



LEBANON THIS WEEK

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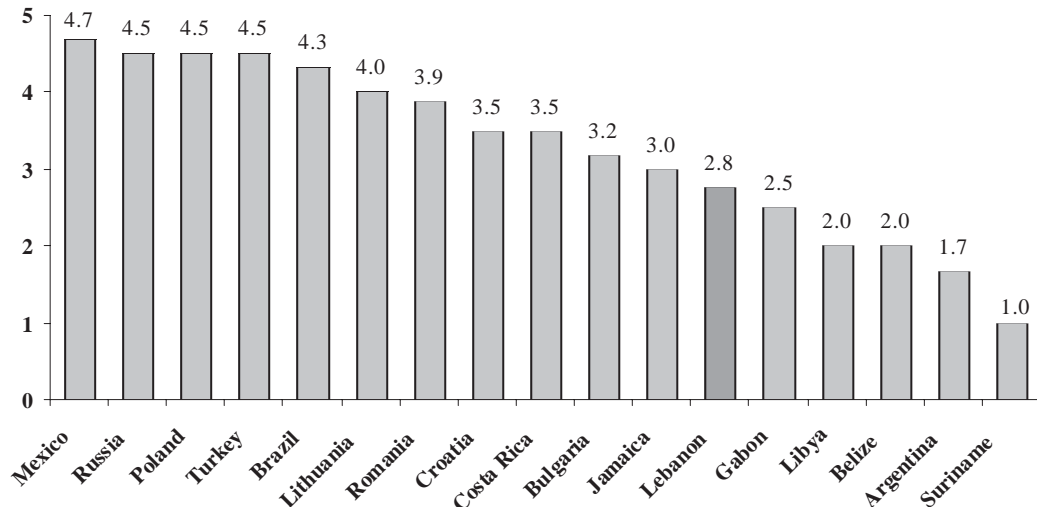
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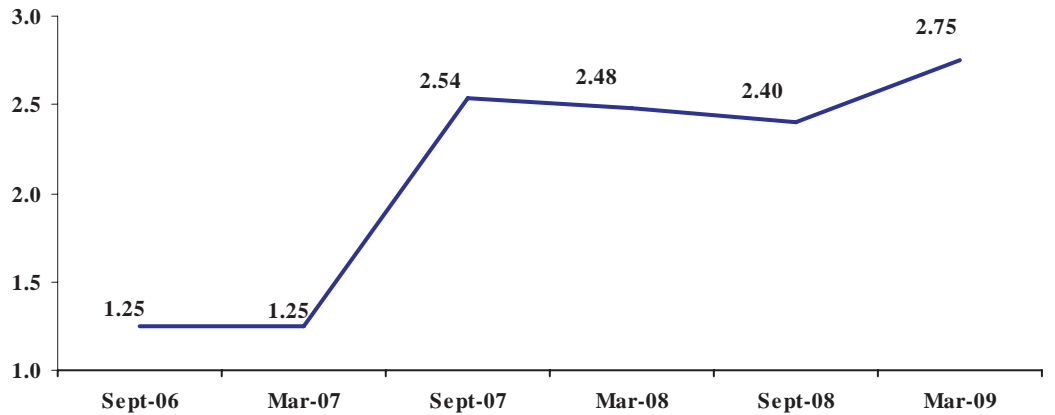
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Charts of the Week

Level of Access to Capital Markets in selected Upper Middle Income Countries as at March 2009



Level of Access to Capital Markets for Lebanon



Source: Euromoney Magazine Country Risk Survey, March 2009

Quote to Note

“Privatization remains an integral part of the economic policy of the Lebanese government.”

Prime Minister Fouad Siniora, on a key component of targeted structural reforms

Number of the Week

\$7.36bn: Outstanding Certificates of Deposits issued in Lebanese pounds by the Central Bank of Lebanon as at January 2009

Economic Indicators

| \$m (unless otherwise mentioned) | 2007 | Jan. 08 | Nov. 2008 | Dec. 2008 | 2008 | Jan. 09 | % Change* |
|---|-------------|----------------|------------------|------------------|-------------|----------------|------------------|
| Exports | 2,816 | 262 | 330 | 250 | 3,478 | 281 | 7.25 |
| Imports | 11,815 | 1,107 | 1,664 | 1,135 | 16,133 | 1,067 | (3.61) |
| Trade Balance | (8,999) | (845) | (1,334) | (885) | (12,655) | (786) | (6.98) |
| Balance of Payments | 2,036 | (259) | 303 | 714 | 3,462 | 364 | (240.54) |
| Checks Cleared in LBP | 8,409 | 766 | 764 | 832 | 9,350 | 927 | 21.02 |
| Checks Cleared in FC | 29,893 | 3,109 | 3,548 | 3,181 | 43,174 | 3,434 | 10.45 |
| Total Checks Cleared | 38,302 | 3,875 | 4,312 | 4,013 | 52,524 | 4,361 | 12.54 |
| Budget Deficit/Surplus | (2,546) | (183) | (511) | (332) | (2,921) | (305) | 66.67 |
| Primary Balance | 731 | 175 | (246) | (49) | 597 | (7) | (104.00) |
| Airport Passengers | 3,408,834 | 280,278 | 299,175 | 419,329 | 4,085,334 | 307,127 | 9.58 |

| \$bn (unless otherwise mentioned) | Dec. 2007 | Jan. 2008 | Oct. 2008 | Nov. 2008 | Dec. 2008 | Jan. 09 | % Change* |
|--|------------------|------------------|------------------|------------------|------------------|----------------|------------------|
| BdL FX Reserves | 9.78 | 9.79 | 16.17 | 16.42 | 17.06 | 17.59 | 79.67 |
| <i>In months of Imports</i> | 9.19 | 8.84 | 10.85 | 9.87 | 15.03 | 16.48 | 86.42 |
| Public Debt | 42.03 | 42.23 | 46.08 | 46.83 | 47.01 | 46.99 | 11.27 |
| Net Public Debt | 39.03 | 39.07 | 40.74 | 41.15 | 41.49 | 41.43 | 6.04 |
| Bank Assets | 82.26 | 83.07 | 90.43 | 91.76 | 94.25 | 93.79 | 12.90 |
| Bank Deposits (Private Sector) | 67.29 | 68.08 | 74.80 | 75.60 | 77.78 | 77.74 | 14.19 |
| Bank Loans to Private Sector | 20.42 | 21.38 | 24.61 | 24.69 | 25.04 | 24.96 | 16.74 |
| Money Supply M2 | 16.47 | 16.56 | 23.10 | 23.87 | 24.76 | 25.41 | 53.44 |
| Money Supply M3 | 59.83 | 60.28 | 66.38 | 67.08 | 68.66 | 68.62 | 13.83 |
| LBP Lending Rate (%) | 10.10 | 10.04 | 9.90 | 10.08 | 9.95 | 10.07 | 3b.p. |
| LBP Deposit Rate (%) | 7.40 | 7.35 | 7.28 | 7.27 | 7.22 | 7.22 | (13b.p.) |
| USD Lending Rate (%) | 8.02 | 7.93 | 7.53 | 7.54 | 7.47 | 7.35 | (58b.p.) |
| USD Deposit Rate (%) | 4.69 | 4.57 | 3.54 | 3.47 | 3.33 | 3.31 | (126b.p.) |
| %* Change in CPI** | 5.92 | 5.68 | 11.16 | 8.35 | 6.36 | 4.03 | (165b.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" | 15.93 | 0.70 | 159,852 | 18.13% |
| Solidere "B" | 15.65 | 0.97 | 302,380 | 11.58% |
| Byblos Common | 1.70 | 0.00 | 22,815 | 4.20% |
| Byblos Priority | 1.70 | (0.58) | 17,815 | 3.99% |
| Byblos Pref. 08 | 99.80 | 0.00 | 0 | 2.27% |
| BLOM GDR | 63.70 | (3.48) | 16,100 | 5.36% |
| BLOM Listed | 60.00 | (7.62) | 121,560 | 14.68% |
| Audi GDR | 50.95 | 1.19 | 3,247 | 5.70% |
| Audi Listed | 45.00 | 9.76 | 3,290 | 17.51% |
| HOLCIM | 12.95 | 0.00 | 0 | 2.88% |

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

| Sovereign Eurobonds | Coupon % | Mid Price \$ | Mid Yield % |
|----------------------------|-----------------|---------------------|--------------------|
| Mar. 2010 | 7.125 | 101.38 | 5.48 |
| May 2011 | 7.875 | 102.38 | 6.63 |
| Mar. 2012 | 7.500 | 101.38 | 6.97 |
| Sep. 2012 | 7.750 | 102.00 | 7.07 |
| June 2013 | 8.625 | 103.50 | 7.62 |
| Apr. 2015 | 10.000 | 108.38 | 8.21 |
| Jan. 2016 | 8.500 | 101.38 | 8.23 |
| May 2016 | 11.625 | 116.13 | 8.53 |
| Mar. 2017 | 9.000 | 102.75 | 8.51 |
| Apr. 2021 | 8.250 | 94.50 | 9.01 |

Source: Byblos Capital Markets

| | This Week | Last Week | % Change | Mar. 2009 | Mar. 2008 | % Change |
|------------------------------|------------------|------------------|-----------------|------------------|------------------|-----------------|
| Total Shares Traded | 647,059 | 339,327 | 90.69 | 2,056,873 | 2,427,822 | (15.28) |
| Total Value Traded | \$15,967,071 | \$5,018,029 | 218.19 | \$32,104,177 | \$49,644,714 | (35.33) |
| Market Capitalization | \$8.78bn | \$8.75bn | 0.43 | \$8.48bn | \$11.36bn | (25.36) |

Source: Beirut Stock Exchange (BSE)



Lebanon Information Technology market at \$251m in 2008, poor state of telecom infrastructure is key obstacle to growth

Business Monitor International (BMI) estimated the size of the Lebanese information technology (IT) sector at around \$251m in 2008, adding that the considerable potential of the market remains constrained by an unstable political outlook and a mixed picture regarding economic policy. It said market performance in 2008 was encouraging, but the sector is still growing well below potential and slower than regional neighbor Jordan. It forecast the IT market to grow at a nominal compound annual growth rate (CAGR) of around 7% over the 2007-13 period to reach about \$350m in 2013, although this will depend on progress in political normalization and a continuation of economic recovery.

BMI estimated the overall Lebanese personal computer market, including notebooks and accessories, at \$128m in 2008, representing a 10% growth from the previous year, with the number of units sold in the 100,000-120,000 range. It estimated the overall computer hardware market at \$160m in 2008. It noted

that this segment is still far from saturated and, despite an uncertain business environment, large companies and government departments are expected to upgrade and replace existing PCs. Also, the continued roll-out of digital subscriber line (DSL) should provide a boost to the PC market in a country where 70% of computer owners use the Internet. It expected that economic reforms would result in more demand for computers in key sectors such as telecoms, education, government and banking.

BMI estimated the size of the legal software market at just \$10m in 2008 and forecast its CAGR at 8% during 2007-13. It said the domestic software market is expected to grow relatively slowly due to the continuing problems with piracy, and despite the implementation of some government and private projects. It noted, however, that the Lebanese government appears more focused now on copyright protection issues as it tries to improve Lebanon's chances of entering the World Trade Organization. Further, BMI estimated the local IT services segment, which includes services such as consultancy, training, implementation and support, at \$58m in 2008 and projected a CAGR of 8% over the forecast period.

It identified the strengths of the sector as the largest Levant market that is well positioned for regional hub status, an IT literate and linguistically-skilled workforce, and a market far from saturated with potential for fast growth. It said the sector's weaknesses include a lack of overall government plan for the ICT sector, high telecommunications costs, lack of high speed Internet connections, and a high level of political risks.

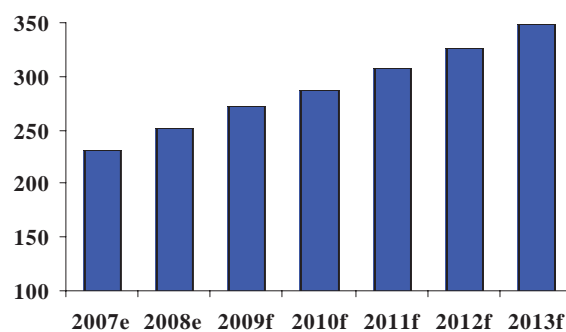
According to BMI, one of the most critical issues facing the ICT sector is the poor state of telecoms infrastructure in the country, with fixed line penetration at less than 20% and the cost of an Internet connection as much as \$400 in some rural areas. It noted that Lebanon ranks behind much of the region in the deployment of broadband connectivity, and changing this situation is seen as key to driving the country's development. It considered that broadband can be a catalyst for stronger economic growth and would help drive computer penetration above the current 10% level.

Fiscal deficit up 48% year-to-February

Figures released by the Finance Ministry show that the fiscal deficit reached \$630.6m in the first two months of 2009, up 47.8% from the same period last year. The deficit was equivalent to 32% of total budget and Treasury expenditures compared to 28% in the same period of 2008. Overall government expenditures reached \$1.98bn, up 28.2% year-on-year, while total revenues increased by 20.7% to \$1.35bn over the covered period. Tax revenues improved by 36.4% year-on-year to \$921m, of which 36.7%, or \$338m, were in VAT receipts that posted a 16.6% annual rise. Tax revenues accounted for 71.6% of budgetary revenues and for 68.3% of total Treasury and budget receipts.

Debt servicing increased by 14.2% year-on-year to \$529m, accounting for 42.1% of total expenditures and for 39.7% of budgetary spending. It absorbed 41.2% of overall revenues and 39.2% of budgetary receipts. Excluding debt servicing, the primary surplus reached \$571.2m, or 45.5% of budget expenditures compared to a surplus of \$399.3m, or 35.2% a year earlier. The overall primary deficit reached \$88.9m, or 4.5% of total spending compared to a surplus of \$148m, or 9.6% of total expenditures, a year earlier.

IT Market Size in Lebanon (\$m)



Source: Business Monitor International, Byblos Research

Economy resilient but structural risks persist

In its first report on Lebanon since the start of global financial turmoil last September, Barclays Capital indicated that despite positive economic developments, Lebanon still faces key risks in the short to medium term, adding that the forthcoming parliamentary elections are expected to be an important turning point for the country. It said the pre-Doha government did not make much reform progress, but the opposition received veto power in the post-Doha Cabinet, which has encumbered government decision-making and often put an end to reform initiatives.

It considered that in addition to its volatile political environment, Lebanon's most critical vulnerability remains its large public debt. But it noted that Lebanon managed to lower its debt-to-GDP ratio by 18 percentage points, from 180% of GDP in 2006 to 162% in 2008, despite periods of political stalemate and severe political and economic shocks over the past three years. It attributed the improvement to a sustained period of high growth in 2007 and 2008, improvements in fiscal consolidation, and continued financial support by the international donor community. It also noted that the banking system has proven its resilience to external shocks once more, suffering little from the global financial crisis. Further, the rise in foreign currency reserves at the Central Bank provides a considerable cushion to withstand possible shocks in the short to medium term.

In parallel, Barclays Capital expected Lebanon to be impacted by the global and regional economic slowdown through a decline in remittances inflows, which will affect consumption and private investment. It also anticipated FDI and portfolio investment to slow down, putting further downward pressure on growth and capital inflows. It saw substantial risks for such flows due to the expected lag effect of the credit crunch in the Gulf and the need of Gulf-based real estate developers to reduce overseas activities. It noted that the Central Bank claims that financing needs for both the private and public sectors will be met in 2009, even though deposits are likely to slow down to around 7-10% this year, remittances will drop by about 30% and FDI will decline.

It identified the deterioration in the fiscal outlook in 2009 as another risk, but one that can be discounted until a new government forms. It noted the system's financing flexibility and resilience to shocks due to the strength of the banking sector and the Central Bank. It said the post-election government will have to work on reducing the fiscal deficit and implementing Paris III structural reforms in the face of decelerating GDP and deposit growth. It considered that the markets can tolerate some modest widening of the fiscal deficit, but warned that if the elections produce another dysfunctional government, risks would rise sharply for the economic and financial sector outlook.

| Country Forecast Summary | | | | |
|----------------------------------|-------|-------|-------|-------|
| | 2006 | 2007 | 2008e | 2009f |
| Real GDP growth (% y/y) | 0.6 | 7.5 | 8.5 | 3.0 |
| Inflation (% y/y) | 5.6 | 4.1 | 10.8 | 3.6 |
| Exports (% y/y) | 40.8 | 27.1 | 26.3 | 5.0 |
| Imports (% y/y) | 11.3 | 27.6 | 36.8 | -5.1 |
| Current Account (% of GDP) | -5.6 | -7.1 | -11.4 | -10.5 |
| Net FDI (% of GDP) | 11.9 | 8.0 | 7.1 | 5.5 |
| Public Sector Balance (% of GDP) | -10.4 | -10.9 | -9.9 | -12.3 |
| Gross External Debt (% of GDP) | 199 | 194 | 191 | 182 |
| Gross Public Debt (% of GDP) | 180 | 168 | 162 | 162 |
| International Reserves (\$bn) | 13.3 | 12.9 | 20.2 | 22.5 |

Source: Barclays Capital

Association of Banks reduces reference rate on US dollar to 5.24%

The Association of Banks in Lebanon (ABL) recommended to its member banks to reduce the Beirut Cost Rate in US dollars by 32 basis points to 5.24% from 5.56% previously. Last March, the ABL adopted a new reference rate on US dollar lending called the Beirut Cost Rate (BCR). The new rate replaced the London Inter-Bank Offering Rate (LIBOR) as the reference rate for lending in foreign currency. The ABL considered that the LIBOR no longer accurately reflects the cost of funding and lending in Lebanon. The BCR is calculated by adding the banks' operating cost and the average cost on term deposits in US dollar in the Beirut market, and takes into consideration the dollarization rate of private sector lending. The ABL indicated that the BCR does not replace the Beirut Prime Lending Rate, but constitutes the basis to calculate the prime rate after adding the cost of liquidity and refinancing, credit risks, and the profitability of banks to the prime lending rate. The prime lending rate in US dollars is at 8.25%.

Association of Banks adopts new reference rate on Lebanese pound lending

The Association of Banks in Lebanon (ABL) adopted a new reference rate on lending in Lebanese pounds called the Lebanese Pound-Beirut Cost Rate (LBP/BCR). The new rate is calculated by adding the banks' operating cost and the average cost on term deposits in Lebanese pounds in the Beirut market, and takes into consideration the level of private sector lending in Lebanese pounds. The ABL indicated that the LBP/BCR does not replace the Beirut Prime Lending Rate in Lebanese pounds, but constitutes the basis to calculate the prime rate after adding the cost of liquidity and refinancing, credit risks, and the profitability of banks to the prime lending rate. Further, the ABL adopted an LBP/BCR of 9% starting on May 1, 2009. The prime lending rate in Lebanese pounds is at 10%.

Slowing foreign currency deposit growth may make it difficult to issue Eurobonds

Regional investment bank EFG Hermes indicated that the short-term outlook for Lebanon's public debt was boosted by a debt swap in March, with the government issuing bonds maturing in 2012 and 2017 worth \$2.3bn in exchange for short-dated debt, representing around 83% of debt requirements in 2009. It considered that this will help bring down the debt servicing cost and debt amortization requirements, while also improving the maturity outlook. It noted, however, that government financing needs for 2009 are estimated at \$4bn, driven by a widening budget deficit, which means the government may need to borrow more in foreign currency. It warned that this could prove difficult given that issuing new Eurobonds would first require ratification of the 2009 budget draft, and that the approval in Cabinet has been held up by a political dispute. It expected the fiscal deficit at 9.6% of GDP in 2009 and 9.2% of GDP in 2010, down from 10.2% of GDP in 2008.

EFG Hermes added that slowing foreign currency deposit growth may make it difficult to issue more Eurobonds and considered that this probably means the government will increase borrowing in local currency. Moreover, declining deposit dollarization at banks, to 69% in January 2009 from 77% a year earlier, may limit the government's ability to borrow in foreign currency given that local banks hold the majority of external public debt. It noted that local currency deposits increased by 57% year-on-year in January, as depositors sought to benefit from widening interest rate spreads in favor of the local currency. It expected deposit growth to continue in 2009, but at much lower rates due to the global recession, and will still provide Lebanon with enough resources to finance its widening deficit and service its debt stock in 2009.

EFG Hermes said the medium-term outlook on the public debt remains uncertain due to a fragile political system that hampers the government's ability to execute critical reforms, such as the privatization of the two state-owned telecommunication licenses and state-owned utility Electricité du Liban. It projected external debt at 71.4% of GDP at end-2009 and at 69.7% of GDP at end-2010, down from 75% of GDP at end-2008. It also projected domestic debt at 86% of GDP at the end of 2009 and at 84.9% of GDP at the end of 2010 compared to 85.1% of GDP at the end of 2008. It also forecast the growth in broad money at 10% this year and 9% next year, down from 14% in 2008; while it expected private sector credit to grow by 6% in each of 2009 and 2010, significantly down from 18% in 2008.

Lebanon ranks 4th in Middle East in women's advancement

The MasterCard Worldwide Index of Women's Advancement for 2009 ranked Lebanon in 9th place among 20 countries across the Middle East & Asia Pacific (MEAP) region and in 4th place among 6 countries in the Middle East. Lebanon came in second place in both regions in the 2008 survey. The index measures women's socioeconomic parity with men in four main indicators. The indicators are the ratio of female to male participation in the labor force, tertiary education, females' perceptions of whether they hold managerial positions at work, and women who earn above median income. A score under 100 indicates inequality in favor of men and above 100 indicates inequality in favor of women.

| Middle East Scores & Rankings | | | |
|-------------------------------|-------------|----------|-----------|
| | Index Score | ME Rank | MEAP Rank |
| Kuwait | 112.2 | 1 | 1 |
| Qatar | 104.3 | 2 | 2 |
| UAE | 93.3 | 3 | 4 |
| Lebanon | 80.6 | 4 | 9 |
| Egypt | 72.2 | 5 | 11 |
| Saudi Arabia | 71.2 | 6 | 12 |

Source: MasterCard Worldwide, Byblos Research

Lebanon ranked ahead of Hong Kong and Egypt and behind Singapore and China in the MEAP region. Its level of Women Advancement reached 80.6 points down 9.84% or 8.8 points from last year's survey. Lebanon's score came above the MEAP average score of 76.3 points but below the Middle East average score of 88.9 points.

Lebanon posted the highest ratio of women to men in managerial positions in the Middle East, with a ratio of 75 women in managerial positions for each 100 men in similar posts. Lebanon also ranked third in terms women earning above median income, with a ratio of 77 women per 100 men, coming after Egypt and Qatar. It also ranked in third place in terms of women's participation in the labor force, with a ratio of 47 women working for every 100 men with a job, coming after Kuwait and the UAE.

Cleared checks up 7.9% to \$12.2bn in first quarter of 2009

The value of cleared checks increased by 7.9% to \$12.2bn in the first quarter of 2009 compared to the same period of 2008. The value of cleared checks in Lebanese pounds rose by 18.2% to the equivalent of \$2.6bn, while the value of cleared checks in U.S. dollar rose by 5.4% to \$9.6bn. The dollarization rate of cleared checks decreased from 80.2% to 78.4% year-on-year.

Airport passengers up 16.3% in first quarter of 2009

Figures released by the Hariri International Airport (HIA) show that the number of airport passengers (arrivals, departures, transit) amounted to 886,661 in the first quarter of 2009, up 16.3% year-on-year. Passengers from the UAE accounted for 21.2% of total passengers, followed by those from Saudi Arabia with 10.4%, France with 10.3% and Kuwait with 8.3%. The total number of flights reached 11,485 in the first quarter of 2009, up 22.1% year-on-year. Also, the HIA processed 16,789 metric tons of cargo, of which 16,515 tons of freight and 274 tons of mail. The total cargo processed in the first quarter of 2009 increased by 8.5% compared to the same period of 2008.

Number of tourists up 53.6% in first quarter of 2009

The number of incoming tourists to Lebanon totaled 297,679 in the first quarter of 2009, constituting an increase of 53.6% from 193,778 tourists in the same period of 2008. Arab tourists accounted for 41.3% of total visitors and were followed by visitors from Europe with 22.2% and Asia with 20%. The number of tourists reached 123,469 in March 2009, constituting an increase of 57.5% from 78,378 in March 2008. Arabs accounted for 35% of total visitors in March 2009, followed by Europeans with 19.5% of total.

Most tourist spending in Lebanon originates from Saudi Arabia in first quarter of 2009

According to Global Refund, the cash refund operator for international shoppers, tourists from Saudi Arabia spent the most in Lebanon over the first quarter of 2009, equivalent to 20% of total tourist spending, followed by tourists from UAE (13%), Kuwait (12%), Egypt (8%) and Jordan (6%). Beirut attracted 82% of total spending over the covered period, followed by the Metn area with 13% and the Keserwan region with 3%. Fashion & clothing accounted for 66% of total spending, followed by watches with 12%, perfume & cosmetics with 5%, home & garden with 5% and department stores with 4%.

Industrial and commercial activity up in fourth quarter of 2008

The Central Bank's business sentiment survey indicates that industrial production increased during the fourth quarter of 2008, with a balance of opinions standing at +15, compared to +4 during the same quarter of 2007. 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 increased from -1 in the fourth quarter of 2007 to +13 in the same quarter of 2008.

In parallel, commercial activity improved, as the volume of sales increased significantly during the fourth quarter of 2008 with a balance of opinions standing at +37 compared with +16 during the same quarter of 2007. Moreover, overall activity in the construction and public works sectors improved in the last quarter of 2008, with a balance of opinions standing at +2, compared with -6 in the same quarter of 2007. Surveyed managers for ongoing projects in the construction and public works sectors reported a balance of opinion of -6 at the end of the last quarter of 2008 compared with -17 a year earlier.

| Year-on-year Evolution of Opinions | | |
|---|-------|-------|
| Aggregate Results | Q4-08 | Q4-07 |
| Industrial production | +15 | +4 |
| Total demand for industrial goods | +13 | -1 |
| Commercial sales volume | +37 | +16 |
| Overall activity in construction and public works | +2 | -6 |
| Ongoing projects in construction and public works | -6 | -17 |

Source: Central Bank Business Survey

Car sales up 18.7% year-on-year in first quarter of 2009

Figures released by the Association of Automobile Importers in Lebanon indicate that a total of 6,263 new passenger cars were sold in the first quarter of 2009, constituting an increase of 18.7% from the 5,274 cars sold in the same period of 2008. Japanese cars accounted for 46.9% of total sales, followed by European automobiles with a 28.5% market share, Korean cars with 17%, American vehicles with 7.4%, and Chinese vehicles with 0.2%. European cars posted the biggest growth in sales with a 34% jump year-on-year, followed by Korean cars with a 20.8% rise, Japanese cars with a 13.8% growth, and American cars with 0.4% increase. Nissan is the leading brand in the Lebanese market with 1,148 cars sold in the first quarter of 2009, followed by Toyota with 1,035 cars sold, Kia with 703, Peugeot with 413, Hyundai with 353, BMW with 321 and Honda with 300.

Lebanese investor becomes largest individual shareholder in KIPCO

The Kuwait Projects Company (KIPCO), Kuwait's largest non-state-owned investment firm, announced that Lebanese businessman Bahaa Hariri invested \$100m for a 5% stake in the firm, making him the largest individual shareholder in the company. KIPCO is one of the largest diversified holding companies in the MENA region. It has consolidated assets of more than \$19bn and owns a portfolio of around 50 companies across 21 countries. It has investments in various sectors including financial services, real estate, healthcare, technology, media, management and manufacturing. Forbes magazine estimated Mr. Hariri's net worth at \$2.9bn, ranking him 221st on the magazine's annual list of world billionaires for 2009. He also ranked as the wealthiest Lebanese on the list. Mr. Hariri owns the Horizon Group, an investment firm that focuses on real estate in Lebanon, Jordan and Saudi Arabia. KIPCO posted net profits of 42.5m Kuwaiti dinars in 2008, down from KWD576m in 2007. It had revenues of KWD440m in 2008 compared to KWD885m in the previous year.

Rating agencies downgrade Holcim

Fitch Ratings downgraded the Swiss-based building materials company Holcim Ltd's Long-term Issuer Default (IDR) and senior unsecured ratings to 'BBB' from 'BBB+', and assigned a 'negative' outlook to the long term ratings. Also, Moody's Investors Service downgraded Holcim's 'Baa1' long-term issuer and unsecured rating to 'Baa2' and changed the outlook to 'stable'. Holcim Ltd is the parent company of Holcim Liban sal and holds a 52% stake in the Lebanese firm.

Fitch Ratings attributed the downgrade to the global recession, which will lead to challenging conditions in the building materials industry in mature markets, while the industry faces diminished prospects in emerging markets. It noted that the firm announced a number of measures including capacity reductions in all segments, cost-cutting, and capex reduction on expansion and maintenance, adding that these measures are unlikely to offset the negative pressure on operational cash flow. Fitch said the 'negative' outlook reflects the challenges that Holcim will face in the next 24 months to improve credit metrics in light of difficult market conditions. It projected a single-digit decline in revenue in 2009 and a flat performance in 2010. It noted that the ratings continue to reflect Holcim's strong market positions in cement, aggregates and concrete, and its complementary product portfolio.

In parallel, Moody's said the rating action was prompted by the strong deterioration of Holcim's leverage ratios and operating margins in 2008 and the expectation that these metrics will not improve over the medium term to levels more commensurate with a 'Baa1' rating. It added that the stable outlook reflects the expectation that Holcim will be able to offset further declines in weaker advanced markets with continued improvements in developing markets. Last January, Standard & Poor's downgraded the firm's long-term corporate credit and debt ratings to 'BBB' from 'BBB+'.

HOLCIM Liban sal posted net profits of \$6m in the first half of 2008, down 45.5% from \$11m in the first half of 2007. The company's net sales increased by 26.4% to \$74.54m in the first half of 2008 compared to \$59m in the same period last year. HOLCIM's total assets and total equity amounted to \$311.6m and \$184.4m respectively as at end-June 2008, compared to \$309.8m and \$191.9m as at end 2007. The company is engaged in the production and sale of cement and other related services, and its shares are listed on the Beirut Stock Exchange.

Ratio Highlights

| (in % unless specified) | 2006 | 2007 | 2008 | Change* |
|-----------------------------------|--------|--------|--------|---------|
| Nominal GDP ⁽¹⁾ (\$bn) | 22.7 | 24.6 | 28.8 | |
| External Debt / GDP | 89.9 | 86.4 | 73.4 | (1,300) |
| Local Debt / GDP | 88.1 | 84.6 | 89.8 | 520 |
| Total Debt / GDP | 178.4 | 171.0 | 163.2 | (780) |
| Trade Balance / GDP | (31.3) | (36.6) | (43.9) | (730) |
| Exports / Imports | 24.3 | 23.8 | 21.6 | (220) |
| Budget Revenues / GDP | 19.4 | 23.6 | 24.4 | 80 |
| Budget Expenditures / GDP | 30.8 | 33.9 | 34.5 | 60 |
| Budget Balance / GDP | (11.5) | (10.3) | (10.1) | 20 |
| Primary Balance / GDP | 0.4 | 2.9 | 2.1 | (80) |
| BdL FX Reserves / M2 | 65.6 | 59.6 | 68.9 | 930 |
| M3 / GDP | 234.4 | 243.2 | 238.4 | (480) |
| Bank Assets / GDP | 327.2 | 334.4 | 327.3 | (710) |
| Bank Deposits / GDP | 267.4 | 273.5 | 270.1 | (340) |
| Private Sector Loans / GDP | 67.4 | 72.2 | 86.9 | 1,470 |
| Dollarization of Deposits | 76.2 | 77.3 | 69.6 | (770) |
| Dollarization of Loans | 84.0 | 84.3 | 86.6 | 230 |

* Change in basis points 06/07

(1) Based on Ministry of Finance Estimations and the International Monetary Fund

Source: Association of Banks in Lebanon, Byblos Research Calculations

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

Risk Outlook

| Lebanon | Dec 2007 | Nov 2008 | Dec 2008 | Change* | Risk Level |
|-----------------------|----------|----------|----------|---------|------------|
| Political Risk Rating | 56.5 | 57.5 | 57.5 | ▲ | High |
| Financial Risk Rating | 31.5 | 28.0 | 28.0 | ▼ | High |
| Economic Risk Rating | 29.0 | 30.0 | 30.0 | ▲ | Moderate |
| Composite Risk Rating | 58.5 | 57.7 | 57.7 | ▼ | High |

| Regional Average | Dec 2007 | Nov 2008 | Dec 2008 | Change* | Risk Level |
|-----------------------|----------|----------|----------|---------|------------|
| Political Risk Rating | 65.6 | 65.6 | 65.6 | ↔ | Moderate |
| Financial Risk Rating | 41.3 | 41.5 | 41.8 | ▲ | Very Low |
| Economic Risk Rating | 40.0 | 39.0 | 39.5 | ▼ | Low |
| Composite Risk Rating | 73.5 | 73.0 | 73.4 | ▼ | Low |

*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 | B2 | NP | Positive | | | |
| Fitch | B- | B | Stable | B- | | |
| S&P | B- | C | Stable | B- | C | Stable |
| Capital Intelligence | B- | B | Stable | B- | B | Stable |

Source: Rating agencies

| Banking Ratings | Banks' Financial Strength | Banking Sector Risk | Outlook |
|-----------------|---------------------------|---------------------|---------|
| Moody's | D- | | Stable |
| EIU | | B | Stable |

Source: Rating agencies



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