Issue 122
June 22-26, 2009

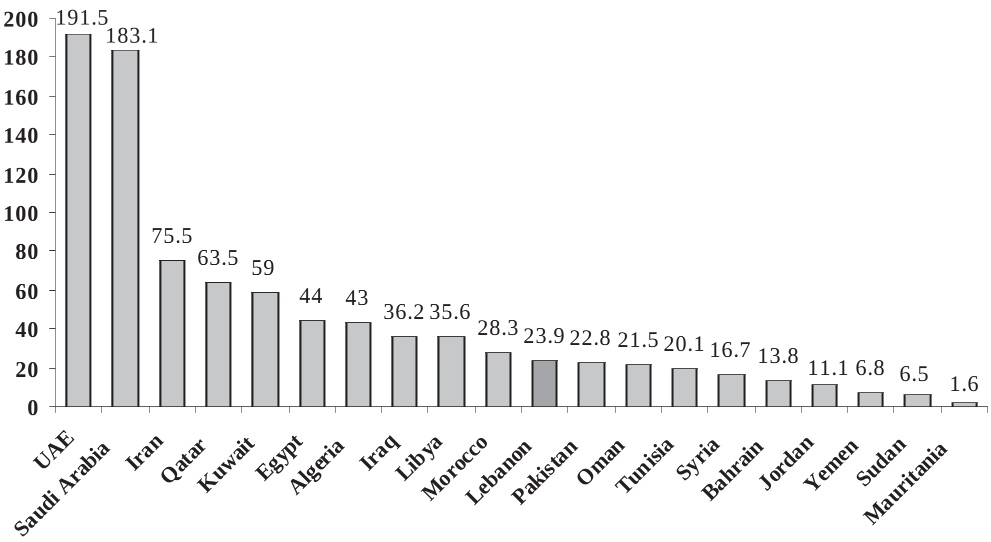
BYBLOS BANK SAL
Economic Research & Analysis Department

LEBANON THIS WEEK

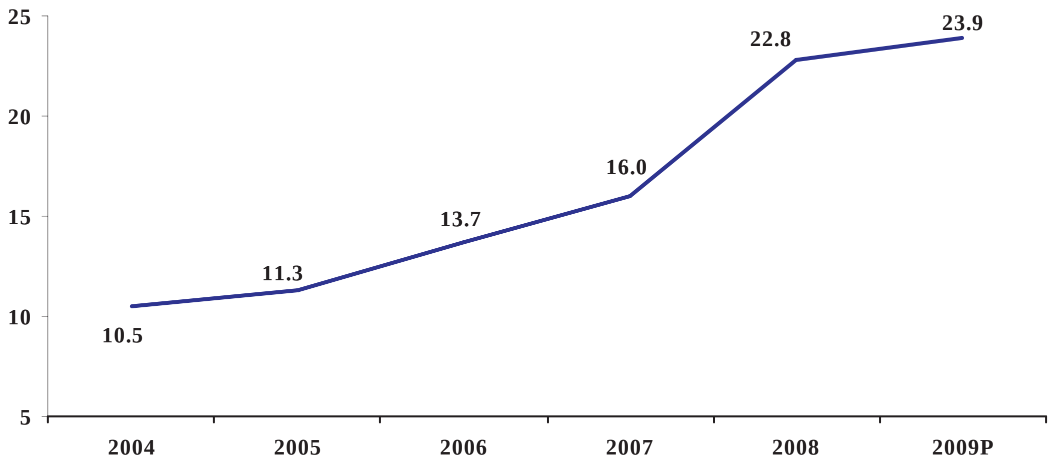
In This Issue

Charts of the Week

Exports of Goods and Services from MENA Countries in 2009 ($bn)



Exports of Goods and Services from Lebanon ($bn)



Source: International Monetary Fund

Quote to Note

"This could be the formula for yet another four years of political deadlock."

Economic analysis provider IHS Global Insight, on the likely formation of a national unity Cabinet, after the current and previous coalition Cabinets failed to implement any major structural reforms due to political deadlock

Number of the Week

$19.3bn: The Central Bank of Lebanon's gross foreign currency reserves at the end of April 2009, as estimated by the Association of Banks in Lebanon

Economic Indicators

$m *(unless otherwise mentioned)*	**2007**	**Apr. 08**	**2008**	**Feb.2009**	**Mar. 2009**	**Apr. 09**	**% Change***
Exports	2,816	279	3,478	449	270	231	(17.20)
Imports	11,815	1,310	16,133	1,035	1,138	1,797	37.17
Trade Balance	(8,999)	(1,031)	(12,655)	(586)	(868)	(1,566)	51.89
Balance of Payments	2,036	73	3,462	300	(367)	839	1,049
Checks Cleared in LBP	8,409	755	9,350	815	899	804	6.49
Checks Cleared in FC	29,893	3,374	43,174	2,872	3,294	3,222	(4.5)
Total Checks Cleared	38,302	4,129	52,524	3,687	4,148	4,026	(2.49)
Budget Deficit/Surplus	(2,546)	(399)	(2,921)	(326)	(508)	(76)	(80.95)
Primary Balance	731	(13)	597	(82)	(110)	363	(2,892)
Airport Passengers	3,408,834	290,562	4,085,334	276,825	302,709	392,556	35.10

$bn *(unless otherwise mentioned)*	**Dec. 2007**	**Apr. 2008**	**Jan. 2009**	**Feb. 2009**	**Mar. 09**	**Apr. 09**	**% Change***
BdL FX Reserves	9.78	11.39	17.59	18.23	18.66	19.33	69.71
In months of Imports	*9.19*	*8.70*	*16.48*	*17.62*	*16.40*	*10.75*	*23.56*
Public Debt	42.03	43.54	46.99	47.20	47.85	47.77	9.71
Net Public Debt	39.03	39.98	41.43	41.88	42.34	42.69	6.78
Bank Assets	82.26	85.63	93.79	95.11	97.94	99.63	16.35
Bank Deposits (Private Sector)	67.29	70.13	77.74	78.88	80.50	82.62	17.81
Bank Loans to Private Sector	20.42	22.98	24.96	24.94	25.45	25.76	12.10
Money Supply M2	16.47	17.85	25.41	26.23	26.86	27.77	55.57
Money Supply M3	59.83	62.72	68.62	69.41	70.52	72.28	15.24
LBP Lending Rate (%)	10.10	9.86	10.07	10.03	10.10	9.83	(3b.p.)
LBP Deposit Rate (%)	7.40	7.26	7.22	7.13	7.10	7.08	(18b.p.)
USD Lending Rate (%)	8.02	7.42	7.35	7.28	7.32	7.21	(21b.p.)
USD Deposit Rate (%)	4.69	3.67	3.31	3.25	3.26	3.24	(43b.p.)
%* Change in CPI**	5.92	12.20	4.03	2.80	3.51	2.00	(1,020b.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"	25.62	7.87	630,609	22.52%
Solidere "B"	25.32	7.74	303,738	14.47%
Byblos Common	1.86	3.33	126,028	3.55%
Byblos Priority	1.82	4.00	63,908	3.30%
Byblos Pref. 08	95.15	(0.37)	1,600	1.67%
BLOM GDR	73.00	(1.35)	9,647	4.74%
BLOM Listed	71.85	0.00	0	13.58%
Audi GDR	69.00	6.07	4,045	5.96%
Audi Listed	60.65	5.39	13,596	18.23%
HOLCIM	13.24	1.46	10,443	2.27%

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

Sovereign Eurobonds	**Coupon %**	**Mid Price $**	**Mid Yield %**
Mar. 2010	7.125	102.00	4.20
May 2011	7.875	104.00	5.63
Mar. 2012	7.500	103.50	6.09
Sep. 2012	7.750	104.13	6.31
June 2013	8.625	106.00	6.88
Apr. 2015	10.000	109.75	7.88
Jan. 2016	8.500	103.00	7.90
May 2016	11.625	117.75	8.20
Mar. 2017	9.000	105.25	8.07
Apr. 2021	8.250	100.00	8.25

Source: Byblos Capital Markets

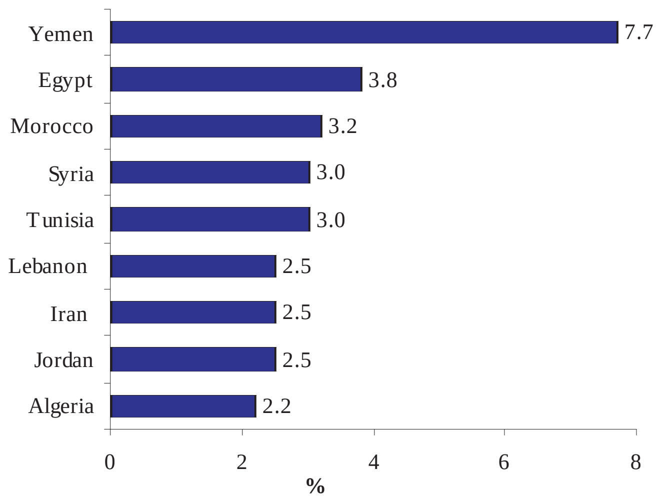
	This Week	**Last Week**	**% Change**	**May 2009**	**May 2008**	**% Change**
Total Shares Traded	1,165,629	1,618,760	(27.99%)	4,526,493	12,254,353	(63.06)
Total Value Traded	$25,173,729	$21,502,060	17.08%	$70,679,284	$275,797,021	(74.37)
Market Capitalization	$11.38bn	$10.90bn	4.35%	$8.22bn	$14.15bn	(30.08)

Source: Beirut Stock Exchange (BSE)

Economic growth at 2.5% in 2009 and 4.5% in 2010, current account deficit to shrink to 6.1% of GDP

In its updated outlook on the global economy, the World Bank revised downward its economic growth forecast for Lebanon to 2.5% in 2009 from an earlier forecast of 4% at the end of last year, and compared to 1.6% for the Middle East & North Africa region, 1.2% for developing countries and a contraction of -2.9% for the global economy. It also forecast real GDP growth at 4.5% for 2010 relative to 3.5% for the MENA region, 4.4% for developing economies and 2% for the world economy. According to the World Bank, Lebanon's projected GDP growth for 2009 is similar to that of Jordan and Iran; is higher than growth in Algeria, but lower than growth in Egypt, Syria, Tunisia, Morocco and Yemen for the same year. It added that Lebanon's real GDP growth in 2010 would be similar to Morocco's, lower than growth in Yemen but higher than that of Algeria, Egypt, Iran, Jordan, Syria and Tunisia.

Projected 2009 Growth Rates in Select MENA Countries



Source: World Bank

The World Bank said that Lebanon, along with Egypt, Jordan, Morocco and Tunisia, is one of the region's economies that derive both balance of payments support and needed domestic income through exports of services such as tourism and business services, FDI flows and expatriates' remittances, all of which have helped to underpin and catalyze domestic private and public capital expenditures. It noted, therefore, that growth prospects for Lebanon and the other economies will depend on the prospects of the GCC economies and to a lesser extent on those of the international donor community, as the GCC has been the main source of remittances, FDI flows and tourism to the rest of the region, while the international community is the source of foreign aid.

The World Bank noted that Lebanon, along with Jordan, entered the crisis with weak macroeconomic positions such as high debt, and current account and fiscal deficits. It expected reduced remittances, FDI, and tourism to weigh heavily on the external balances of both countries, especially given expected reductions in capital flows. It said that Lebanon's current account deficit was equivalent to 14.7% of GDP in 2008. But lower oil prices and a reduction in imports are expected to bring the deficit down to 6.1% of GDP in 2009 and to 5.4% of GDP in 2010. It noted that Lebanon's current account deficit for this year would be similar to Egypt and narrower than that of Jordan, Syria and Yemen.

Incoming Cabinet will be judged on its ability to instigate real change

International economic analysis provider IHS Global Insight indicated that Lebanon's two political coalitions have failed to provide viable formulas for governance over the past four years, as the country's key concerns have been overshadowed by divisive politics and sweeping electoral promises. It said that neither side has presented a complete formula for structural reforms, which will be much needed as Lebanon sets to face the global financial crisis along with the rest of the Middle East & North Africa region. It noted that, with a surging public debt that reached a staggering $47bn by the end of 2008, the incoming Lebanese Cabinet will need every bit of operational capacity it can get to put in place much-needed and long-stalled economic and public-sector reforms. It added that the failure to institute public-sector reforms and to implement the much-discussed privatization plan means that few avenues have been taken to ease the debt servicing burden, which represented nearly 48% of budgetary expenditures and absorbed 54% of budgetary revenues in 2008. It stated that any Cabinet that comes to power will have to bear the brunt of the increasingly burdensome public sector and will be judged on its ability to instigate real change. As a result, it expressed serious concerns that the country may be set for another period of dysfunctional functionality.

EU launches 5 development projects in Northern Lebanon

The European Commission launched 5 projects to help develop the Northern regions of Tripoli and Akkar. These projects are mainly funded by the European Union at a cost of €1.37m and aim at improving standards of living and socio-economic conditions in Northern Lebanon. The projects consist of a center for developing technical expertise for women, water filtering stations, artesian wells ensuring drinkable water and water for irrigation, as well as a healthcare and social center. In addition, the EU plans to launch an €18m program aimed at local development in other municipalities in Northern Lebanon during 2009.

Market accessibility of Beirut Stock Exchange needs improvement in several areas

In its annual assessment of the market accessibility of 75 Developed, Emerging and Frontier equity markets, global portfolio analytics and indices provider MSCI Barra maintained Lebanon in its Frontier Markets category and evaluated the country's stock market based on four accessibility criteria that are openness to foreign ownership, ease of capital inflows and outflows, efficiency of the operational framework, and stability of the institutional framework. It said that these four criteria reflect the views of international institutional investors, which generally put a strong emphasis on equal treatment of investors, free flow of capital, cost of investment and country specific risk.

In terms of openness to foreign ownership, it said that there are no limits to foreign ownership on the Beirut Stock Exchange and that there is plenty of foreign room level, which is the proportion of shares still available for non-domestic investors, and noted the existence of a foreign board where non-domestic investors could trade with one another. However, it noted the need to improve equal rights to foreign investors as company-related information is not always readily available in English. Regarding capital inflows and outflows, it said there are no restrictions on capital flows, but noted that there is no offshore currency market and there are constraints on the onshore currency market, as foreign investors are not allowed to hold Lebanese pound balances.

Regarding the efficiency of the operational framework, it said market entry needs improvement, as registration is mandatory and may take up to five days. Also, not all regulations can be found in English, and the flow of information needs improvement as detailed stock market information is not always disclosed in English. It added that clearing and settlement procedures can be improved, as there is an absence of a real DVP system on the Beirut Stock Exchange, while there is no nominee status and no omnibus structures. In terms of custody, MSCI Barra said there is no formal segregation between custody and trading accounts for transactions on the Beirut market. In addition, there is only one active custodian available to foreign investors.

In parallel, it said that not all listed shares are dematerialized in terns of registry and depository, and there is no central registry. It added that there is limited level of competition among brokers, which can lead to relatively higher trading cost, while in-kind transfers and off-exchange transactions are prohibited. Further, it noted the need for a regulatory framework allowing stock lending and a practical framework allowing short selling. Finally, MSCI Barra said that Lebanon, like most Emerging and Frontier Markets, exhibits some shortcomings in the stability of the institutional framework, and in particular in the enforcement of the rule of law. It added that investors would welcome improvements in this area.

Lebanon is one of 25 stock markets worldwide that fall under MSCI Barra's definition of Frontier Markets. The other such markets in the region are Tunisia, Bahrain, Jordan, Kuwait, Oman, Qatar, and the UAE. In November 2007, MSCI Barra included Lebanon in its MSCI Frontier Markets Index, a fully investable index for frontier equity markets. The index contains stocks from 19 developing markets in Asia, Emerging Europe, the Commonwealth of Independent States, Africa, and the Middle East.

Lebanon ranks 3rd as exporter and 9th as importer in terms of export credit insurance contracts

Figures issued by the Arab Investment & Export Credit Guarantee Corporation (Dhaman) indicate that Lebanon ranked third among 12 Arab countries in the value of overall export credit insurance contracts signed in 2008. Dhaman provides insurance coverage to Arab and non-Arab investments in its member countries against non-commercial risks, as well as insurance against commercial and non-commercial risks for inter-Arab and worldwide Arab export credits. As an exporter, Lebanon signed $85.9m worth of export credit insurance contracts in 2008, accounting for 8.4% of the total value of such contracts. Lebanon ranked ahead of Bahrain $61.8m (6.1%), Kuwait with $53.5m (8.5%), the UAE with $48.8m (4.8%) and Egypt with $12.1m (1.2%). It came behind Saudi Arabia that accounted for $122.9m, or 33.6% of the total and Tunisia with $123m (19.6%). Lebanon did not sign any investment insurance contracts with Dhaman last year as an exporter of FDI.

In parallel, Lebanon ranked in 9th place among 16 Arab importing countries with $16.8m worth of export credit insurance contracts signed in 2008, representing 4.3% of the total value of such contracts. Lebanon ranked behind Sudan whose credit insurance contracts totaled $69.4m, or 18% of the total, as well as behind Saudi Arabia with $47m (12.1%), Syria with $44m (11.4%), Libya with $37m (9.5%), Kuwait with $31.3m (8.1%), Jordan with $29.4m (7.6%), the UAE with $29m (7.5%) and Bahrain with $17.2m (4.4%). It ranked ahead of Tunisia, Yemen, Oman, Egypt, Qatar, Algeria and Morocco. Lebanon was not a recipient of Dhaman-insured foreign direct investment last year.

Further, Lebanon ranked in 7th place among 16 Arab countries in terms of total current contracts with $32.4m as at end-2008, of which $16m relate to current investment contracts and $16.4m to current export credit contracts. Current contracts represent the value of insurance contracts whether executed or not for a country as a destination of imports and investments. Lebanon's total current contracts accounted for 3.5% of overall current contracts of Arab importing countries. It came behind Sudan whose current contracts totaled $268m or 29% of the total, as well as behind Syria with $193m (21%), Libya with $174m (18.7%), Saudi Arabia with $44.7m (4.8%), Yemen with $39.5m (4,2%) and the UAE with $33.3m (3.6%).

Consumer Price Index up 0.4% annually in May 2009

The Central Administration of Statistics' Consumer Price Index indicates that inflation rose by 0.4% in May 2009 from May 2008. Prices at restaurants & hotels increased by 14.1%, followed by prices of clothing & footwear with 8.9%, food & non-alcoholic beverages (+5%), housing (+4.8%), furniture & household equipment (+4.7%), education (+4.1%), alcoholic beverages & tobacco (+3.5%), miscellaneous goods & services (+2%), and recreation & entertainment (+0.6%). Prices of water, electricity, gas & other fuels regressed by 18.2%, followed by prices of communications (-11.2%), transportation (-2.7%), and health care (-1%).

The Consumer Price Index decreased by 0.3% in May 2009 compared to April 2009. Prices of alcoholic beverages & tobacco increased by 4.8%, followed by transportation with 2%, health (+0.7%), water, electricity, gas & other fuels (+0.6%), and restaurants & hotels (+0.2%). Prices of communication decreased by 10.6%, followed by prices of food and non-alcoholic beverages (-1%), and recreation & entertainment (-0.1%). Prices of clothing & footwear, housing, furniture & household equipment and education remained unchanged month-to-month.

Partnership agreement for “France in Lebanon” trade show

The Chamber of Commerce, Industry & Agriculture of Beirut, the Paris Chamber of Commerce, the Franco-Lebanese Chamber of Commerce, and the Regional Economic Mission of Beirut UbiFrance signed a partnership agreement to organize the “France in Lebanon” trade show, which is projected to take place in March 2010. The show will include an area for Franco-Lebanese firms, an area for industries and services, and an area reflecting French lifestyle. The exhibition will also host professional meetings and cultural events. Lebanon imported €1bn worth of French products in 2008.

Corporate Highlights

Car sales up 10.5% in first 5 months of 2009

Figures released by the Association of Automobile Importers in Lebanon indicate that a total of 11,667 new passenger cars were sold in the first 5 months of 2009, constituting an increase of 10.5% from the 10,559 cars sold in the same period of 2008. Japanese cars accounted for 48.7% of total sales, followed by European automobiles with a 26.1% market share, Korean cars with 17.7%, American vehicles with 7.2%, and Chinese vehicles with 0.3%. Chinese cars posted the biggest growth in sales with a 73.3% jump year-on-year, followed by European cars with a 23% increase, Japanese cars with an 11.1% rise and Korean cars with a 3.1% increase. American cars posted a 9.8% decrease in sales. Nissan is the leading brand in the Lebanese market with 2,692 cars sold in the first 5 months of 2009, followed by Toyota with 1,813 cars sold, Kia with 1,310, Hyundai with 752, Peugeot with 675, and BMW with 507 cars.

CreditBank acquires 51% of Armenian bank Anelik

CreditBank sal bought a 51% stake in Armenian bank Anelik Bank for 9bn Armenian drams, or about $24m. CreditBank was planning to establish its own bank in Armenia with a capital of AMD5.5bn and received preliminary approval from the Central Bank of Armenia. But it changed its approach and decided to buy a stake in a local bank. Anelik's capital increased to $45m after the deal was finalized. The bank had assets of AMD38.2bn, deposits of AMD8bn, loans of 19.1bn and a capital of AMD5.6bn at end-March 2009. The bank has 5 branches in Yerevan and 4 branches in the rest of the country, as well as a money transfer subsidiary in Moscow. CreditBank becomes the second Lebanese bank to enter the Armenia market. Byblos Bank sal is the first Lebanese bank to establish a direct presence in Armenia with its acquisition of a 100% stake in the Yerevan-based International Trade Bank in 2007. The acquisition falls within the Byblos Bank Group's strategy of asset diversification and expansion in emerging markets. Byblos Bank Armenia operates as an independent subsidiary of the Byblos Bank Group and mainly focuses on commercial and retail activities as well as serves the needs of the Armenian Diaspora across the world. CreditBank ranks in 19th place in terms of assets, 15th in loans and 18th in deposits in Lebanon. There are 22 banks operating in Armenia with total assets of AMD1,128bn at end-March 2009, or about $3.1bn at current exchange rates.

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	Apr 2008	Mar 2009	Apr 2009	Change*	Risk Level
Political Risk Rating	55.5	57.5	57.5	↑	High
Financial Risk Rating	31.5	28.0	28.0	↓	High
Economic Risk Rating	28.5	30.0	30.0	↑	Moderate
Composite Risk Rating	57.7	57.7	57.7	↔	High

Regional Average	Apr 2008	Mar 2009	Apr 2009	Change*	Risk Level
Political Risk Rating	65.5	65.7	65.4	↓	Moderate
Financial Risk Rating	40.9	41.2	41.4	↑	Very Low
Economic Risk Rating	40.3	37.3	37.0	↓	Low
Composite Risk Rating	73.3	72.1	71.9	↓	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	Stable			
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

Economic Research & Analysis Department
Byblos Bank Group
P.O. Box 11-5605
Beirut – Lebanon
Tel: (961) 1 338 100
Fax: (961) 1 217 774
E-mail: research@byblosbank.com.lb
www.byblosbank.com.lb

BYBLOS BANK GROUP

LEBANON

Byblos Bank S.A.L
Achrafieh - Beirut
Elias Sarkis Avenue - Byblos Bank Tower
P.O.Box: 11-5605
Riad El Solh - Beirut 1107 2811 - Lebanon
Phone: (+961) 1 335200
Fax: (+961) 1 339436

SYRIA

Byblos Bank Syria S.A
Abu Roummaneh Head Office
Al Chaalan - Amine Loutfi Hafez Str.
P.O.Box: 5424 Damascus - Syria
Phone: (+ 963) 11 9292 - 3348240 / 1 / 2 / 3 / 4
Fax: (+ 963) 11 3348207
E-mail: byblosbanksyria@byblosbank.com

SUDAN

Byblos Bank Africa Ltd.
Khartoum - Sudan
El Amarat -Street 21
P.O.Box: 8121 El Amarat - Khartoum - Sudan
Phone: (+249) 183 566 444
Fax: (+249) 183 566 454
E-mail: byblosbankafrica@byblosbank.com

IRAQ

Erbil Branch, Kurdistan, Iraq
Street 60,
Near Sports Stadium
P.O.Box: 34 - 0383 Erbil - Iraq
Phone: (+ 964) 66 2233457 / 9
Fax: (+ 964) 66 2233458
E-mail: iraqbranch@byblosbank.com.lb

ARMENIA

Byblos Bank Armenia CJSC
18/3 Amiryan Street
Yerevan, 37500 - Republic of Armenia
Phone: (+374) 10 530 362
Fax: (+374) 10 535 296

NIGERIA

Byblos Bank Nigeria Representative Office
10-14 Bourdillon Road
Ikoyi, Lagos - Nigeria
Phone: (+ 234) 1 6653633
(+ 234) 1 8990799
E-mail: melamm@byblosbank.com.lb

BELGIUM

Byblos Bank Europe S.A
Bussels Head Office
10, Rue Montoyer
B-1000 Brussels - Belgium
Phone: (+32) 2 551 00 20
Fax: (+32) 2 513 05 26
E-mail: byblos.europe@byblosbankeur.com

ENGLAND

London Branch
Berkeley Square House - Suite 5
Berkeley Sq.
GB - London W1J 6BS - United Kingdom
Phone: (+44) 207 493 35 37
Fax: (+44) 207 493 12 33
E-mail: byblos.europe@byblosbankeur.com

FRANCE

Paris Branch
15 Rue Lord Byron
F- 75008 Paris - France
Phone: (+33) 1 45 63 10 01
Fax: (+33) 1 45 61 15 77
E-mail: byblos.europe@byblosbankeur.com

CYPRUS

Limassol Branch
1, Arch. Kyprianou / St. Andrew Street
P.O.Box 50218
3602 Limassol - Cyprus
Phone: (+357) 25 341433 / 4 / 5
Fax: (+357) 25 367139
E-mail: bybloscyprus@byblosbank.com

UNITED ARAB EMIRATES

Byblos Bank Abu Dhabi Representative Office
Intersection of Muroor and Electra Streets
P.O.Box: 73893 Abu Dhabi - UAE
Phone: (+ 971) 2 6336400
Fax: (+971) 2 6338400
E-mail: byblosbankuae@byblosbank.com