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BYBLOS BANK SAL

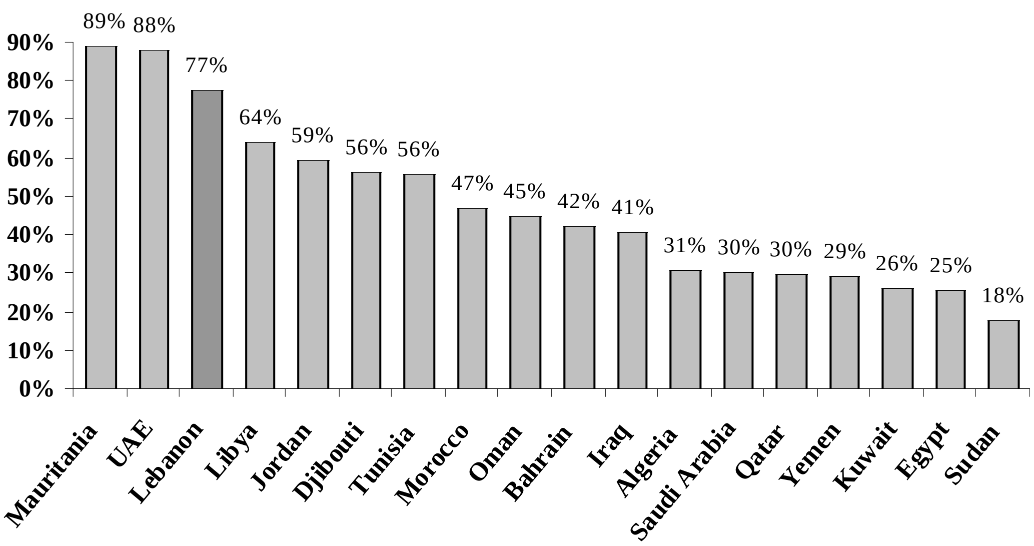
Economic Research & Analysis Department

LEBANON THIS WEEK

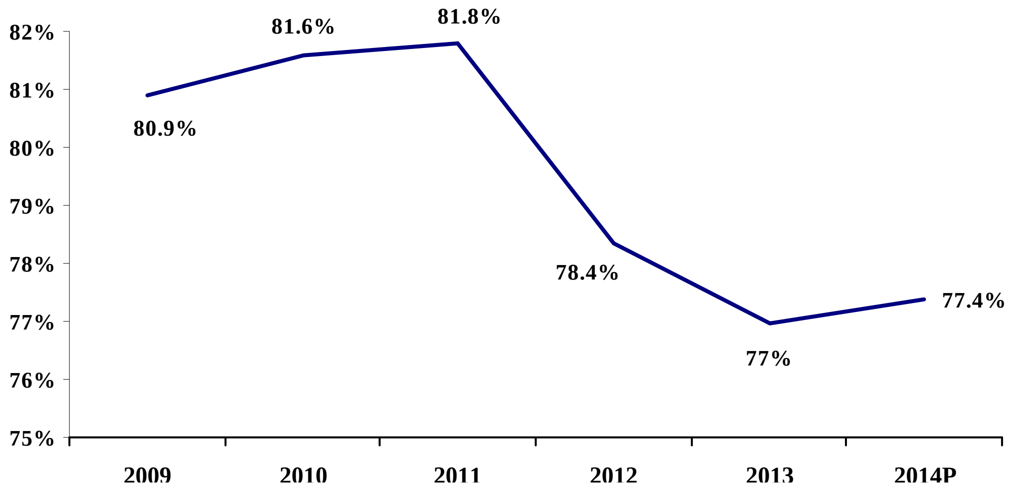
In This Issue

Charts of the Week

Projected Imports of Goods & Services to Arab Countries in 2014 (% of GDP)



Imports of Goods & Services from Lebanon (% of GDP)



Source: International Monetary Fund - May 2014, Byblos Bank

Quote to Note

"The proposed measures to finance the increase in public-sector wages will barely help finance it, leaving a big risk of the deficit widening significantly."

Barclays Capital, on the ineffective tax measures in the draft law of the public sector salary scale adjustment

Number of the Week

50%: Consumer loans as a percentage of household income in Lebanon, according to Central Bank Governor Riad Salamé

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
In months of Imports	*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"	13.33	(1.91)	38,777	11.94%
Solidere "B"	13.29	(2.71)	78,978	7.74%
Byblos Common	1.58	(0.63)	142,618	5.09%
Byblos Pref. 08	100.70	0.50	21,061	1.80%
Byblos Pref. 09	101.00	0.90	5,410	1.81%
BLOM GDR	9.38	(0.32)	2,998	6.21%
BLOM Listed	8.80	0.11	26,725	16.94%
Audi GDR	6.56	0.00	0	6.02%
Audi Listed	6.40	(0.78)	2,252,530	20.04%
HOLCIM	15.13	0.00	0	2.64%

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

Sovereign Eurobonds	Coupon %	Mid Price $	Mid Yield %
Jan 2015	5.875	101.00	3.99
Apr 2015	10.000	105.25	3.44
Jan 2016	8.500	107.50	3.49
Mar 2017	9.000	112.00	4.28
Nov 2018	5.150	100.50	5.02
May 2019	6.000	103.75	5.12
Mar 2020	6.375	105.25	5.29
Apr 2021	8.250	115.25	5.52
Oct 2022	6.100	102.00	5.79
Nov 2026	6.600	102.00	6.36

Source: Byblos Bank Capital Markets

	June 23-27	June 16-20	% Change	May 2014	May 2013	% Change
Total Shares Traded	2,638,295	3,184,785	(17.16)	3,204,699	3,775,206	(15.11)
Total Value Traded	$21,505,215	$20,389,661	5.47	$32,279,807	$30,561,605	5.62
Market Capitalization	$11.17bn	$11.24bn	(0.64)	$11.19bn	$10.71bn	4.45

Source: Beirut Stock Exchange (BSE)

FDI inflows down 23% to $2.8bn in 2013, equivalent to 6.4% of GDP

Figures released by the United Nations Conference on Trade and Development (UNCTAD) show that foreign direct investment (FDI) in Lebanon totaled $2.83bn in 2013, constituting a decrease of 22.9% from $3.67bn in 2012. FDI inflows to Lebanon totaled $3.48bn in 2011, $4.28bn in 2010, $4.80bn in 2009 and $4.33bn in 2008. The UNCTAD attributed the drop in FDI inflows last year to the significant decrease in investments in the country's real estate sector, particularly from the Gulf Cooperation Council countries. Lebanon was the seventh largest recipient of FDI in nominal terms among 19 Arab countries, the 10th largest among 22 economies in the MENA region, and the fifth largest among 12 countries in West Asia in 2013. It was also the 55th highest globally among 135 economies with a GDP exceeding $10bn.

Lebanon posted the sixth steepest decrease in FDI inflows among Arab countries with positive flows and the seventh steepest decline in the MENA region last year. It was one of eight Arab and 10 MENA countries that saw a decrease in FDI inflows in 2013. In comparison, FDI inflows to Arab economies dropped by 9.4% year-on-year, those to MENA countries decreased by 5.8% and FDI inflows to West Asia declined by 8.6%, while those to emerging economies rose by 8.9% and global FDI inflows increased by 9.1%.

FDI inflows to Lebanon accounted for 5.9% of total FDI in Arab countries and for 3.7% of inflows to the MENA region in 2013, compared to 6.9% in the Arab world and 4.6% regionally in 2012. They also represented 6.4% of total flows in West Asia, 0.3% of FDI inflows to emerging economies, and 0.2% of global FDI in 2013.

Further, FDI inflows to Lebanon were equivalent to 6.4% of GDP in 2013, the third highest in the Arab world and the MENA region behind Mauritania (27.6% of GDP) and Djibouti (19.6% of GDP). Also, FDI inflows to Lebanon as a percentage of GDP were the 19th highest among countries with a nominal GDP higher than $10bn. In addition, FDI inflows to Lebanon were equivalent to 21.6% of gross fixed capital formation, the third highest such ratio among Arab countries and in the MENA region, behind Djibouti (101.2%) and Mauritania (101.1%). In comparison, FDI flows as a percentage of gross fixed capital formation were equivalent to 7.4% in West Asian economies, 9.2% in developing economies and 8.2% on a global basis in 2013.

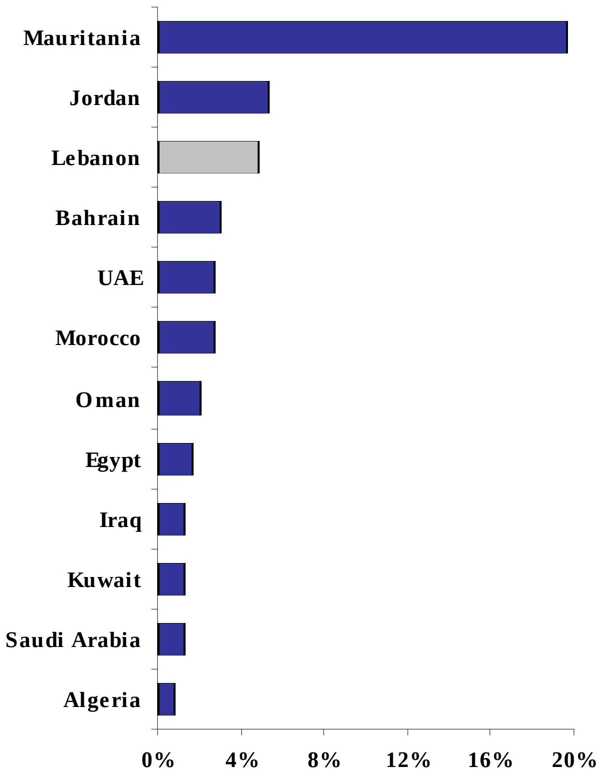
In parallel, FDI outflows from Lebanon totaled $690.4m in 2013, constituting an increase of 20.7% from $572.1m in 2012. FDI outflows from Lebanon totaled $755.1m in 2011, $486.8m in 2010, $1.1bn in 2009 and $986.6m in 2008. Lebanon was the eighth largest source of FDI outflows among Arab countries, the 10th largest in the MENA region, and the eighth largest in West Asia in 2013. Also, net FDI flows to Lebanon totaled $2.1bn in 2013, the seventh highest level in the Arab world.

Foreign Direct Investment in Arab Countries ($m)

	2013	2012	Change (%)
UAE	10,488	9,602	9.2%
Saudi Arabia	9,298	12,182	(23.7%)
Egypt	5,553	6,881	(19.3%)
Morocco	3,358	2,728	23.1%
Sudan	3,094	2,488	24.4%
Iraq	2,852	2,376	20.0%
Lebanon	**2,833**	**3,674**	**(22.9%)**
Kuwait	2,329	3,931	(40.8%)
Jordan	1,798	1,497	20.1%
Algeria	1,691	1,499	12.8%
Oman	1,626	1,040	56.3%
Mauritania	1,154	1,383	(16.6%)
Tunisia	1,096	1,603	(31.7%)
Bahrain	989	891	11.0%
Libya	702	1,425	(50.7%)
Djibouti	286	110	160.0%
Palestine	177	244	(27.5%)
Yemen	(134)	(531)	74.8%
Qatar	(840)	327	-
Total	**48,350**	**53,352**	**-9.4%**

Source: UNCTAD, Byblos Research

Net FDI inflows in 2013 (% of GDP)



Source: UNCTAD, Byblos Research

Lebanese real estate market lacks transparency, ranks last globally in terms of data availability

Jones Lang LaSalle's Global Real Estate Transparency Index for 2014 ranked Lebanon in 81st place among 102 countries and markets worldwide and in 11th place among 15 Arab countries and markets. Also, Lebanon came in 23rd place among 33 Upper-Middle Income Economies (UMICs) included in the survey. The firm modified its methodology to calculate this year's index and updated the historical data accordingly. Lebanon ranked in 70th place globally in the 2010 survey and in 80th place in the 2012 survey.

Real Estate Transparency Index 2014				
	Score	Arab Rank	Gobal Rank	Level of Transparency
Dubai	3.11	1	49	Semi
Abu Dhabi	3.20	2	53	Semi
Qatar	3.37	3	58	Semi
Bahrain	3.40	4	60	Semi
Saudi Arabia	3.57	5	67	Low
Jordan	3.62	6	69	Low
Egypt	3.67	7	72	Low
Kuwait	3.74	8	75	Low
Morocco	3.76	9	76	Low
Oman	3.88	10	80	Low
Lebanon	**3.90**	**11**	**81**	**Low**
Algeria	4.20	12	90	Opaque
Tunisia	4.23	13	92	Opaque
Iraq	4.45	14	97	Opaque
Libya	4.63	15	102	Opaque

Source: Jones Lang LaSalle, Byblos Research

The index, which is issued every two years, measures national real estate transparency across the globe and is used to compare and contrast transparency conditions across markets. It highlights the important differences in transacting, owning and operating in real estate markets. It also aims to provide governments and industry organizations with a point of reference to measure and improve transparency in their markets. The index is a composite of five weighted categories that cover Performance Measurement, Market Fundamentals, Governance of Listed Investment Vehicles, Regulatory and Legal issues, and the Transaction Process. The firm compiles the index from 115 qualitative and quantitative transparency measures that are grouped into 13 major questions. The questions are then posed to sector professionals and business leaders in each of the covered markets. The index scores range from 1.00 to 5.00 points. A country or market with a perfect 1.00 score is considered to have full real estate transparency, while a country or market with a 5.00 score has total real estate opacity. Countries and markets are then assigned to one of five transparency levels that are "Highly Transparent", "Transparent", "Semi Transparent", "Low Transparency" and "Opaque".

Globally, Lebanon's real estate market was more transparent than markets in Uganda, Ghana and Kazakhstan and less transparent than markets in Costa Rica, the Bahamas and Oman. Also, Lebanon's real estate market was more transparent than markets in Kazakhstan, Jamaica and Venezuela and less transparent than markets in Jordan, Panama and Costa Rica among UMICs. Further, the Lebanese real estate market remained in the "Low-Transparency" category, along with 20 other countries in the world that include Bulgaria, Costa Rica, Uganda, Ukraine, Vietnam and Zambia. Lebanon came in the "Opaque" category in the 2010 survey and was upgraded to the "Low-Transparency" category in the 2012 survey.

Lebanon received a score of 3.9 points in the 2014 survey, compared to 3.96 points in the 2012 survey and 4.08 points in the 2010 survey. But its score lagged the global average of 3.1 points, the UMICs' average of 3.4 points and the Arab average of 3.8 points. Jones Lang LaSalle indicated that the real estate market in Lebanon has been struggling to maintain momentum during the past two years due to economic, security and political uncertainties. It said that these challenges have delayed any progress towards improved regulations and real estate transparency in the country, and have reversed gains registered in previous surveys.

In parallel, Lebanon ranked last worldwide on the Market Fundamentals category, which reflects the availability of time series and basic data on the offices, retail, industry, hotels and residential markets. Other countries that ranked last on this category are Angola, Ethiopia, Guatemala, Honduras, Libya, Mozambique, Uganda, Senegal and Zambia. Further, Lebanon posted the fourth worst performance globally on the Regulatory & Legal category, which assesses a country's real estate taxation, land use planning, building controls, enforceability of contracts and property registration procedures. Lebanon ranked better than only Vietnam, Myanmar and Libya on this category.

Components of the 2014 Real Estate Transparency Index for Lebanon							
Sub-Index	Global Rank	Arab Rank	UMIC Rank	Lebanon Score	Global Avge Score	Arab Avge Score	UMIC Avge Score
Performance Measurement	61	8	15	3.99	3.51	4.04	3.89
Market Fundamentals	95	14	31	5.00	3.59	4.45	4.02
Governance of Listed Vehicles	24	1	3	1.75	2.88	3.12	3.37
Regulatory & Legal	99	14	32	3.92	2.64	3.45	2.93
Transaction Process	85	9	25	3.71	2.68	3.56	2.91

Source: Jones Lang LaSalle, Byblos Research

Occupancy rate at Beirut hotels at 46%, room yields down 27% in first five months of 2014

EY's benchmark survey of the Middle East hotel sector indicated that the average occupancy rate at hotels in Beirut was 46% in the first five months of 2014, down from 58% in the same period last year and compared to an average rate of 65.8% in 12 Arab markets. The occupancy rate at Beirut hotels was the second lowest in the region in the covered period, while it was the third lowest in the first five months of 2013. Cairo posted the lowest occupancy rate of 28% in the covered period. Also, the occupancy rate at hotels in Beirut fell by 12 percentage points year-on-year, constituting the steepest decrease among the 12 Arab markets, and relative to an average increase of 1.6 percentage points for the region. Occupancy rates at Beirut hotels were 36% in January, 42% in February, 41% in March, 52% in April and 63% in May 2014; compared to 50% in January, 60% in February, 59% in March, 64% in April and 59% in May 2013.

The average rate per room at Beirut hotels was $155 in the first five months of 2014, ranking the capital's hotels as the 10th most expensive in the region. The average rate per room at Beirut hotels decreased by 8.1% year-on-year and posted the third steepest decline among all markets in the region, better than only Madina (-9.3%) and Makkah (-18.1%). The average rate per room in Beirut came below the regional average of $186, which decreased by 3% from the same period of 2013.

Hotel Performance in First Five Months of 2014

	Occupancy Rate (%)	RevPAR (US$)	RevPAR % change
Dubai	85	265	2.5
Abu Dhabi	82	174	(5.8)
Madina	81	145	4.1
Jeddah	78	209	8.9
Makkah	76	121	(8.8)
Riyadh	73	161	8.0
Doha	72	172	4.6
Amman	65	107	10.8
Sharm El Sheikh	54	26	(16.5)
Manama	50	105	6.3
Beirut	**46**	**73**	**(26.5)**
Cairo	28	23	(8.6)

Source: EY, Byblos Research

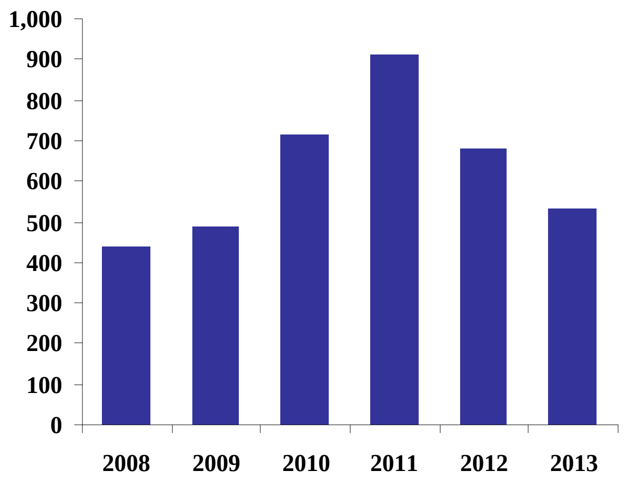
Further, revenues per available room (RevPAR) were $73 in Beirut in the first five months of 2014, down from $99 in the same period of 2013, and came in 10th place in the region, higher than only Sharm El Sheikh ($26) and Cairo ($23). Beirut's RevPAR fell by 26.5% year-on-year and posted the steepest decrease among Arab markets. Beirut posted RevPARs of $60 in January, $65 in February, $62 in March, $82 in April and $97 in May 2014 compared to $87 in January, $101 in February, $99 in March, $108 in April and $102 in May 2013. Dubai posted the highest average room rate in the region at $309, the highest occupancy rate of 85% and the highest room yield of $265 in the first five months of 2014.

Subsidized interest loans at $530m in 2013

Figures released by the Central Bank show that the amount of subsidized interest loans to productive sectors in Lebanon reached $529.7m in 2013. The industrial sector accounted for $273.8m, or 51.7% of the total, followed by tourism with $183.1m (34.6%) and agriculture with $72.8m (13.7%). Subsidized interest loans extended in 2012 totaled $681.8m relative to $912.6m in 2011, $714.8m in 2010 and $488m in 2009. The cumulative amount of subsidized interest loans to productive sectors in Lebanon reached $5.54bn between 1997 and 2013. Subsidized medium & long-term loans reached $407.6m in 2013, equivalent to 77% of the total. Industry accounted for 52.6% of total subsidized medium & long-term loans, followed by tourism with 38.7% and agriculture with 8.7%. The program was established in the first quarter of 1997 and consists of a 5% to 7% subsidy on the interest for loans extended in foreign currencies to productive sectors.

Also, subsidized interest loans guaranteed by the Kafalat Corporation totaled $115.5m, or 21.8% of the total. Industry accounted for 46% of Kafalat-backed subsidies, followed by agriculture with 32.3% and tourism with 21.7%. Kafalat provides financial guarantees for loans of up to $400,000 for small and medium-sized enterprises in productive sectors. Further, subsidized interest loans granted by leasing companies totaled $6.2m in 2013, or 1.2% of the total, and were extended in full to the industry sector. In addition, subsidized interest loans granted by the International Finance Corporation amounted to $0.3m, or 0.1% of the total, and were extended in full to the tourism sector.

Subsidized Interest Loans (US$m)



Source: Central Bank, Byblos Research

Lebanon ranks 65th globally, fifth in Arab world in insurance premiums in 2013

Swiss Re's annual survey of the global insurance market indicated that Lebanon ranked in 65th place among 147 markets in terms of premiums generated in 2013. Lebanon also came in fifth place among 12 Arab markets included in the rankings. Lebanon ranked in 66th place globally and in seventh place regionally in 2012.

Lebanon generated $1.5bn in total premiums in 2013, constituting a rise of 12.8% in nominal terms and an increase of 7% in real terms. Total premiums generated in Lebanon last year accounted for 0.03% of global premiums, for 0.2% of premiums generated in emerging markets and for 3.1% of premiums generated in the Middle East & Central Asia region. Globally, insurance premiums generated in Lebanon were higher than those produced in Qatar and Algeria and lower than those generated in Croatia and Kenya. Also, total premiums in the Lebanese insurance market were lower than those generated in the UAE, Saudi Arabia, Morocco and Egypt among Arab countries.

Insurance Density in MENA region in 2013 (Premiums per Capita in US$)

	Life	Non-Life	Total	Rank
UAE	212	661	872	32
Qatar	30	667	697	34
Bahrain	140	417	557	37
Lebanon	**109**	**233**	**341**	**50**
Kuwait	62	261	323	51
Oman	30	291	321	53
Saudi Arabia	9	212	221	57
Jordan	10	95	105	68
Morocco	31	66	97	71
Tunisia	12	65	77	74
Algeria	3	36	39	81
Egypt	10	13	23	85

Source: Swiss Re, Byblos Research

Lebanon generated $1bn in non-life premiums last year, ranking it in 65th place globally and in seventh place among Arab countries. Lebanon's global and regional ranks remained unchanged year-on-year. Non-life premiums generated in Lebanon rose by 8.1% in nominal terms and by 2.5% in real terms in 2013. Globally, non-life premiums generated in Lebanon were higher than those produced in Kenya and Liechtenstein, and lower than those generated in Angola and Egypt. Also, non-life premiums generated in Lebanon were higher than those produced in Oman, Kuwait, Tunisia, Jordan and Bahrain in the region. Non-life premiums generated in the Lebanese market accounted for 0.05% of global non-life premiums, for 0.3% of such premiums generated in emerging markets and for 2.9% of non-life premiums generated in the Middle East & Central Asia region.

Further, Lebanon generated $469m in life premiums in 2013, ranking it in 60th place globally and in fourth place in the Arab world, relative to 64th place worldwide and fourth place regionally in 2012. Life premiums generated in the Lebanese market grew by 24.4% in nominal terms and by 18% in real terms last year. Globally, life premiums generated in Lebanon were higher than those produced in Nigeria and Cyprus and lower than those generated in Kenya and Mauritius. Also, they were lower than premiums generated in the UAE, Morocco and Egypt among Arab countries. Life premiums in Lebanon accounted for 0.02% of global life premiums, for 0.1% of such premiums generated in emerging markets and for 4% of life premiums produced in the Middle East & Central Asia region in 2013.

In parallel, Swiss Re estimated Lebanon's insurance density, or premiums per capita, at $341m in 2013, which would rank the market in 50th place globally and in fourth place in the Arab world. Globally, Lebanon had a higher insurance density than Kuwait and Panama and a lower density than Uruguay and Hungary; while it had a lower density than only the UAE, Qatar and Bahrain in the region. The survey estimated Lebanon's non-life density at $233 and life density at $109 in 2013.

Also, insurance penetration in Lebanon, or premiums relative to the size of the economy, reached 3.2% of GDP last year, ranking it in 46th place globally and in first place in the Arab world. Globally, Lebanon had a higher insurance penetration rate than Morocco and Panama, and a lower penetration rate than Kenya and Poland. Lebanon posted penetration rates of 1% of GDP and 2.2% of GDP in the life and non-life categories, respectively, last year.

Payment cards reach 2.18 million, ATMs total 1,516 at end-2013

Figures released by the Central Bank show that the number of payment cards issued in Lebanon reached 2,183,996 cards at the end of 2013, constituting a 10.4% increase from the end of September 2013 and a 17.3% rise from the end of 2012. Resident cardholders accounted for 95.4% of total cards issued in Lebanon at end-2013. The distribution of payment cards by type shows that debit cards with residents totaled 1,131,654 and accounted for 51.8% of the total, followed by credit cards with residents at 455,203 (20.8%), resident prepaid cards at 326,838 (15%), charge cards with residents at 169,424 (7.8%), non-resident debit cards at 60,710 (2.8%), non-resident credit cards at 25,830 (1.2%), non-resident charge cards at 11,733 (0.5%), and non-resident prepaid cards at 2,604 (0.1%). Further, the aggregate number of point of sales accepting payment cards reached 35,492 at the end of 2013, decreasing marginally by 0.2% on a quarterly basis and rising by 3.1% annually.

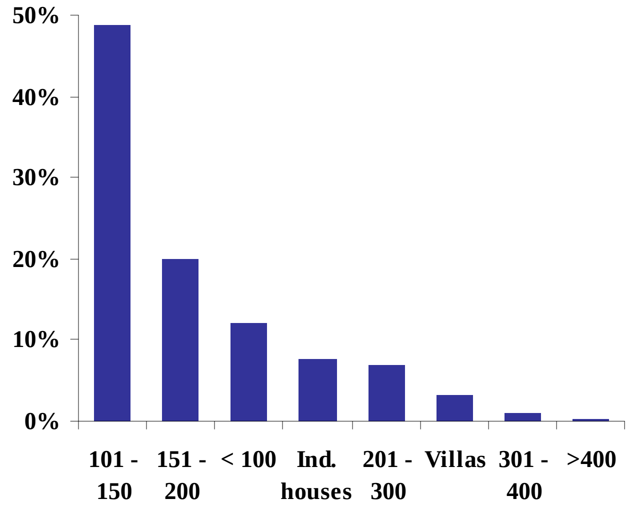
In parallel, the number of ATMs totaled 1,516 machines at the end of 2013, constituting an increase of 1.7% from end-September and a rise of 5.8% from the end of 2012. The Greater Beirut area had 643 ATMs at the end of 2013, equivalent to 42.8% of the total, followed by Mount Lebanon with 459 (29.7%), the North with 151 (10%), the South with 124 (8.3%), the Bekaa with 112 (7.4%), and Nabatiyeh with 27 (1.8%).

Residential buildings represent 83% of new construction permits in 2013, units of 200 sqm or less account for 81% of the total

Figures released by the Order of Engineers of Beirut show that the surface area of newly-issued construction permits reached 7.23 million square meters (sqm) in 2013, constituting a decrease of 14.7% from 848 million sqm in 2012. The surface area of newly-issued construction permits for residential buildings was 5.98 million sqm last year and accounted for 82.8% of the total. Commercial buildings followed with 556,479 sqm (7.7%), building used for activities related to the industrial and agricultural sectors with 302,777 sqm (4.2%), general service buildings such as hospitals and schools with 171,880 square meters (2.4%), general purpose buildings with 159,789 sqm (2.2%), and buildings for hotel and tourism related-activities with 55,884 square meters (0.8%).

The surface area of newly-issued construction permits in Mount Lebanon was 4.6 million sqm last year and accounted for 63.5% of total registered new area in 2013. The South followed with 894,767 sqm (12.4%), the Bekaa with 649,313 sqm (9%), Beirut with 534,598 sqm (7.4%), Nabatieh with 443,122 sqm (6.1%), and the North with 103,901 sqm (1.4%).

Distribution of Issued Construction Permits by Surface Area in 2013



Source: Order of Engineers of Beirut, Byblos Research

The distribution of the surface area of newly-issued construction permits for residential buildings shows that Mount Lebanon accounted for 63.4% of total residential buildings, followed by the South with 13.8%, the Bekaa with 8.5%, Beirut with 6.5%, Nabatieh with 6.2% and the North with 1.5%. Also, new residential units totaled 20,717 last year, of which 71.9% were ordinary residential buildings, 13.1% were ordinary residential complexes, 7.7% were individual houses, 3.2% were villas, 2.1% were luxurious residential complexes and 2% were luxurious residential buildings.

In parallel, residential units with surface areas ranging between 101 and 150 sqm accounted for 48.8% of total new residential units in 2013. They were followed by units with surface areas ranging from 151 sqm to 200 sqm with 19.9%, units below 100 sqm (12.1%), individual houses (7.7%), units with areas between 201 sqm to 300 sqm (6.9%), villas (3.2%), units whose surface areas are between 301 to 400 sqm (1.1%) and units whose size is above 400 sqm (0.4%). In comparison, residential units with surface areas ranging between 101 and 150 sqm accounted for 45% of total new residential units in 2012. They were followed by units with surface areas ranging from 151 sqm to 200 sqm with 24.4%, units with areas between 201 sqm to 300 sqm (10.8%), units below 100 sqm (6.8%), individual houses (6.6%), villas (4.1%), units whose surface areas are between 301 to 400 sqm (1.6%), and units whose size is above 400 sqm (0.7%).

Advances against real estate account for 32% of bank credits, share of trade & services at 35% of utilized credits at end-2013

Figures issued by the Central Bank about the distribution of bank credits by type show that advances against real estate totaled $17.1bn and accounted for 32.4% of total private sector credits at the end of 2013. They were followed by overdrafts with $15.1bn (28.5%), advances against personal guarantees $9.6bn (18.2%), advances against cash collateral or bank guarantees $6.9bn (13%), advances against other real guarantees $2.9bn (5.6%), and advances against financial values $1.3bn (2.4%). In parallel, utilized credits by the private sector totaled $52.9bn at end-2013, with the trade & services sector accounting for $18.2bn, or 34.5% of such credits. They were followed by personal credits with $14.7bn (27.8%), construction with $9.2bn (17.3%), industry with $6bn (11.3%), financial intermediaries with $2.9bn (5.4%) and agriculture with $546.8m (1%), while other sectors accounted for the remaining $1.4bn (2.6%).

Also, wholesale trade represented 43.3% of trade & services credits, followed by real estate services with 21.1%, retail with 16.2%, hotels & restaurants with 8.6%, transport & storage with 7.8%, and educational services with 3.1%. Personal credits attracted 76.7% of loan beneficiaries, followed by trade & services with 12.7% of beneficiaries, industry with 3.3%, construction with 1.7%, agriculture with 0.9%, financial intermediaries with 0.7%, while other sectors attracted the remaining 4%. Further, the aggregate number of loan beneficiaries grew by 7.9% year-on-year to 465,535, while 77.6% of beneficiaries had loans ranging from LBP5m to LBP100m by end-2013. Beirut and its suburbs accounted for 78% of bank credits and for 53.2% of beneficiaries. It was followed by Mount Lebanon with 10.8% of credits and 16.6% of beneficiaries; South Lebanon with 4.4% of credits and 9% of beneficiaries; North Lebanon with 3.9% of credits and 14.4% of beneficiaries; and the Bekaa with 3% of credits and 6.8% of beneficiaries.

Lebanon ranks 46th globally, 10th in MENA region on Fragile States Index

The 2014 Fund for Peace/*Foreign Policy Magazine* Fragile States Index ranked Lebanon in 46th place among 178 countries globally and in 10th place among 22 countries in the Middle East and North Africa region. It also ranked Lebanon in fifth place among 47 upper-middle income countries (UMICs) included in the survey. Lebanon came in 45th place globally and in eighth place regionally in the 2013 survey. The index ranks countries by their vulnerability to violent internal conflict and deteriorating security, economic and social conditions. The index is a composite of 12 political, social and economic indicators that reflect a country's vulnerability to collapse or conflict. The index's numerical scores are in descending order, with the most vulnerable countries getting the highest scores and the least vulnerable states receiving a lower score. As such, a high score on the index indicates high pressure on the State and, therefore, a higher risk of instability.

Globally, Lebanon has a lower risk of instability than Angola, Iran and Djibouti, and a higher risk level than the Solomon Islands, Uzbekistan and Zambia. Also, Lebanon is less fragile than only Iraq, Libya, Angola and Iran among UMICs. Lebanon received a score of 86.9 points in the 2014 survey, lower than its scores of 85.8 points and 86.3 points in the 2012 and 2013 surveys, respectively. Lebanon lagged the global average of 70.6 points, the MENA average of 80 points, and the UMICs' average of 70.6 points. Also, Lebanon's score regressed by 6.4 points between 2006 and 2014, constituting the 29th steepest deterioration in the world.

Fragile States Index for 2014*

Country	Score	MENA Rank	Global Rank
Sudan	110.1	1	5
Yemen	105.4	2	8
Iraq	102.2	3	13
Syria	101.6	4	15
Mauritania	93.0	5	28
Egypt	91.0	6	31
Libya	87.8	7	41
Iran	87.2	8	44
Djibouti	87.1	9	45
Lebanon	**86.9**	**10**	**46**
Israel/West Bank	79.5	11	67
Algeria	78.8	12	71
Tunisia	77.5	13	78
Jordan	76.7	14	83
Morocco	74.4	15	92
Turkey	74.1	16	93
Saudi Arabia	73.1	17	96
Bahrain	64.7	18	120
Kuwait	59.0	19	127
Oman	53.1	20	135
Qatar	48.9	21	139
UAE	47.6	22	143

**higher rank reflects higher fragility*
Source: Fund for Peace/Foreign Policy Magazine

Commercial activity declines in fourth quarter of 2013

The Central Bank's quarterly business survey of opinions indicated that the volume of commercial sales decreased during the fourth quarter of 2013 and remained low relative to historical levels, with the balance of opinion standing at -14 compared to -11 during the preceding quarter and -13 during the fourth quarter of 2012. But the balance of opinion has modestly improved from -17 in each of the first and second quarters of last year. The business survey reflects the opinions of enterprise managers about their business activity in order to depict the evolution of a number of key economic variables. The balance of opinions was the lowest in the North at -32, followed by Beirut & Mount Lebanon (-14), the Bekaa (-8), and the South (+10). The survey shows that the balance of opinions for the sales volume of food items was +6 in the fourth quarter of 2013 relative to +8 in the preceding quarter and compared to +1 in the same quarter of 2012. The balance of opinions for the sales of inter-industrial goods was -20 in the fourth quarter relative to -9 in the preceding period and compared to -18 in the fourth quarter of 2012; while it was -21 for non-food products, unchanged from the third quarter of 2013 and down from -18 in the fourth of 2012. Also, the balance of opinions for inventory levels in all commercial sub-sectors was -6 in the fourth quarter of 2013 compared to -3 in the preceding quarter and +1 in the fourth quarter of 2012. Opinions about the level of inventories were the highest in Beirut & Mount Lebanon where they reached +6, followed by the Bekaa (-4), the South (-10), and the North (-34). The balance of opinions is the difference between the proportion of surveyed managers who consider that there was an improvement in an indicator and the proportion of those who reported a decline in the same indicator.

Commercial Activity: year-on-year evolution of opinions

Aggregate results	Q4-10	Q4-11	Q4-12	Q4-13
Sales volume	0	-5	-13	-14
Number of employees	11	1	-3	-6
Inventories of finished goods	10	-2	1	-6
4-13 Regional results	**Beirut / Mount Lebanon**	**North**	**South**	**Bekaa**
Sales volume	-14	-32	10	-8
Inventories of finished goods	6	-34	-10	-4

Source: Central Bank business survey for fourth quarter of 2013

Corporate Highlights

European Investment Bank acquires stake in First National Bank

First National Bank sal (FNB), one of Lebanon's top 14 banks, issued preferred shares for a total of $15m that were fully subscribed by the European Investment Bank (EIB). The preferred shares are cumulative, convertible, and pay an annual dividend of 3.5% per share. The EIB holds the option to convert the preferred shares into common equity after five years of the issuance date and at each anniversary of the issuance thereafter. FNB became the first bank in the Middle East and North Africa region to receive a direct investment in its equity by the EIB.

FNB announced unaudited consolidated net profits of $6.3m in the first quarter of 2014, down 17.5% from the same quarter last year. Net operating income dropped by 1.8% year-on-year to $19.6m, with net interest income decreasing by 15.7% to $11.6m and net fees & commissions receipts increasing by 9.8% to $2.1m. Non-interest income accounted for 24.1% of total income, almost unchanged from 24.2% in the first quarter of 2013, with net fees & commissions representing 43% of non-interest earnings up from 38.4% in the first quarter of 2013. Further, the bank's interest margin was 1.73% in the first quarter of 2014 relative to 1.82% in the same quarter last year; while its net spread fell to 1.68% from 1.77% in the first quarter of 2013. Total operating expenditures increased by 10.3% to $12.1m, with staff expenses rising by 13.2% to $8m. Also, the bank's return on average assets reached 0.7% in March 2014 on an annualized basis, relative to 0.88% a year earlier; while its return on average equity was 9.5% on an annualized basis compared to 12.3% in March 2013. The cost-to-income ratio rose to 60.9% in the first quarter relative from 54.5% in the same quarter last year.

In parallel, total assets reached $3.7bn at end-March 2014, constituting a 3.1% increase from end-2013 and a 4.5% growth from a year earlier; while loans & advances to customers, excluding loans & advances to related parties, grew marginally by 0.2% from end-2013 but rose by 5.9% year-on-year to $885.5m. Also, customer deposits, excluding deposits from related parties, totaled $2.9bn at end-March, rising by 2.7% from end-2013 and increasing by 13.7% from a year earlier. The loans-to-deposits ratio decreased to 29.6% at end-March 2014 from 32.3% a year earlier. Further, shareholders' equity rose by 3.6% from end-2013 to $258.7m at end-March 2014.

Fransabank's net income down 14% to $34m in first quarter of 2014

Fransabank sal, one of Lebanon's top 10 banks, announced unaudited consolidated net profits of $33.7m in the first quarter of 2014, down 14.1% from the same quarter last year. Net operating income dropped by 4.7% year-on-year to $101.3m, with net interest income increasing by 13% to $89.3m and net fees & commissions receipts decreasing by 8.3% year-on-year to $12.8m. Non-interest income accounted for 17.5% of total income, down from 23.6% in the same quarter last year; with net fees & commissions accounting for 63.4% of non-interest earnings up from 52.4% in the first quarter of 2013. Further, the bank's interest margin was 2.34% in the first quarter of the year relative to 2.28% in the same quarter last year; while its spread rose marginally to 2.21% from 2.15% in the first quarter of 2013. Total operating expenditures increased by 8.3% to $62.5m, with staff expenses rising by 3.8% to $38.6m. Also, the bank's return on average assets reached 0.8% in March 2014 on an annualized basis relative to 1% a year earlier; while its return on average equity was 7.8% on an annualized basis compared to 10% in the first quarter of 2013. The cost-to-income ratio increased to 54.3% in the first quarter from 51.2% in the same quarter last year.

In parallel, total assets reached $17.4bn at end-March 2013, constituting a 2.1% rise from end-2013 and a 7.2% increase from a year earlier; while loans & advances to customers, excluding loans & advances to related parties, grew by 1.7% from end-2013 and by 10.7% from a year earlier to $5.4bn. Also, customer deposits, excluding deposits from related parties, totaled $14.2bn at end-March 2014, constituting an increase of 3.1% from end-2013 and a rise of 7.3% from a year earlier. The loans-to-deposits ratio increased to 37.7% at end-March 2014 from 36.8% a year earlier. Further, shareholders' equity rose by 2% from end-2013 to $1.7bn at end-March 2014.

Lebanon & Gulf Bank's profits at $7m in first quarter of 2014

Lebanon & Gulf Bank sal, one of Lebanon's top 14 banks, announced unaudited consolidated net profits of $7m in the first quarter of 2014, down 18% from the same quarter last year. Net operating income dropped by 4.3% year-on-year to $15.6m, with net interest income increasing by 21.4% to $11.1m and net fees & commissions receipts rising by 38.5% to $2.8m. Non-interest income accounted for 29.2% of total income, down from 52% in the first quarter of 2013, with net fees & commissions representing 60.8% of non-interest earnings up from 20.3% in the first quarter of 2013. Further, the bank's interest margin was 1.63% in the first quarter of 2014 relative to 1.56% in the same quarter last year; while its spread rose to 1.59% from 1.51% in the first quarter of 2013. Total operating expenditures increased by 19.9% to $7.6m, with staff expenses increasing by 9.4% to $4.1m. Also, the bank's return on average assets reached 1% in March 2014 on an annualized basis, relative to 1.4% a year earlier; while its return on average equity was 10.9% on an annualized basis compared to 16.6% in March 2013. The cost-to-income ratio rose to 48.7% in the first quarter from 33.4% in the same quarter last year.

In parallel, total assets reached $2.9bn at end-March 2014 and increased by 5.7% from the end of 2013 and by 18.3% from a year earlier; while loans & advances to customers, excluding loans & advances to related parties, rose by 8.3% from end-2013 and by 21.2% year-on-year to $1.1bn. Also, customer deposits, excluding deposits from related parties, totaled $2.5bn at end-March, growing by 6% from end-2013 and by 16.2% from a year earlier. The loans-to-deposits ratio increased to 45.8% at end-March 2014 from 43.9% a year earlier. Further, shareholders' equity rose by 2.8% from end-2013 to $251.6m at end-March 2014.

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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