in each of 2014 and 2015, down from 9% in 2013.

In parallel, the Fund projected the government's fiscal balance to post a deficit of 11.5% of GDP in 2014 and 10.2% of GDP in 2015, relative to a deficit of 9.4% of GDP in 2013. It forecast government revenues at 21.4% of GDP in 2014 relative to 31.2% of GDP in the MENA region, 24% of GDP for oil importers and 25.3% of GDP in Arab countries in transition. It also estimated public expenditures at 32.9% of GDP compared to 31.8% of GDP for MENA countries, 34.1% of GDP for oil importers and 36.1% of GDP for Arab countries in transition. Further, it expected the public debt level to increase to 147.6% of GDP at the end of 2014 and to 151.6% of GDP at end-2015. It also forecast total gross external debt at 179.6% of GDP at end-2014 and 179.1% of GDP at end-2015, up from 176.7% of GDP at the end of 2013 and compared to external debt in the MENA countries of 24.6% of GDP at the end of 2014 and 24.2% of GDP at the end of 2015.

The Fund estimated Lebanon's exports of goods & services to reach \$26.9bn in 2014 and \$28.2bn in 2015 compared to \$26bn in 2013, and for the imports of goods & services to increase to \$35.2bn in 2014 and \$36.1bn in 2015 from \$34.1bn in 2013. The IMF forecast the country's current account deficit at \$7.2bn or 15.8% of GDP in 2014, compared to \$7.2bn or 16.2% of GDP in 2013, and compared to deficits of 5.5% of GDP for oil importers and 3.8% of GDP for Arab countries in transition ex-Libya. It also projected Lebanon's current account deficit at \$6.6bn or 13.9% of GDP in 2015. The Fund expected the country's gross official foreign currency reserves to reach \$35.4bn at end-2014 and \$38.8bn at end-2015, up from \$33.9bn at end-2013.

	Lebanon		Oil Importers		Arab Countries in Transition	
	2013P	2014P	2013P	2014P	2013P	2014P
Real GDP Growth (%)	1.0	1.0	2.7	2.7	2.8	2.9
Consumer Price Inflation (%) *	3.2	2.0	9.4	8.9	7.4	8.4
Fiscal Balance (% of GDP)	(9.4)	(11.5)	(10.3)	(8.5)	(11.1)	(9.0)
Public Debt (% of GDP)	139.7	147.6	83.0	85.2	76.2	78.5
Total Gross External Debt (% of GDP)	176.7	179.6	40.4	42.3	22.3	24.0
Current Account (% of GDP)	(16.2)	(15.8)	(6.4)	(5.5)	(4.5)	(3.8)

P: projected

\*Yearly average

Source: International Monetary Fund, May 2014

### Lebanese and French capital market authorities sign cooperation agreement

The Capital Markets Authority (CMA) signed a cooperation agreement with its French counterpart, the Autorité des Marchés Financiers. The agreement stipulates that the two entities will exchange information and combat illegal capital market operations, which would promote transparency. The CMA indicated that the agreement would support the credibility and reputation of the Lebanese financial markets. The CMA pointed out that it is planning to sign similar agreements with financial authorities in different Arab and European countries as well as in the United States. The CMA is currently working on drafting new rules and regulations to develop new segments of the capital markets such as the corporate bond market and to revive the equity market, among other procedures.

The CMA was established through the Capital Markets Law, which was ratified by the Lebanese Parliament in August 2011. The law aims to regulate and supervise the activities of capital markets in Lebanon. Also, the legislation aims to create an adequate legal framework conducive to the organization and development of the Lebanese financial markets, in line with international standards and norms. It explicitly bans insider trading, which is the personal exploitation of information in capital markets trading. The law stipulates that the CMA's functions would be similar to those of the U.S. Securities and Exchange Commission, and that it will have a large degree of autonomy in setting its policies. The law was drafted by the Central Bank of Lebanon's Commission for the Modernization and Development of Financial and Banking Laws.

### **Strength of Lebanese banking sector is key to stability**

Business Monitor International indicated that the Lebanese banking sector's resilient depositor base, solid fundamentals and conservative risk management policies provide significant buffers against key risks to stability in 2014. It noted that Lebanese banks have low non-performing loan and adequate capitalization ratios, with the sector's Basel II capital adequacy ratio standing at 12.2% at the end of 2013, higher than the minimum requirement.

It projected the sector's total asset to grow by 9% in 2014 and by an additional 9.5% in 2015 compared to a growth rate of 8.5% in 2013. It forecast the growth in bank deposits in 2014 to be driven by elevated remittance inflows from the Lebanese Diaspora, while it expected subdued growth in resident deposits. Further, it anticipated banks' lending to the resident private sector to grow by 9.5% in 2014 and by 10% in 2015 compared to a growth rate of 9.7% in 2013. It considered that banks have additional liquidity and relatively low leverage, which would allow them to expand their lending this year. It added that banks operating in Lebanon would be able to continue extending credit over the coming quarters given their low non-performing loan ratio that stood at 3.4% at the end of 2013 and given that loan-loss provisions represented 75% of NPLs. But it considered that the challenging operating domestic environment and risks in foreign markets where Lebanese banks operate would weigh on lending growth this year.

Further, BMI expected banks' profitability to increase modestly in 2014 due to the ongoing domestic economic and political instability as well as the banking sector's conservative risk management approach. It indicated that the government's plan to raise taxes on the interest income of customer deposits from 5% to 7%, and to raise taxes on banks' revenues and profits constitute key risks to profitability.

In parallel, BMI considered that banks' exposure to sovereign debt constitutes a significant weakness, given that a further intensification of political instability would increase sovereign risks. But it noted that the banking sector's inherent strength has limited the possibility of a sovereign crisis, while banks' deposit base would provide a cushion against financial shocks to the economy. It added that deposits fund more than 80% of the banking sector's total assets and are equivalent to more than twice the public debt stock.

### **Franchising industry contributes \$1.5bn to the economy**

A survey commissioned by the Lebanese Franchise Association indicated that the number of companies in the franchising sector totals 744, which represents about 6% of total companies operating in Lebanon. It estimated the number of franchisees at 445 companies or 3.5% of total companies in Lebanon and that of franchisors at 299 companies or 2.5% of the total. It indicated that the franchising industry contributes \$1.5bn to the Lebanese economy, equivalent to 4% of the country's GDP, and employs 99,443 individuals or 9% of the total workforce in the country. It revealed that there are 1,100 franchise concepts and 5,500 affiliated points of sales in the country. The survey also revealed that about 11% of franchisees generate sales between \$1m and \$2m a year, and that 22% of franchisees have annual sales in excess of \$2m. It said that about 44% of franchisees' concepts in Lebanon are from Europe, 28% are from the United States, 13% are created locally by Lebanese franchisors, 9% are from Asia, 4% are from the MENA region and 2% are from other countries.

In parallel, franchisors and franchisees cited security conditions, the high cost of operations and difficulty to access financing as the main barriers to developing the industry in Lebanon. Respondents also identified complex government regulations, the lack of qualified employees and the high turnover and costs of employees as other obstacles to expanding the franchising industry in the country. The survey estimated the average investment for opening a franchise in Lebanon at around \$500,000, which would cover the expenses needed to launch the franchise such as equipment, decoration, legal and marketing costs, and three- to-six month of pre-operational rent and salaries expenses, among others. The cost excludes the fee to get the franchise.

Further, franchisors cited insufficient capital (35% of responses), the lack of proper locations in the target market and the lack of self-confidence among franchisees (23% of responses each), the lack of experience and qualifications (19% of responses) and the lack of a business plan (18% responses) as the main reasons for not granting a franchise. The survey indicated that less than half of surveyed franchisors have a franchise support team to help international franchised units, which is a shortcoming. In addition, 33% of surveyed franchisors expressed concerns about the lack of qualified employees, 22% of them are worried about the high employee turnover, 17% of franchisors are concerned about the cost and complexity of registering employees at the National Social Security Fund, and 16% are worried about the high cost of labor in the country.

### Lebanon has sixth lowest VAT and corporate tax rates in the world

KPMG's 2014 Corporate and Indirect Tax Rate Survey indicated that Lebanon's corporate income tax rate of 15% is the sixth lowest among 39 rates in 134 countries globally, the fourth lowest among 15 rates in 37 upper-middle income countries (UMICs) included in the survey, and the fourth lowest among 11 rates in 17 Arab countries. The corporate income tax rate in Lebanon is similar to the rate in Albania, Georgia, Iraq, Kuwait, Latvia, Lithuania, Mauritius and Serbia, and is higher than that in 13 countries that are Montenegro (9%), Bosnia & Herzegovina, Bulgaria, Gibraltar, Macedonia, Paraguay and Qatar (10% each), Macau and Oman (12% each), Cyprus, Ireland and Liechtenstein (12.5% each) and Jordan (14%). Also, Lebanon has a similar corporate income tax rate than the rate in Albania, Iraq, Mauritius and Serbia, and a higher rate than only that in Montenegro, Bosnia & Herzegovina, Bulgaria, Macedonia and Jordan among UMICs. Lebanon's corporate tax rate was higher than only that in Qatar, Oman and Jordan among Arab countries. The survey indicated that the Bahamas, Bahrain, Bermuda, Bonaire, Saint Eustatius & Saint Saba, the Cayman Islands, Guernsey, the Isle of Man, Jersey and Vanuatu do not have a corporate income tax.

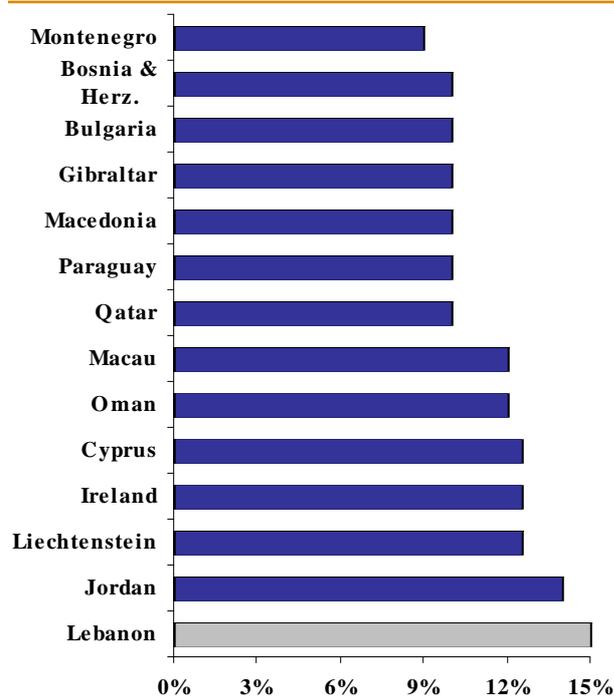
In parallel, Lebanon's indirect tax rate of 10% is the sixth lowest among 25 rates globally, the second lowest among 15 rates in UMICs and the second lowest among six rates in Arab countries. Indirect taxes cover the value-added tax (VAT) or the global sales tax. The survey pointed out that exempted activities from the VAT in Lebanon include education, medicine, banking, activities of non-profit organizations, transportation and the sale of built property, while exempted supplies in the country includes bread, books, pharmaceutical products, aircrafts and government purchases financed through non-resident sources.

Lebanon's indirect tax rate is similar to the tax rate in 10 other countries in the world that are Angola, Australia, Cambodia, Egypt, Indonesia, Malaysia, Papua New Guinea, Paraguay, South Korea and Vietnam. It is higher than the rate in 14 countries that are Aruba (1.5%), Jersey, Nigeria, Saint Maarten, Taiwan and Yemen (5% each), Curacao (6%), Panama, Singapore and Thailand (7% each), and Japan, Liechtenstein, Switzerland as well as Bonaire, Saint Eustatius & Saint Saba (8% each). Also, Lebanon has a similar tax rate to that in Malaysia and Angola and a higher rate than that in Thailand and Panama among UMICs. Lebanon's indirect tax rate was higher than Yemen's rate among Arab countries. The survey indicated that 17 covered countries do not have an indirect tax and include Bahrain, Qatar, Oman, Kuwait, Iraq, Libya, Saudi Arabia, Syria and the UAE.

### Balance of payments posts surplus of \$301m in first quarter of 2014

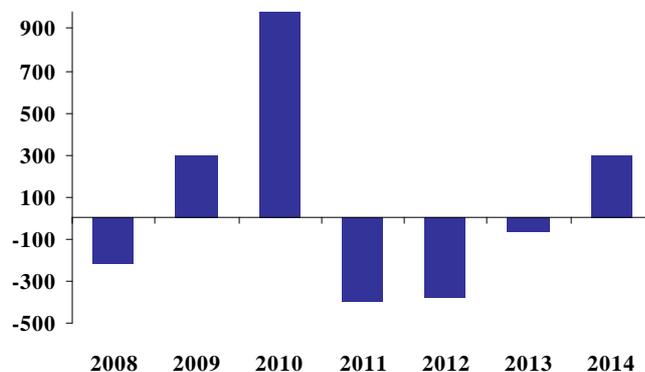
Central Bank figures show that Lebanon's balance of payments posted a surplus of \$301.4m in the first quarter of 2014 compared to a deficit of \$62.2m in the same quarter of last year. The balance of payments posted a surplus of \$139m in March 2014 compared to a surplus of \$193.7m in February 2014 and a deficit of \$353m in March 2013. The March 2014 surplus was caused by a surplus of \$219.9m in the net foreign assets of the Central Bank, and was partly offset by a deficit of \$80.9m in those of banks and financial institutions. The cumulative surplus over the first quarter of 2014 was caused by a surplus of \$1.4bn in the Central Bank's net foreign assets, and was partly offset by a deficit of \$1.1bn in those of banks and financial institutions. The balance of payments posted surpluses of \$7.9bn in 2009 and \$3.3bn in 2010 and deficits of \$2bn in 2011, \$1.54bn in 2012 and \$1.1bn in 2013.

Corporate Income Tax Rates (%)



Source: KPMG, Byblos Research

Balance of Payments\* (US\$m)



\*in the first quarter of each year

Source: Central Bank of Lebanon

### Majority of Lebanese youth are concerned about unemployment and rising cost of living

The ASDA'A Burson-Marsteller 2014 Arab Youth Survey indicated that 72% of Lebanese youth are "very concerned" or "somewhat concerned" about unemployment in Lebanon, almost similar to the 73% of Arab youth who share the same concerns about unemployment in their countries. The share of respondents in Lebanon who are "very concerned" or "somewhat concerned" about unemployment is the eighth highest among Arab countries, similar to the share of surveyed participants in Bahrain and Libya, and lower than that in Iraq (82%), Egypt and Jordan (80% each), Tunisia (79%), Algeria (78%), Yemen (77%) and Palestine (73%). In contrast, 22% of Lebanese youth are "not very concerned" about unemployment and 6% of them are "not concerned at all" about this issue.

Also, the survey's findings revealed that 88% of Lebanese between 18 and 24 year-old are "very concerned" or "somewhat concerned" about the rising cost of living in Lebanon, similar to the share of Arab youth who have the same view in their countries. The share of respondents in Lebanon who are "very concerned" or "somewhat concerned" about the rising costs of living in their country is the sixth highest among 16 Arab countries. It is similar to the share of respondents in Egypt, Jordan, Saudi Arabia and Iraq, and is lower than that in Algeria and Tunisia (92% each), Libya and Oman (91% each) and Morocco (89%). In contrast, 8% of Lebanese youth are "not very concerned" about the rising cost of living in the country and 4% of them are "not concerned at all" about this issue.

Further, 78% of Lebanese youth consider that the government should subsidize energy, electricity and transport fuel, compared to 74% of youth in Arab countries who have a similar view and relative to 75% of youth in non-GCC Arab economies and 73% of youth in GCC countries.

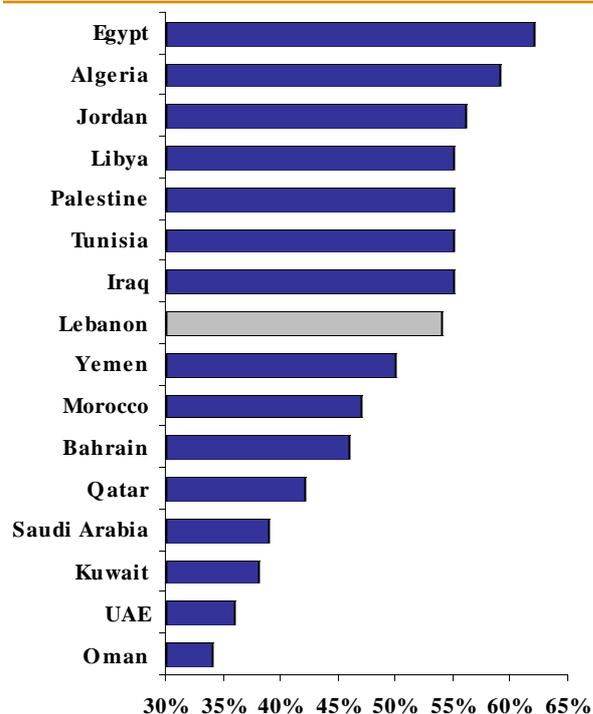
The survey was conducted through face-to-face interviews between December 2013 and January 2014 on a sample size of between 200 and 300 respondents between 18 and 24 year-old in 16 Arab countries. It covered Algeria, Bahrain, Egypt, Jordan, Iraq, Kuwait, Lebanon, Libya, Morocco, Oman, Palestine, Qatar, Saudi Arabia, Tunisia, the UAE and Yemen. ASDA'A Burson-Marsteller is a public relations consultancy firm.

### Payment cards reach 1.98 million, ATMs total 1,490 at end-September 2013

Figures released by the Central Bank show that the number of payment cards issued in Lebanon reached 1,979,108 cards at the end of September 2013, constituting a 3.3% increase from the end of June 2013 and a 7.6% rise on a yearly basis. Resident cardholders accounted for 95.2% of total cards issued in Lebanon at end-September 2013. The distribution of payment cards by type shows that debit cards with residents accounted for 56.6% of the total, followed by credit cards with residents (22.4%), charge cards with residents (8.4%), resident prepaid cards (7.8%), non-resident debit cards (3%), non-resident credit cards (1.2%), non-resident charge cards (0.5%), and non-resident prepaid cards (0.1%). Further, the aggregate number of point of sales accepting payment cards reached 35,550 at the end of September 2013, decreasing by 2% on a quarterly basis and rising by 5.8% annually.

In parallel, the number of ATMs totaled 1,490 machines at the end of September 2013, constituting an increase of 1.2% from end-June and a rise of 5.2% from the end of September 2012. The Greater Beirut area had 637 ATMs at the end of September 2013, equivalent to 42.8% of the total, followed by Mount Lebanon with 443 (29.7%), the North with 149 (10%), the South with 123 (8.3%), the Bekaa with 111 (7.4%), and Nabatiyeh with 27 (1.8%).

**% of respondents who are "Very Concerned" about unemployment in their country**



Source: ASDA'A Burson-Marsteller, Byblos Research

### Lebanon ranks 83rd globally, sixth among Arab countries on social progress

the U.S.-based non-profit organization Social Progress Imperative's Social Progress Index (SPI) for 2014 ranked Lebanon in 83rd place among 132 countries in the world and in sixth place among 14 Arab countries. Lebanon also came in 32nd place among 38 upper-middle income countries (UMICs) included in the survey.

The SPI evaluates how effectively a country turns economic success into social progress, and vice versa. It measures social progress based on the multiple dimensions of social and environmental performance, and independently of economic development. The index is composed of three sub-indices that are Basic Human Needs, Foundations of Wellbeing, and Opportunity. The scores of the index and its sub-indices range from zero to 100, with zero being the farthest from the best global performance and 100 the closest.

Globally, Lebanon ranked ahead of Egypt, Sri Lanka and Kazakhstan and came behind Russia, Moldova and Guyana in terms of social progress. It ranked ahead of Kazakhstan, Algeria, China, Iran, Iraq and Angola among UMICs; while it came behind the UAE, Kuwait, Saudi Arabia, Tunisia and Jordan in the region. Lebanon received a score of 60.05 points, lower than the global average of 63.67 points and the UMICs' average of 64.83 points, but higher than the Arab average of 55.9 points. Lebanon's score was lower than the Gulf Cooperation Council (GCC) countries' average score of 69.32 points, but higher than the average score of non-GCC Arab countries of 52.24 points.

Globally, Lebanon came ahead of Mexico, Thailand and Romania, and ranked behind Kazakhstan, Georgia and Trinidad & Tobago on the Basic Human Needs Sub-Index, which assesses the country's ability to provide basic needs for its people such as nutrition and basic medical care, water and sanitation, shelter, and personal safety. Also, it ranked ahead of Mexico, Thailand and Romania and came behind Algeria, Azerbaijan and Kazakhstan among UMICs; while it came ahead of Morocco, Iraq, Djibouti, Mauritania, Yemen and Sudan among Arab countries.

Further, Lebanon came ahead of Jordan, Uganda and Tajikistan, and ranked behind Morocco, Laos and Ukraine on the Foundations of Wellbeing Sub-Index. This category measures the extent to which a population has access to basic education, information and communications, healthcare, and ecosystem sustainability. Also, Lebanon ranked ahead of Jordan, Iran, Cuba, Kazakhstan, Angola and Iraq among UMICs; while it came ahead of Jordan, Mauritania, Yemen, Sudan, Iraq and Djibouti in the Arab world.

Finally, Lebanon came ahead of Tunisia, Belarus and Indonesia, and ranked behind the Republic of Congo, Mozambique and Tajikistan on the Opportunity Sub-Index, which measures the degree of personal freedom & rights, tolerance, and whether advanced education is accessible to all. It ranked ahead of Tunisia, Belarus and Jordan and came behind Malaysia, Turkey and Bosnia & Herzegovina among UMICs; while it came behind only the UAE and Kuwait in the region. New Zealand has the highest score on the Index, while Chad came last globally.

#### Social Progress Index for 2014

Country	Score	UMIC Rank	Global Rank
UAE	72.92	1	37
Kuwait	70.66	2	40
Saudi Arabia	64.38	3	65
Tunisia	62.96	4	69
Jordan	61.92	5	75
<b>Lebanon</b>	<b>60.05</b>	<b>6</b>	<b>83</b>
Egypt	59.97	7	84
Algeria	59.13	8	87
Morocco	58.01	9	91
Djibouti	45.95	10	115
Iraq	44.84	11	118
Mauritania	43.11	12	121
Yemen	40.23	13	125
Sudan	38.45	14	128

Source: Social Progress Imperative, Byblos Research

#### Components of the 2014 Social Progress Index for Lebanon

Sub-Indices	Global Rank	MENA Rank	UMIC Rank	Lebanon Score	Global Average Score	MENA Average Score	UMIC Average Score
Basic Human Needs	65	8	22	74.35	70.00	69.89	74.70
Foundations of Wellbeing	93	8	32	61.28	67.53	60.06	68.38
Opportunity	89	3	28	44.52	53.48	37.75	51.40

Source: Social Progress Imperative, Byblos Research

### **Kafalat loan guarantees up 5% to \$35m in first four months of 2014**

Figures released by the Kafalat Corporation show that loans extended to small- and medium-size companies under the guarantee of Kafalat reached \$35m in the first four months of 2014, up 4.5% from \$33.5m in the same period last year. The number of loan guarantees totaled 273 year-to-April compared to 243 in the same period last year. The average loan size reached \$128,191 compared to \$137,864 in the first four months of 2013. Mount Lebanon accounted for 41.4% of guarantees, followed by the Bekaa with 21.3%, Nabatieh with 12.1%, the North with 11.7%, the South with 9.2% and Beirut with 4.4%. The agricultural sector accounted for 51.7% of total guarantees, followed by industry with 35.9%, tourism with 7%, handicraft with 2.9% and specialized technologies with 2.6%. Kafalat is a state-sponsored organization that provides financial guarantees for loans up to \$400,000 earmarked for the setup and expansion of small and medium-size companies in productive sectors. It guarantees up to 75% of the loan amount and a similar percentage of the interest that accrues during the grace period. It also guarantees up to 90% of the loan amount for innovative start-ups and a similar percentage of the interest that accrues during the grace period.

### **Car sales down 1% in first four months of 2014**

Figures released by the Association of Automobile Importers in Lebanon (AIA) indicate that a total of 10,789 new passenger cars were sold in the first four months of 2014, constituting a marginal decrease of 0.9% from the 10,884 cars sold in the same period last year. Korean cars accounted for 43.1% of total sales, followed by Japanese cars with a 33.7% share, European automobiles with 17.5%, American vehicles with 4.3%, and Chinese cars with 1.4%. The number of Japanese cars rose by 44.5% rise year-on-year, constituting the highest rise in new car sales; while the number of new American cars sold declined by 28.3% from the same period last year, followed by Chinese vehicles with a 23.5% fall, European automobiles with a 15.2% decrease and Korean cars with a 12.2% drop in sales. Kia is the leading brand in the Lebanese market with 2,527 cars sold in the first four months of 2014, followed by Hyundai with 2,121, Toyota with 1,378 cars sold, Nissan (1,339), Renault (385), Mitsubishi (323) and Chevrolet (250). In parallel, 716 new commercial vehicles were sold in the first four months of 2014, constituting a rise of 5.1% from 681 vehicles sold in the same period of last year, but a decline of 6% from 762 vehicles sold in the first four months of 2012.

The number of new vehicles sold by the country's top five distributors reached 8,563 in the first four months of 2014 and accounted for 74.4% of new vehicles sold. NATCO sal sold 2,527 vehicles in the covered period, equivalent to 22% of the total, followed by Century Motor Co. sal with 2,175 (18.9%), Boustany United Machineries sal with 1,514 (13.2%), Rasamny Younis Motor Co. sal with 1,501 (13%) and Bassoul Heneine sal with 846 (7.4%). The AIA indicated that the combined number of registered new and imported used cars in the first four months of 2014 decreased by a marginal 0.5% from the first four months of 2013 but increased by 5.3% from the same period of 2012. It said that the luxury car segment accounted for only 3.5% of total new cars registered. It reiterated that about 90% of new cars sold were small automobiles that cost on average about \$11,000 each.

### **EFG Hermes' net income up 64% to \$23m in first quarter of 2014**

Regional investment bank EFG Hermes declared consolidated net income of EGP161m, or around \$23.2m, in the first quarter of 2014, constituting an increase of 64.3% from net profits of EGP98m in the same quarter last year. Also, EFG Hermes' net profit after deducting tax and minority interest (NPAT) reached EGP118.9m or about \$17.2m in the first quarter, up 190.2% from the same quarter of the previous year. Investment banking operations generated a NPAT of EGP60m, constituting the first profit after seven quarters of reporting losses; while commercial banking activity by Crédit Libanais posted a NPAT of EGP59m in the first quarter of 2014. EFG said that commercial banking revenues increased by 5.7% annually to EGP317m, while those of investment banking improved by 26.8% year-on-year to EGP246m. Total operating revenues reached EGP563m in the first quarter of the year, up 14% annually. The investment banking segment generated a net operating profit of EGP87m in the first quarter of 2014, compared to EGP5m in the same quarter of last year, driven by stronger revenues and by the efficient deployment of the cost optimization plan that was initiated last year. It noted that revenues generated from the brokerage operations rose by 79% to EGP115m due to higher brokerage commissions, as trading volumes improved in most markets. Also, revenues from capital market and treasury activities grew by 77% to EGP64m due to realized gains from the sale of investments and dividend income. In parallel, EFG Hermes indicated that total consolidated assets reached EGP69.5bn, or \$10.1bn at the end of March 2014 relative to EGP67.37bn at end-2013. It added that Crédit Libanais accounted for about 56.3% of consolidated operating revenues in the first quarter of 2014.

EFG Hermes Holding SAE holds a 65% stake in Crédit Libanais sal. The Lebanese bank posted net profits of \$15.6m in the first quarter of 2014, constituting a decrease of 3.7% from the same quarter of 2013. The bank's return on average assets reached 0.7% on an annualized basis in the first quarter 2014, down from 0.8% in the same quarter a year earlier; while its return on average equity was 9.3% on an annualized basis relative to 12.2% in the same quarter of 2013. The cost-to-income ratio increased to 58.9% in the first quarter of the year from 57.3% a year earlier. Its total assets reached \$8.55bn at end-March 2014, constituting a 2.3% increase from end-2013; while loans to customers stood at \$2.67bn at end-March, up 2.7% from end-2013. The bank's deposits totaled \$7.29bn at the end of March 2014 and increased by 1.9% from end-2013. The loans-to-deposits ratio rose to 36.6% at end-March 2014 from 33.9% a year earlier.

### **CMA CGM's ratings upgraded on improving financial policy**

Standard & Poor's upgraded the long-term corporate credit rating of the Lebanese-owned and France-based container shipping group CMA CGM to 'B+' from 'B' with a 'stable' outlook. It also upgraded to 'B-' from 'CCC+' the company's senior unsecured notes. It attributed the upgrade to its reassessment of the company's financial policy to 'neutral' from 'negative'. It noted that the company's leverage has substantially moderated and that its financial policy would maintain its credit ratios broadly in line with those projected under normal operating and financial conditions. It noted that CMA CGM's financial policy shifted over the past two years towards more predictable and balanced growth strategies and acquisition plans. It expected the company to continue to reduce costs and to maintain substantial cash balance in excess of \$1bn, which would be used to offset the volatility within the shipping industry.

The agency indicated that CMA CGM has a "weak" business risk profile that reflects "intermediate" country risk, "fair" competitive position and "high" industry risk. It noted that the company's "weak" profitability reflects its operating margins and returns on capital that are linked to the industry's cyclicality, its heavy exposure to fluctuations in bunker fuel prices, its limited ability to recover cost inflation and its low short-term flexibility to adjust its operating cost base. But it noted that these weaknesses are mitigated in part by CMA CGM's top-tier market position, as well as by its large, new and diverse fleet and strong customer diversification. It added that the company's track record of achieving significant cost savings would continue to support earnings. It expected the company's operating performance over the near- to medium-term to benefit from stabilizing growth rates in trade volume at about 6% to 7% per year, stable average freight rates and the realization of additional cost efficiencies.

CMA CGM declared net profits of \$430.5m 2013, up by 19.4% from \$360.6m in 2012. The firm generated revenues of \$15.9bn last year, almost unchanged from the preceding year, with volumes carried up 7.5% to 11.4 million twenty-foot equivalent unit (TEU). CMA CGM group is the third largest container shipping company in the world. It operates a fleet of 428 vessels with a total capacity of 2.2 million TEU and serves more than 521 ports around the world.

### **Moody's affirms AXA's ratings, outlook revised to 'stable'**

Moody's Investors Service affirmed France-based insurance group AXA's senior unsecured debt rating at 'A2' and its subordinated debt rating at 'A3/A3(hyb)', and kept the Insurer Financial Strength rating of the main AXA subsidiaries at 'Aa3'. It revised the outlook on the ratings to 'stable' from 'negative'. AXA Middle East sal, one of Lebanon's insurance firms, is a subsidiary of the group. The agency indicated that the affirmation of the ratings reflects the group's strong business profile and improving finances. It said that the change in outlook reflects the agency's expectations that AXA's actions in the last five years, which included the de-risking of the new life insurance business, the improvement in the property & casualty profitability, and the assets-liability management discipline would continue to support a strong level of underlying earnings. It noted that AXA reported healthy and less volatile profitability in the past five years, due to the firm's leading position in many insurance markets around the world, its distribution capabilities, and its diversified sources of earnings. But it anticipated that AXA's financial profile, mainly its capitalization, financial leverage, earnings coverage and asset quality would likely remain weaker than similarly-rated peers.

Further, the agency noted that AXA has a strong ability to reduce credited rates to policyholders and, in turn, to limit the negative impact of low interest rates on its earnings due to its disciplined asset-liability management as well as the spread between its investments yield and the average guaranteed rate on life policies. AXA Middle East generated total premiums of \$103.8m in 2013, including \$94.8m in non-life and \$9m in life premiums. It ranked in second and 11th place in the Lebanese insurance market in terms of non-life and life premiums, respectively, in 2013.

### **Fransabank to acquire Ahli International Bank**

Fransabank sal and the Amman-based Jordan Ahli Bank announced that they have reached an agreement for the sale of the latter's 97% stake in Ahli International Bank sal. The deal is subject to the approval of the Central Bank of Lebanon. In July 2001, the Lebanon branches of Jordan Ahli Bank merged with the Bank of Lebanon and Kuwait sal to form Ahli International Bank sal. AIB has nine branches across the country. The bank's consolidated net profits reached \$3.5m in 2013, down 1.5% from 2012. Its total operating expenditures increased by 10.2% to \$13.3m, with staff expenses rising by 2.9% to \$7.8m. In parallel, total assets reached \$787.4m at end-2013, constituting an 8.6% rise from end-2012, while loans & advances to customers grew by 16.5% from a year earlier to \$220.3m. Also, customer deposits totaled \$670m at end-2013, constituting an increase of 8% from end-2012. The loans-to-deposits ratio rose to 32.9% at end-2013 from 30.5% a year earlier. The bank's shareholder equity was \$62.2m 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	Aug 2012	July 2013	Aug 2013	Change*	Risk Level
Political Risk Rating	53.5	53.0	52.5	▼	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	57.2	▼	High

Regional Average	Aug 2012	July 2013	Aug 2013	Change*	Risk Level
Political Risk Rating	59.7	58.3	58.2	▼	High
Financial Risk Rating	41.2	41.3	41.3	▼	Very Low
Economic Risk Rating	36.3	36.6	36.2	▼	Low
Composite Risk Rating	68.6	68.1	67.8	▼	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	Stable	B-	B	Stable
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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