



## LEBANON THIS WEEK

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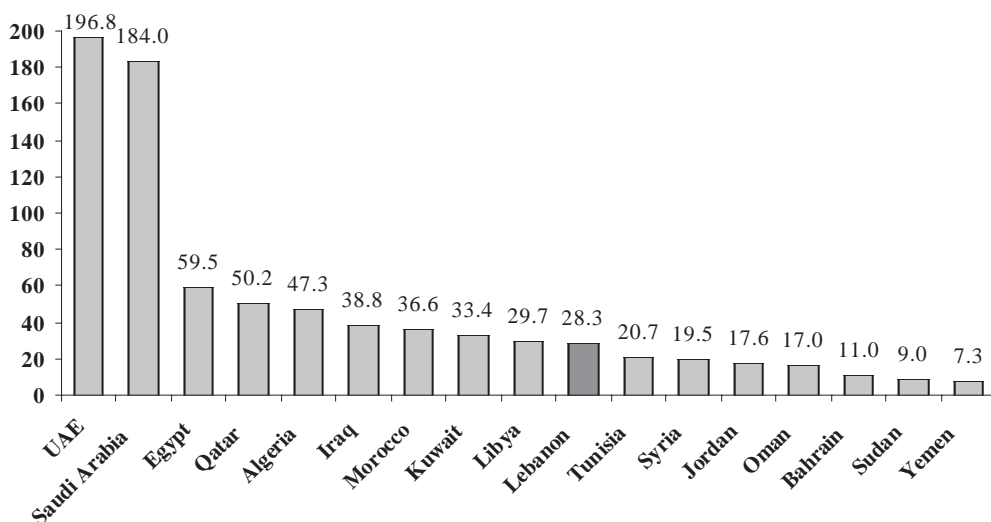
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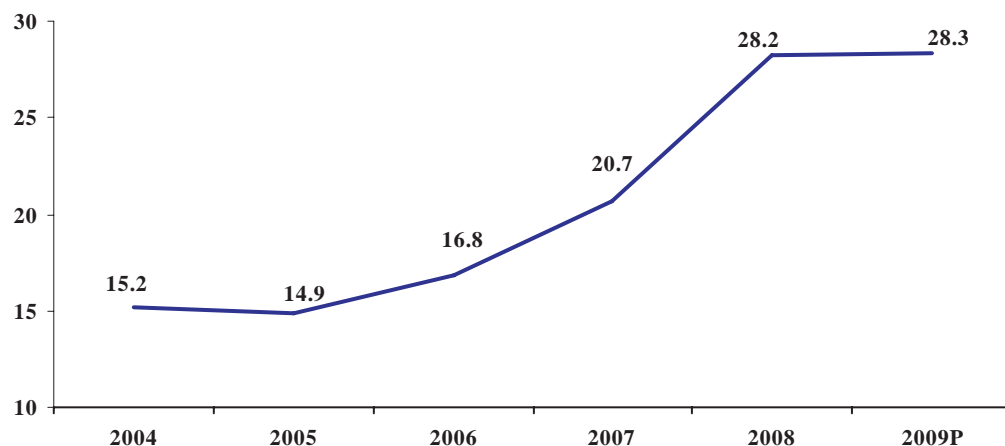
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### Charts of the Week

Projected Imports of Goods & Services in MENA Countries in 2009



Imports of Goods & Services in Lebanon



Source: International Monetary Fund

### Quote to Note

“This will likely prompt investors in Lebanese assets to take a more sober view on Lebanon’s political outlook, including on the scope for policy enhancement under a new government.”

*Credit Suisse, on the impact of Lebanese politicians’ inability to agree on the Cabinet’s composition for more than 70 days*

### Number of the Week

**\$6bn:** Estimated size of the real estate market in Lebanon by 2010, according to real estate broker Coldwell Banker

## Economic Indicators

<b>\$m (unless otherwise mentioned)</b>	<b>2007</b>	<b>June 08</b>	<b>2008</b>	<b>April 2009</b>	<b>May 2009</b>	<b>June 09</b>	<b>% Change*</b>
Exports	2,816	325	3,478	231	292	249	(23.38)
Imports	11,815	1,201	16,133	1,797	1,242	1,551	29.14
Trade Balance	(8,999)	(876)	(12,655)	(1,566)	(950)	(1,302)	48.63
Balance of Payments	2,036	640	3,462	839	521	443	(30.78)
Checks Cleared in LBP	8,409	790	9,350	804	928	873	10.51
Checks Cleared in FC	29,893	3,986	43,174	3,222	3,497	3,658	(8.23)
Total Checks Cleared	38,302	4,776	52,524	4,026	4,425	4,531	(5.13)
Budget Deficit/Surplus	(2,546)	39	(2,921)	(76)	(198)	(151)	(487.18)
Primary Balance	731	264	597	363	64	161	(39.02)
Airport Passengers	3,408,834	363,818	4,085,334	392,556	348,510	460,223	26.50

<b>\$bn (unless otherwise mentioned)</b>	<b>Dec. 2007</b>	<b>June 2008</b>	<b>Mar. 2009</b>	<b>April 09</b>	<b>May 09</b>	<b>June 09</b>	<b>% Change*</b>
BdL FX Reserves	9.78	12.62	18.66	19.33	20.22	20.62	63.39
<i>In months of Imports</i>	<i>9.19</i>	<i>10.51</i>	<i>16.40</i>	<i>10.75</i>	<i>16.28</i>	<i>13.29</i>	<i>26.45</i>
Public Debt	42.03	44.49	47.85	47.77	47.73	47.31	6.34
Net Public Debt	39.03	40.40	42.34	42.69	42.77	42.96	6.44
Bank Assets	82.26	88.45	97.94	99.63	101.65	103.62	17.15
Bank Deposits (Private Sector)	67.29	72.09	80.50	82.62	84.35	85.78	18.99
Bank Loans to Private Sector	20.42	23.68	25.45	25.76	26.07	26.07	10.09
Money Supply M2	16.47	19.30	26.86	27.77	28.15	29.07	50.62
Money Supply M3	59.83	63.55	70.52	72.28	73.58	74.68	17.51
LBP Lending Rate (%)	10.10	10.09	10.10	9.83	9.79	9.76	(33b.p.)
LBP Deposit Rate (%)	7.40	7.25	7.10	7.08	7.06	6.96	(29b.p.)
USD Lending Rate (%)	8.02	7.28	7.32	7.21	7.28	7.24	(4b.p.)
USD Deposit Rate (%)	4.69	3.55	3.26	3.24	3.22	3.18	(37b.p.)
%* Change in CPI**	5.92	12.43	3.51	2.00	1.88	3.31	(912b.p.)

\* Year-on-Year; \*\* Consumer Price Index

Note: b.p. i.e. basis point

Sources: ABL, BdL

## Capital Markets

<b>Most Traded Stocks on BSE</b>	<b>Last Price (\$)</b>	<b>% Change*</b>	<b>Total Volume</b>	<b>Weight in Market Capitalization</b>
Solidere "A"	22.90	(3.94)	582,263	21.67%
Solidere "B"	22.66	(4.75)	97,610	13.30%
Byblos Common	1.75	1.16	58,747	3.43%
Byblos Priority	1.75	2.94	34,710	3.25%
Byblos Pref. 08	97.15	0.57	1,540	1.75%
BLOM GDR	82.30	3.33	6,246	5.49%
BLOM Listed	72.00	0.00	2,000	13.97%
Audi GDR	72.45	11.46	23,125	6.43%
Audi Listed	63.15	4.38	104,366	19.49%
HOLCIM	13.57	8.13	15,720	2.39%

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

<b>Sovereign Eurobonds</b>	<b>Coupon %</b>	<b>Mid Price \$</b>	<b>Mid Yield %</b>
Mar. 2010	7.125	102.50	1.94
May 2011	7.875	105.63	4.59
Mar. 2012	7.500	106.00	4.94
Sep. 2012	7.750	106.88	5.26
June 2013	8.625	109.00	5.93
Apr. 2015	10.000	113.50	7.05
Jan. 2016	8.500	107.75	6.97
May 2016	11.625	122.88	7.24
Mar. 2017	9.000	111.00	7.09
Apr. 2021	8.250	105.75	7.50

Source: Byblos Capital Markets

	<b>This Week</b>	<b>Last Week</b>	<b>% Change</b>	<b>August 2009</b>	<b>August 2008</b>	<b>% Change</b>
<b>Total Shares Traded</b>	958,457	887,164	8.04	3,835,239	4,198,145	(8.64)
<b>Total Value Traded</b>	\$25,159,257	\$8,740,175	187.86	\$61,835,814	\$130,205,400	(52.51)
<b>Market Capitalization</b>	\$11.08bn	\$11.03bn	0.47	\$11.04bn	\$14.29bn	(22.74)

Source: Beirut Stock Exchange (BSE)



### Lebanon ranks 108th globally, 12th in MENA region on ease of doing business

The World Bank/International Finance Corporation Doing Business 2010 report ranked Lebanon in 108th place among 183 countries worldwide and 12th among 19 countries in the Middle East and North Africa region in terms of ease of doing business. Lebanon also ranked in 31st place among 42 upper-middle income countries. Lebanon came in 101st place globally in the 2009 survey. The index is a composite of 10 sub-indices of business regulation that track the time and cost to meet government requirements in business start-up, operation, trade, taxation, and closure. Globally, Lebanon came ahead of Greece, Guatemala and Seychelles and ranked behind the Sri Lanka, Egypt and Ethiopia, while it ranked ahead of Seychelles and Uruguay and behind Grenada and Palau among upper-middle income countries.

Lebanon ranked ahead of the Nigeria and Vanuatu and behind Russia and the Dominican Republic on the Starting a Business indicator. Regionally, it came ahead of Jordan and behind Morocco. Entrepreneurs need 5 procedures to start a business in Lebanon compared to 7.9 in the MENA region and 5.7 procedures in OECD countries, and it takes 9 days to start a business compared to 20.7 days in the region and 13 days in the OECD.

Also, Lebanon ranked ahead of Nepal and Algeria, and came behind Panama and the Bahamas on the Enforcing Contracts indicator, while it ranked ahead of Algeria & Jordan and behind Kuwait and Bahrain in the region. A firm in Lebanon requires 37 procedures and 721 days to enforce commercial contracts, compared to an average of 43.4 procedures and 679.9 days in the MENA region and to 30.6 procedures and 462.4 days in OECD countries. Further, enforcing a contract in Lebanon costs 30.8% of the claim compared to 23.7% in the region and 19.2% in OECD markets.

Lebanon tied with 25 countries that include Italy, Brazil, Tanzania and Ecuador on the Getting Credit indicator, while it ranked ahead of Antigua & Barbuda and Tonga, and came behind Bangladesh and Paraguay. This category measures the legal rights of lenders and borrowers, as well as access and quality of available credit information. Regionally, it tied with Bahrain, Kuwait, Tunisia, and Morocco, ranked ahead of Iran and Oman, and came behind the United Arab Emirates and Egypt. It scored 5 points on the Credit Information category, better than the 3.3 points for the regional average and 4.9 points for the OECD average.

Lebanon ranked ahead of Uzbekistan and the Maldives, and came behind Gambia and Fiji on the Closing a Business indicator, while it ranked ahead of Egypt and behind Iran in the region. Closing a business in Lebanon requires 4 years and costs 22% of estate compared to 3.5 years on average for the MENA region and 1.7 years in OECD economies. The recovery rate in Lebanon is 19 cents on the dollar compared to 29.9 cents for the region and 68.6 for the OECD markets.

### Association of Banks urges banks to reduce deposit rates

The Board of Directors of the Association of Banks in Lebanon encouraged banks to reduce interest rates on deposits in Lebanese pounds and in foreign currencies, including on large deposits. It said that global interest rates continue to be stable at low rates, and noted that Lebanese banks are placing their substantial liquidity in foreign currencies with correspondent banks or at the Central Bank of Lebanon at rates close to LIBOR. It added that the real rate of return on the Eurobonds portfolio has also declined. Further, rates in the Treasury bills market continue to gradually regress, with this decline accelerating more recently. It added that the Central Bank stopped issuing certificates of deposits and the Treasury reduced the amount of T-bills it issues, while banks continue to pay high interest rates on new and existing Lebanese pound deposits. The ABL warned that this could lead in the coming months to a decline in banks' profits and possibly to losses. As such, it said rates on deposits should reflect the returns on investment from the local fixed income market, which account for a substantial part of the banks' placements, adding that the structure of global interest rates could see in the future a substantial change that would have negative repercussions on the local market.

#### Ease of Doing Business in 2010

Country	MENA Rank	Global Rank
Saudi Arabia	1	13
Bahrain	2	20
Israel	3	29
UAE	4	33
Qatar	5	39
Kuwait	6	61
Oman	7	65
Tunisia	8	69
Yemen	9	99
Jordan	10	100
Egypt	11	106
<b>Lebanon</b>	<b>12</b>	<b>108</b>
Morocco	13	128
Algeria	14	136
Iran	15	137
West Bank & Gaza	16	139
Syria	17	143
Iraq	18	153
Djibouti	19	163

Source: Doing Business 2010, Byblos Research

#### Lebanon's Ease of Doing Business in 2010

Indicator	MENA Rank	Global Rank	Change in Rank
Starting a Business	12	108	-9
Dealing with Licenses	14	125	-6
Employing Workers	7	66	-6
Registering Property	14	111	-4
Getting Credit	5	87	-3
Protecting Investors	9	93	-5
Paying Taxes	9	34	12
Trading across Borders	12	95	-8
Enforcing Contracts	11	121	-1
Closing a Business	14	124	-1

Source: Doing Business 2010, Byblos Research

### Lebanon receives \$298m in reserves from IMF program, ranks in 90th place worldwide in Special Drawing Rights

Lebanon received the equivalent of \$298m in foreign currency reserves as at September 9 from a new program established by the International Monetary Fund. The IMF injected \$250bn in the global economy on August 28th and another \$33bn on September 9th to bolster countries' reserves as part of measures to combat the world economic crisis. It said about \$110bn in combined allocations will go to emerging markets and developing countries. It added that the funding took place through the allocation of Special Drawing Rights to IMF members that are participants in the SDRs Department in proportion to their existing quotas in the Fund, which are based broadly on their relative size in the global economy. The operation will increase each country's allocation of SDRs by approximately 74% of its quota, and raise Fund members' total allocation to about \$316bn from nearly \$33bn. The IMF said SDRs allocated to members will count toward their reserve assets, acting as a low cost liquidity buffer for developing economies. SDRs are defined in terms of a basket of major currencies used in international trade and finance. The US dollar accounts for 44% of the currency basket are 44%, followed by the euro with 34%, and the pound sterling and the Japanese yen with 11% each. The IMF uses SDRs as a unit of account that is calculated daily and that members can convert into other currencies.

Lebanon had SDR 4.39 million in allocations prior to August 28. Following the IMF's decision, Lebanon's allocations will increase by a total of SDR 189 million, of which SDR 150.5 million in general allocations effective August 28th and SDR 38.4 million in special allocations effective September 9th. Based on the SDR rate as at September 10, Lebanon's new cumulative allocations stand at \$304.8m, of which \$298m in new allocations that included \$237.3m distributed on August 28 and \$60.6m on September 9th.

As a result of the new allocations, Lebanon ranked in 90th place among 186 countries and in 15th place among 18 countries in the Middle East and North Africa region in terms of cumulative Special Drawing Rights, roughly in line with its global ranking in terms of nominal GDP. Lebanon also came in 19th place among 37 upper-middle income countries (UMICs). Globally, Lebanon ranked ahead of Tanzania, Cameroon and Uganda and came behind Sudan, Guatemala and Brunei. It also ranked ahead of Costa Rica and Gabon, and behind Panama and Uruguay among UMICs. The Central Bank of Lebanon's gross foreign currency reserves reached a record \$22bn at the end of July, while its assets in foreign currencies totaled \$25bn at the end of August.

### Growth forecast raised to 6% on strong economic performance

Regional investment bank EFG Hermes raised its forecast for Lebanon's economic growth from 4% to 6% for 2009 and from 3% to 4% for 2010. It attributed the upward revision in real GDP growth to Lebanon's impressive economic performance so far this year, adding that the country continues to benefit from an ongoing 'peace dividend' following the election of President Michel Sleiman in May 2008 and peaceful parliamentary elections in June 2009. It considered that a solid banking sector and the rebound in oil prices since the beginning of the year are supporting deposit growth and the tourism sector. However, it had low expectations about the implementation of economic reforms in the short to medium term, and expressed concern about the fiscal balance and debt ratios. It noted that a strong year for tourism and relative stability in remittance inflows are supporting private consumption growth in 2009, as tourism arrivals reached a record 1.1 million year-to-July and are expected to total about 2 million for the year compared to 1.3 million tourists in 2008. It added that the strong tourism season, along with strong capital inflows, have contributed to a balance of payments surplus of \$3.3bn in the first 7 months of the year, double the surplus posted in the same period last year. It noted that the year-to date surplus took place despite a 5.7% widening of the trade deficit due to solid non-oil import growth of 15% year-on-year. It added that the large balance of payments surplus, in addition to recent comments from the Central Bank, indicates that remittances have probably continued to grow in 2009, possibly due to the relative stability of GCC economies where a large base of Lebanese expatriates live.

EFG Hermes projected the inflation rate at 4% at the end of 2009 and at 5% at end-2010. It forecast the annual growth of broad money at 11.4% in 2009 8.1% in 2009 and 7.7% in 2010, up from earlier projections of 8.1% for this year and 6.7% next year. It also projected private-sector lending to grow by 15% in 2009 and 12% in 2010, up from an earlier forecast of 8% credit growth this year and 10% next year. In parallel, it forecast a fiscal deficit of 11.8% of GDP in 2009 and 10.3% in 2010. It also expected the external debt to decline to 67% of GDP by end-2009 and to 62.3% of GDP by end-2010, and for the domestic debt to reach 93.1% of GDP at the end of this year and to 92.7% of GDP by the end of 2010.

#### MENA Cumulative SDR Allocations

Country	Cumulative SDR (million)	MENA Rank	Global Rank
Saudi Arabia	6,682	1	7
Iran	1,426	2	29
Kuwait	1,316	3	31
Algeria	1,198	4	34
Iraq	1,134	5	36
Libya	1,073	6	37
Egypt	898	7	43
Israel	883	8	44
UAE	568	9	56
Morocco	561	10	57
Syria	279	11	74
Tunisia	273	12	76
Qatar	251	13	80
Yemen	232	14	83
<b>Lebanon</b>	<b>193</b>	<b>15</b>	<b>90</b>
Oman	179	16	92
Jordan	162	17	97
Bahrain	124	18	112

Source: International Monetary Fund, September 2009

### Lebanon has highest level of employee motivation in the region

A survey conducted by regional job portal Bayt.com indicates that employees in Lebanon are the most motivated in the Middle East & North Africa. The survey was conducted in August and interviewed about 13,400 professionals residing in the MENA region and in Pakistan

Results of the survey show that 28% of respondents in Lebanon are highly motivated at work, 29% are motivated, 15% are slightly motivated, 16% are not so motivated and 7% are not motivated at all. In comparison, 21% of workers interviewed in the MENA region are highly motivated, 24% of are motivated, 18% are slightly motivated, 19% are not so motivated and 15% not motivated at all. Also Lebanon posted the highest level of managerial support for work-life balance, with 76% of respondents receiving work-life balance support, compared to 65% of respondents in the region receiving such support. The survey also showed that the top motivating factors for employees are long-term growth opportunities, company reputation and personal motivation from the line manager. Also, 91% of Lebanese respondents feel that the work they do is significant to their employer, while 78% of Lebanese respondents are satisfied with their responsibilities, 71% are satisfied with the authority provided by their organization, 69% are satisfied with their line manager, and 69% are satisfied with the flexibility of their work schedule. Further, 58% of Lebanese respondents are satisfied with the recognition and appreciation they receive at work, 66% are satisfied with their job security, 57% are satisfied with their personal and professional growth, while 43% are satisfied with the compensation and benefits they receive.

The survey added that 13% of respondents in Lebanon do not think about leaving their jobs, 16% considered sometimes leaving their jobs, 32% are willing to leave their jobs, and 38% are actively looking for other jobs or in the process of leaving their job. In parallel, 13% of respondents in the region do consider leaving their jobs, 16% think sometimes about leaving their employment, 31% are willing to leave their jobs, and 39% are actively looking for other jobs or about to leave their job.

In parallel, 37% of respondents in Lebanon claim that everyday is a stressful day at work, 25% have a stressful day once every 2 to 3 days, 12% experience stress once every 4 to 5 days, 12% have a stressful day weekly and 4% experience stress once a month. In comparison, 32% of regional respondents claim that everyday is stressful at work, 25% experience stress every 2 to 3 days, 10% have a stressful day at work every 4 to 5 days, 14% having a stressful day every week and 6% experience stress once a month.

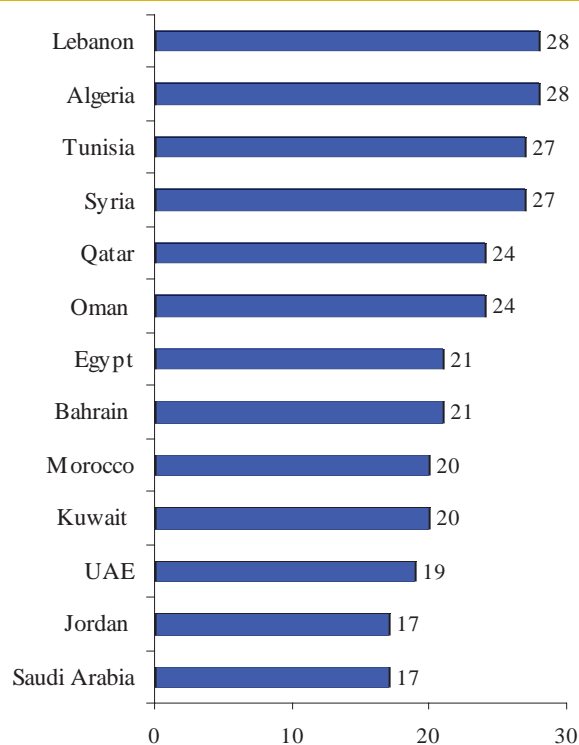
### Association of Banks amends reference rate on US dollar and Lebanese pound lending

The Association of Banks in Lebanon (ABL) recommended to its member banks to decrease the Beirut Reference Rate in US dollars by two basis points to 5.21% from 5.23% previously. The rate, considered as the reference rate for lending in foreign currency, replaced earlier this year the London Inter-Bank Offering Rate (LIBOR) since the ABL considered that the LIBOR no longer accurately reflects the cost of funding and lending in Lebanon. Additionally, the ABL recommended to its member banks to decrease the Beirut Reference Rate in Lebanese pounds by four basis points to 8.86% from 8.92% previously. The new rates will be effective starting the beginning of October 2009. The Beirut Reference Rate in US dollars and Lebanese pounds were adopted in March and May 2009, respectively. The ABL indicated that the BRR does not replace the Beirut Prime Lending Rate in each currency, 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 for US dollar and Lebanese pounds are 8.25% and 10% respectively.

### Syria and Egypt sign deal to supply Lebanon with natural gas

Syria and Egypt signed an agreement to supply Lebanon with natural gas through the Pan-Arab Natural Gas Pipeline. The agreement is for a 15-year period with an option to extend it further. Egypt will supply Syria with 600 million cubic meters of natural gas a year through Jordan. Syria will use the Egyptian natural gas at its power station of Deir Ali located in the South of the country and will supply Lebanon with an equivalent quantity of natural gas to be extracted from fields located in the East of the country. Lebanon will route the gas to the Beddawi power station near Tripoli. The plant has an annual output of 450 megawatts, generates one third of Lebanon's total electricity production and meets 25% of the country's needs. Last week, Egypt and Lebanon signed their part of the agreement. Egypt is to start supplying the gas by mid-September.

**% of Respondents Highly Motivated at Work**



Source: Bayt.com

### **Average Coincident Indicator up 12.6% year-on-year in July**

The Central Bank's Coincident Indicator, an index of economic activity in Lebanon, reached 230.2 points in July 2009 compared to 229 points in June 2009 and 201.9 points in July 2008. The Coincident Indicator, an average of 8 weighted economic indicators, improved marginally by 0.5% month-on-month and rose by 9.8% in the first 7 months of 2009 and by 14% on an annual basis. The indicator averaged 214.2 points in the 12-months ending July 2009 compared to 211.9 points in the 12-months ending June 2009 and to 190.2 points in the 12-months ending July 2008. As a result, the average coincident indicator rose by 12.6% year-on-year. The indicator posted its second best performance ever in July 2009, after posting its best performance ever in April 2009 when it surpassed the previous peak of 215.3 points reached in January of this year. However, the July results reflect a stagnation in activity, leaving January and April as the only two months with a pick up in activity this year. The indicator improved 6 times and regressed 10 times in the month of July since 1993. The indicator averaged 198.4 points in 2008, 180 points in 2007 and 171.6 points in 2006.

### **Cleared checks up 2.6% to \$35.5bn in first 8 months of 2009**

The value of cleared checks totaled \$35.5bn in the first 8 months of 2009, constituting an increase of 2.6% from to the same period last year. The value of cleared checks in Lebanese pounds rose by 17.3% to the equivalent of \$7.2bn, while the value of cleared checks in U.S. dollar decreased by 0.6% to \$28.3bn. The dollarization rate of cleared checks decreased from 82.2% to 79.7% year-on-year.

### **Balance of payments posts surplus of \$3.3bn in first 7 months of 2009**

Central Bank figures show that Lebanon's balance of payments (BoP) posted a surplus of \$3.3bn in the first 7 months of 2009 compared to a surplus of \$1.6bn in the same period last year. The BoP posted a surplus of \$1.2bn in July compared to a surplus of \$443m in June and to a surplus of \$1.5bn in July 2008. The July 2009 surplus was caused by a rise of \$1.4bn in the Central Bank's net foreign assets and a decrease of \$146m in those of banks and financial institutions. The cumulative surplus over the first 7 months of 2009 was caused by a rise of \$5bn in the Central Bank's net foreign assets and a decline of \$1.7bn in those of banks and financial institutions. The balance of payments posted a cumulative surplus of \$3.5bn in 2008.

### **Net public debt at \$43bn at end-July 2009**

Lebanon's gross public debt reached \$47.9bn at the end of July 2009, constituting an increase of 1.9% from end-2008 and a rise of 7.3% from end-July 2008. Domestic debt increased by 14.9% to \$26.6bn, while external debt decreased by 0.9% annually to \$21.3bn. Local currency debt accounted for 55.5% of gross public debt at end-July 2009 compared to 51.8% a year earlier, while foreign currency-denominated debt represented 44.5% of the total at the end of July relative to 48.2% a year earlier. Market-issued Eurobonds account for about 67% of external debt.

Commercial banks accounted for 57.1% of the local public debt at the end of July 2009 compared to 59.9% a year earlier. They were followed by the Central Bank with 26.1%, up from 24% at end-July 2008; while public agencies, financial institutions and the general public accounted for 16.8% of local debt relative to 16.1% a year earlier. Eurobond holders, foreign private sector loans and special T-bills in foreign currencies accounted for 85.9% of the external debt, followed by multilateral institutions with 7.3%, foreign governments with 4.7% and Paris II loans with 2.1%. Net public debt, which excludes the public sector's deposits at the Central Bank and at commercial banks from overall debt figures, increased annually by 5.8% to \$43bn. In parallel, the gross market debt accounted for about 65% of total public debt. Gross market debt is the total public debt less the portfolios of the Central Bank, the National Social Security Fund, bilateral and multilateral loans, as well as Paris II and Paris III related debt.

### **Construction permits up 12.3% in first 7 months of 2009**

Figures released by the Association of Engineers of Beirut & Tripoli show that construction permits reached 6.83 million square meters in the first 7 months of 2009, up 12.3% from 6.08 million square meters in the same period last year. Construction permits totaled 556,405 square meters in July 2009, down 43% year-on-year from 976,355 square meters in July 2008. In parallel, cement deliveries reached 2.89 million tons in the first 7 months of the year, an increase of 22% from 2.37 million tons in the same period of 2008. Cement deliveries were driven by local demand in the construction sector and by exports. Cement deliveries increased by 32.3% year-on-year to 519,078 tons in July 2009.

### **Most tourist spending in Lebanon originates from Saudi Arabia in first 8 months 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 8 months of 2009, equivalent to 21% of total tourist spending, followed by tourists from Kuwait (13%), UAE (12%), Syria (7%) and Jordan (6%). Beirut attracted 81% of total spending over the covered period, followed by the Metn area with 14%, the Keserwan region with 3% and the Baabda area with 1%. Fashion & clothing accounted for 67% of total spending, followed by watches with 11%, perfume & cosmetics with 5%, home & garden with 5%, and department stores with 5%.

### Dubai-based Deyaar targets low-cost housing projects in Lebanon

Deyaar Development PJSC, the Dubai-based real estate firm, reportedly intends to build low-cost homes in the Beirut area in cooperation with Solidere, Lebanon's largest real estate developer. Deyaar indicated that it will submit a proposal to Solidere to build low-cost housing units to be located close to Beirut. It added that such projects would yield solid returns over the long term and result in a new development model. Deyaar noted that there is a significant gap in the supply of housing in the mid- to lower end of the Lebanese real estate market, adding that this segment should have been targeted a long time ago. It noted that it constitutes a quick way to generate cash-flow because that's where the housing gap is.

The developer added that, if it agrees with Solidere to cooperate on the project, they will ask the Lebanese government to provide the land and will negotiate with banks to provide mortgages to low-income buyers. Deyaar completed in July the \$100m Saifi Village II project in the Beirut Central District, its first development in Lebanon. It said that all 72 apartments and penthouses have been sold. Deyaar is a Shariaa-compliant real estate development firm. Its activities cover property investment, development and management, as well as leasing and brokerage services. Its largest shareholder is the Dubai Islamic Bank with a 41% stake. It posted net profits of \$35.3m in the first half of 2009, down from \$233.6m in the same period last year. Its revenues dropped to \$237.4m from \$576m, and it had assets of \$3bn at end-June 2009. Deyaar has projects across the Middle East, as well as in Europe and the United States. It stopped work on about a quarter of its projects in Dubai because of the economic crisis.

### Kafalat loan guarantees at \$89m in first 8 months of 2009

Figures released by the Kafalat Corporation show that loans extended to small- and medium-size companies under the guarantee of Kafalat reached \$88.8m in the first 8 months of 2009, up 5% from \$84.6m in the same period last year. The number of loan guarantees totaled 673 in the first 8 months of 2009 compared to 619 in the same period last year. The average loan size reached \$132,008 compared to \$136,743 in the first 8 months of 2008.

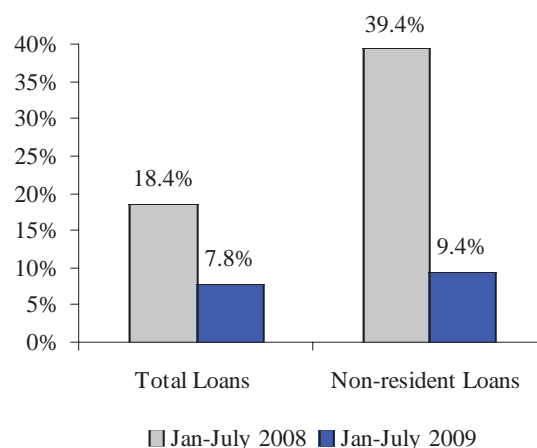
Mount Lebanon accounted for 47.2% of guarantees, followed the South & Nabatieh with 19.2%, the Bekaa with 15.2%, the North with 13.1% and Beirut with 5.3%. The agriculture sector accounted for 45% of total guarantees, followed by industries with 37.9%, tourism with 11.9%, and handicraft with 2.7%. Kafalat is a state-sponsored organization that provides financial guarantees for loans up to \$400,000 earmarked for the set up and expansion of small and medium-size companies in productive sectors. It guarantees up to 75% of the loan amount and a similar percentage of the interest that accrues during the grace period.

### Commercial banks' assets reach \$105.4bn at end-July 2009

The consolidated balance sheet of commercial banks operating in Lebanon shows that total assets reached \$105.4bn at the end of July 2009, up 11.8% from end-2008 and up 16.9% from end-July 2008. Private sector deposits totaled \$87.7bn, up 12.7% from end-2008 and up 18.1% from end-July 2008. Deposits increased by \$1.91bn in July, \$1.43bn in June, \$1.73bn in May, \$2.12bn in April, \$1.63bn in March and \$1.14bn in February, after declining by \$42m in January 2009. Deposits in Lebanese pounds rose by 24.5% from end-2008 and by 52.8% year-on-year, while deposits in foreign currencies increased by 7.6% from the end of last year and by 5.9% from end-July 2008. Non-resident foreign currency deposits reached \$12.6bn at end-July 2009, increasing by 18.5% from end-2008 and by 21.8% year-on-year. In parallel, deposits of non-resident banks reached \$4.43bn, up 2.9% from end-2008 and up 4.8% from end-July 2008. The dollarization rate of deposits reached 66.4% at end-July 2009, down from 69.6% at end-2008 and from 74% a year earlier. Further, the average deposit rate in Lebanese pounds reached 7.02% compared to 7.23% a year earlier, while the same rate in US dollars was 3.19%, down from 3.50% in July 2008.

Loans to the private sector amounted to \$27bn, up 7.8% from end-2008 and up 11.6% year-on-year. Non-resident foreign currency loans reached \$4.4bn at end-July 2009, increasing by 9.4% from end-2008 and increasing by 16.7% year-on-year. The dollarization rate in private sector lending reached 85.5% compared to 86.6% at end-2008 and 87.4% a year earlier. The average lending rate in Lebanese pounds was 9.43% in July 2009 compared to 10.13% a year earlier, while the same average in US dollars was 7.24% compared to 7.32% in July 2008. Claims on the public sector stood at \$26.3bn, up 3.3% from end-2008 and up 11.7% year-on-year, and accounted for 49.3% of the banking sector's total loans. The ratio of private sector loans to deposits in foreign currencies stood at 39.6%, well below the Central Bank's limit of 70%, and up from 38.5% a year earlier. In parallel, the same ratio in Lebanese pounds was 13.3% compared to 15.8% a year earlier. The ratio of total private sector loans to deposits stood at 30.8%, down from 32.6% a year earlier. The banks' aggregate capital base stood at \$7.53bn, up 6.1% from end-2008 and 12.8% from \$6.68bn in July 2008.

### Growth in Private Sector Loans (%)



Source: Association of Banks in Lebanon

## Ratio Highlights

(in % unless specified)	2006	2007	2008	Change*
Nominal GDP <sup>(1)</sup> (\$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 07/08

(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	Jun 2008	May 2009	Jun 2009	Change*	Risk Level
Political Risk Rating	57.0	57.0	57.0	↔	High
Financial Risk Rating	31.5	28.0	28.0	▼	High
Economic Risk Rating	28.5	30.0	30.0	▲	Moderate
Composite Risk Rating	58.5	57.5	57.5	▼	High

Regional Average	Jun 2008	May 2009	Jun 2009	Change*	Risk Level
Political Risk Rating	65.5	65.3	65.1	▼	Moderate
Financial Risk Rating	41.3	41.6	41.5	▲	Very Low
Economic Risk Rating	39.6	36.0	34.6	▼	Moderate
Composite Risk Rating	73.2	71.4	70.6	▼	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



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