



LEBANON THIS WEEK

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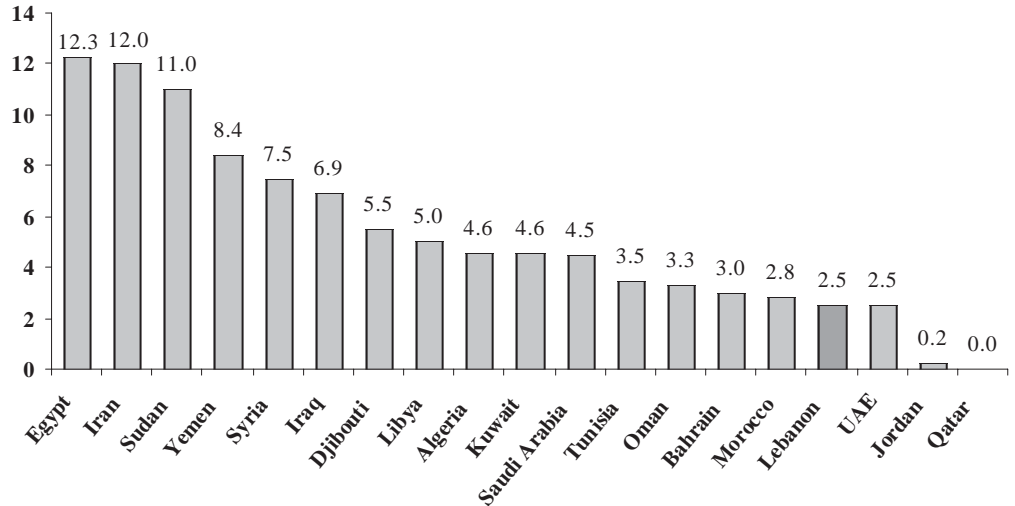
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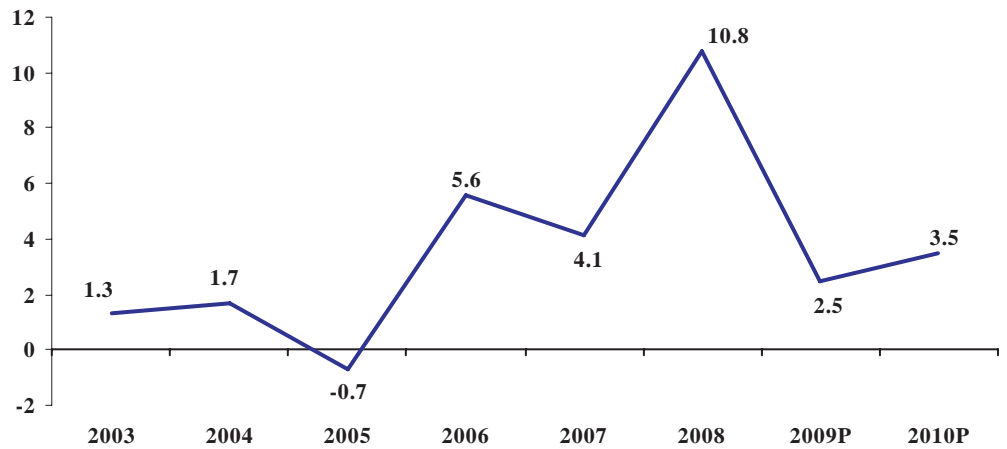
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Charts of the Week

Consumer Price Inflation in the MENA region in 2009 (%; Annual average)



Consumer Price Inflation in Lebanon (%; Annual average)



Source: International Monetary Fund

Quote to Note

“Lebanon is unlikely to see any refinancing risks emerging over the medium term.”

Barclays Capital, on the high level of liquidity in the banking system and the record high level of foreign currency reserves at the Central Bank

Number of the Week

15%: Broad money growth in Lebanon for 2009, according to projections by the International Monetary Fund

Economic Indicators

\$m (unless otherwise mentioned)	2007	Aug 08	2008	June 09	July 09	Aug 09	% Change*
Exports	2,816	283	3,478	249	230	239	(15.55)
Imports	11,815	1,417	16,133	1,551	1,470	1,439	1.55
Trade Balance	(8,999)	(1,134)	(12,655)	(1,302)	(1,240)	(1,200)	5.82
Balance of Payments	2,036	402	3,462	443	1,246	1,020	153.73
Checks Cleared in LBP	8,409	773	9,350	873	1,028	937	21.22
Checks Cleared in FC	29,893	4,282	43,174	3,658	4,115	4,233	(1.14)
Total Checks Cleared	38,302	5,055	52,524	4,531	5,143	5,170	2.27
Budget Deficit/Surplus	(2,546)	(247)	(2,921)	(151)	(157)	(127)	(48.58)
Primary Balance	731	(26)	597	161	136	121	(565.38)
Airport Passengers	3,408,834	547,237	4,085,334	460,223	621,522	612,956	12.01

\$bn (unless otherwise mentioned)	Dec. 2007	Aug 2008	May 09	June 09	July 09	Aug 09	% Change*
BdL FX Reserves	9.78	15.13	20.22	20.62	22.01	22.82	50.83
<i>In months of Imports</i>	<i>9.19</i>	<i>10.67</i>	<i>16.28</i>	<i>13.29</i>	<i>14.97</i>	<i>15.86</i>	<i>48.64</i>
Public Debt	42.03	45.35	47.75	47.33	47.92	48.51	6.97
Net Public Debt	39.03	40.69	42.79	42.98	43.05	43.24	6.27
Bank Assets	82.26	90.70	101.65	103.62	105.38	107.37	18.38
Bank Deposits (Private Sector)	67.29	75.00	84.35	85.78	87.69	89.30	19.07
Bank Loans to Private Sector	20.42	24.77	26.07	26.07	26.98	27.11	9.45
Money Supply M2	16.47	20.28	28.15	29.07	30.11	30.91	52.42
Money Supply M3	59.83	66.14	73.58	74.68	76.17	77.22	16.75
LBP Lending Rate (%)	10.10	9.96	9.79	9.76	9.43	9.27	(69b.p.)
LBP Deposit Rate (%)	7.40	7.23	7.06	6.96	7.02	7.00	(23b.p.)
USD Lending Rate (%)	8.02	7.17	7.28	7.24	7.24	7.05	(12b.p.)
USD Deposit Rate (%)	4.69	3.55	3.22	3.18	3.19	3.18	(37b.p.)
%* Change in CPI**	5.92	13.52	1.88	3.31	2.42	1.52	(1,200b.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	Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
Solidere "A"	25.50	(1.54)	763,441	20.85%	Mar. 2010	7.125	102.00	1.71
Solidere "B"	25.60	(0.47)	269,949	13.61%	May 2011	7.875	106.25	3.76
Byblos Common	1.90	0.00	53,500	3.37%	Mar. 2012	7.500	106.63	4.57
Byblos Priority	1.93	1.58	4,158	3.25%	Sep. 2012	7.750	107.88	4.79
Byblos Pref. 08	99.00	1.02	32,850	1.62%	June 2013	8.625	111.50	5.14
BLOM GDR	88.00	5.96	10,670	5.32%	Apr. 2015	10.000	116.00	6.50
BLOM Listed	82.00	0.00	215	14.42%	Jan. 2016	8.500	110.00	6.52
Audi GDR	82.70	12.67	27,335	6.65%	May 2016	11.625	125.00	6.83
Audi Listed	71.55	10.42	19,613	20.01%	Mar. 2017	9.000	114.50	6.50
HOLCIM	13.50	(5.26)	9,220	2.15%	Apr. 2021	8.250	109.00	7.09

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

Source: Byblos Capital Markets

	This Week	Last Week	% Change	September 2009	September 2008	% Change
Total Shares Traded	1,202,869	922,034	30.46	4,960,333	43,374,825	(88.56)
Total Value Traded	\$33,044,570	\$19,113,931	72.88	\$87,945,925	\$479,811,443	(81.67)
Market Capitalization	\$12.23bn	\$11.91bn	2.64	\$11.64bn	\$13.87bn	(16.07)

Source: Beirut Stock Exchange (BSE)



Merrill Lynch maintains its recommendation on Lebanese Eurobonds at 'Market Weight', September performance declines

Merrill Lynch maintained its recommendation on Lebanon's external debt to 'Market Weight' in its model portfolio of emerging markets debt and maintained Lebanon's market weight at 5.5% in October after reducing it by 0.3 basis points in September, increasing it by 0.1 percentage points in July, reducing it by 0.2 percentage points in June and by 1.4 percentage points in May, and raising it by 0.4 percentage point in March.

Lebanon's external debt rating of 'Market Weight' placed Lebanon in the same category as Colombia, Panama, Peru, Russia and Turkey. Lebanon's Market Weight is similar to the recommendation on the Europe, the Middle East & Africa (EMEA) region but does not compare well to the Over Weight recommendation for similarly-rated countries. Merrill Lynch reduced Lebanon's weight in the portfolio to 5.5% in September compared to 5.8% in August, 5.9% in July, 5.8% in June, 6% in May, 7.4% in April, 7.3% in March. Lebanon accounted for 17.4% of the allocations in the EMEA region in October, up marginally from 17% in September and similar to 17.6% in August, but down from 20.4% in June, 24.8% in May, 25.6% in April and 25% in March. Lebanon's allocation was the 9th highest among countries in the portfolio, unchanged from September and August, but down from 8th in July, 7th in June, 8th in May, 6th in April and 5th highest in March. Lebanon accounted for 23.4% of allocations to similarly-rated countries.

In parallel, Lebanon's external debt posted the 14th highest return at 21.45% among 20 markets in the EMEA region in the first 9 months of 2009, as well as the 27th best return among the 40 emerging markets included in Merrill Lynch's Sovereign Plus Debt Index. Lebanon underperformed the EMEA returns of 26.7% and the overall emerging market returns of 25.6% in the covered period.

Also, Lebanon's external debt underperformed the 33.8% returns posted by similarly-rated sovereigns during the first 9 months of the year, while it posted the 11th best performance at 21.8% in the EMEA region and the 25th best performance in emerging markets in US dollar terms. But it underperformed significantly the 58.3% returns of US dollar 'B'-rated bonds. Further, Lebanon's external debt posted the 7th highest returns among 8 countries in the Middle East & Africa region during the covered period, as it came ahead of Egypt with 9% but behind Iraq with 89.8%, Ghana with 88.1%, Gabon with 67.3%, Morocco with 32.2%, South Africa with 25.6% and Tunisia with 22%. Also, it posted returns of 1.34% in October, ahead of Egypt (0.43%) and Tunisia (1.32%), but behind Iraq (10.11%), Ghana (9.41%), Gabon (7.33%), Morocco (2.51%) and South Africa (2.3%).

In parallel, Lebanon's external debt posted the 18th highest return in the EMEA region and the 36th highest return in emerging markets during September 2009. It underperformed the EMEA returns of 3.71%, the emerging markets returns of 4.68% and the 5.05% returns of similarly-rated sovereigns for the same month. Merrill Lynch said the spread on Lebanese Eurobonds ended September 2009 at 417 basis points, 14th narrowest in the EMEA region and 26th narrowest among emerging markets compared to 11th lowest in the EMEA region and 21st lowest among emerging markets at the end of March 2009. It was wider than the EMEA spread of 305 basis points and the emerging markets overall spread of 310 basis points as at end-September 2009.

Lebanon to issue \$500m in Eurobonds

The Finance Ministry indicated that Lebanon plans to issue up to \$500m in Eurobonds in the coming weeks, with proceeds to be mainly earmarked towards servicing the debt and for Treasury transfers to the money-losing state-owned Electricité du Liban. The ministry said the size of the Eurobond is limited by what the government is authorized to issue without new legislation. The planned Eurobond will constitute the second issue in 2009, as the Finance Ministry successfully completed a voluntary debt swap for around \$2.3bn of maturing Eurobonds last March, with demand reaching 82.8% of the maturing bonds. In exchange, the government issued a 3-year \$600m bond carrying a coupon rate of 7.5% and due in 2012, an 8-year \$1.5bn bond carrying a coupon rate of 9% and due in 2017, and a 3-year €11m bond with a coupon rate of 7.75% due in 2012. The bonds included \$450m in new issues due to high demand. Lebanon has a total of \$17.7bn in outstanding Eurobonds, with a weighted interest rate of 7.36% and a weighted life of 4.76 years as at August 2009. Lebanon's external debt reached \$21.3bn at the end of August, with market Eurobonds accounting for about 67% of the total.

Emerging Markets External Debt Portfolio

Country	Bonds	Weight (%)
Brazil	Brazil '17s	10.5
Venezuela	Venezuela '18Ns	10.3
Indonesia	Indonesia '18Ns	9.7
Turkey	Turkey '18s	9.4
Russia	Russia '18s	9.3
Philippines	Philippines '16Ns	8.6
Mexico	Mexico '31	8.6
Colombia	Colombia '17s	6.1
Lebanon	Lebanon '13s	5.5
Peru	Peru '37s	4.3
Panama	Panama '36s	3.7
Ukraine	Ukraine '13	3.2
Argentina	Pars	3.2
Uruguay	Uruguay '22s	1.5
South Africa	South Africa '14s	1.3
Bahrain	CCB Sukuk'14s	0.9
Qatar	Qatar'14	0.9
El Salvador	El Salvador '23s	0.6
Ivory Coast	FLIRB's	0.6
Iraq	Iraq '28s	0.6
Jamaica	Jamaica '17s	0.3
Cash		1.1
Total		100

Source: Merrill Lynch, October 2009

IMF forecasts real GDP growth at 7% in 2009 and 4% in 2010

In its semi-annual economic outlook for the Middle East and Central Asia region, the International Monetary Fund projected Lebanon's real GDP growth at 4% in 2010, down from 7% in 2009, and compared to growth of 4% for the Middle East, North Africa & Pakistan region (MENAP) and 5.1% in emerging markets. The Fund estimated the country's nominal GDP at \$35.2bn in 2010 relative to \$32.7bn in 2009. It projected Lebanon's inflation to average 3.5% in 2010 compared to 6.6% in the MENAP region and 4.9% in emerging markets. Further, it forecast government revenues at 23.8% of GDP in 2010 relative to 30.9% of GDP in the MENAP region, and estimated public expenditures at 34.2% of GDP compared to 29.9% of GDP in the MENAP region. The IMF projected Lebanon's current account deficit at 10.5% of GDP in 2010, up from 11.3% of GDP in 2009, and compared to a surplus of 5.7% of GDP in the MENAP region in 2010. It also expected the public debt to decrease to 134.6% of GDP at end-2010 from 150.8% of GDP at end-2009.

	Lebanon		Oil Importers		MENAP	
	2009P	2010P	2009P	2010P	2009P	2010P
Real GDP Growth (%)	7.0	4.0	3.6	3.8	2.2	4.0
Consumer Price Inflation (%)*	2.5	3.5	10.1	7.2	7.0	6.6
Fiscal Balance (% of GDP)	(10.6)	(10.1)	(5.8)	(5.9)	(0.8)	1.2
Total Debt (% of GDP)	150.8	134.6	63.0	62.1	32.3	31.0
External Debt (% of GDP)	186.1	177.7	32.5	31.4	1.1	5.7
Current Account (% of GDP)	(11.3)	(10.5)	(4.5)	(4.5)	30.0	25.4

P: projected

**Yearly average*

Source: International Monetary Fund, October 2009

Lebanon to consider buying new electricity generators for \$300m

The Ministry of Energy & Water plans to buy 300 megawatts (MW) generators at a cost of \$250m-\$300m in order to meet the growing demand for electricity. The ministry considers that the installation of the new four-stroke engines next to the existing electricity plants to be the fastest solution to meet the upcoming electricity needs of the next summer. The purchase plan is expected to be presented to the Parliament soon. At present, Lebanon produces 1,600 MW of electricity while the country's actual need is about 2,400 MW.

Russian Chamber to establish regional office in Beirut

The Russian Chamber of Commerce and Industry announced plans to open a regional office in Beirut at the beginning of 2010 to boost trade, industrial and cultural relations with Lebanon and the Arab world. It said trade activity between the two countries is low as Lebanese exports to Russia reached only \$8m, while Russian exports to Lebanon totaled \$503m in 2008. It noted that food products, wheat and wood are the main Russian exports to Lebanon. It added that the regional office will organize trade fairs to promote Russian products that include agricultural and industrial goods. The Russian Chamber of Commerce and Industry is a non-governmental, non-profit organization that promotes the growth of the Russian economy and its integration into the world economic system.

Central Bank foreign assets increase by 30% to \$25.7bn in first 9 months of 2009

The Central Bank's interim balance sheet reached \$50.4bn at the end of September 2009 compared to \$40bn at the end of 2008 and to \$39.2bn at the end of September 2008. Assets in foreign currencies increased by 30.2% in the first 9 months of the year to \$25.7bn, up from \$19.7bn at the end of 2008. Assets in foreign currencies increased by \$384.7m in September, \$810.8m in August, \$992m in July, \$402.1m in June, \$792.5m in May, \$581.3m in April, \$810.6m in March, \$612.8m in February and by \$567m in January. This resulted in an aggregate increase of nearly \$6bn in the first 9 months of 2009. Further, assets in foreign currencies rose by \$7.9bn, or 44.2%, year-on-year.

The Central Bank's gold reserves increased by 15% in the first half and by 13.4% year-on-year to \$9.25bn on the strength of the global rise in gold prices, surpassing the previous all-time high of \$9.2bn reached in March 2008. Its securities portfolio increased by 17% year-to-September and by 29.4% annually to \$7.7bn, as it continued to cover the deficit by subscribing to Treasury bills.

Further, deposits of the financial sector rose by \$8bn or 28.4% in the first three quarters of the year and by \$9.4bn, or 35%, annually to \$36.2bn due to capital inflows into the banking sector, while deposits of the public sector declined by 1.1% from end-2008 and rose by 16.3% year-on-year to \$4.6bn. Assets in foreign currencies increased by \$7.34bn in 2008, declined by \$580m in 2007 and rose by \$1.32bn in 2006.



Number of tourists up 46.3% in first 9 months of 2009

The number of incoming tourists to Lebanon totaled 1,438,619 in the first 9 months of 2009, constituting an increase of 46.3% from 983,585 tourists in the same period last year. Arab tourists accounted for 42.4% of total visitors and were followed by visitors from Europe with 24.1%, Asia with 14.1%, America with 13.1%, Oceania with 3.5% and Africa with 2.2%. The number of tourists reached 153,674 in September 2009, constituting an increase of 57% from 97,856 in September 2008. Arabs accounted for 44.5% of total visitors in September 2009, followed by Europeans with 24.1% of total, American continent visitors with 12.5%, visitors from Asia with 11.8%, visitors from Oceania with 4% and Africa continent visitors with 3%.

Most tourist spending in Lebanon originates from Saudi Arabia in first 9 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 9 months of 2009, equivalent to 21% of total tourist spending, followed by tourists from Kuwait (12%), UAE (12%), Syria (7%) and Jordan (6%). Beirut attracted 80% of total spending over the covered period, followed by the Metn area with 15%, the Keserwan region with 3% and the Baabda area with 1%. Fashion & clothing accounted for 67% of total spending, followed by watches with 11%, home & garden with 5%, department stores with 5%, and perfume & cosmetics with 4%.

Beirut port revenues up 28.5% to \$121m in first 9 months of 2009

Figures released by the Port of Beirut Authority show that port revenues totaled \$120.8m in the first 9 months of 2009, constituting an increase of 28.5% from the same period last year. Freight activity reached 4.8 million tons in the first 9 months of 2009, up 8.1% from the same period of 2008. The number of ships reached 1,812, up 17.4% from a year earlier. Also, the port's revenues reached \$12.5m in September 2009, down 22% from the previous month. Further, freight activity decreased by 11.5% to 526 thousand tons, while the number of ships decreased by 5% to 200 ships in September 2009 from the previous month.

Construction permits up 10.6% in first 8 months of 2009

Figures released by the Association of Engineers of Beirut & Tripoli show that construction permits reached 7.69 million square meters in the first 8 months of 2009, up 10.6% from 6.95 million square meters in the same period last year. Construction permits totaled 863 thousand square meters in August 2009, almost unchanged from 864 thousand square meters in August 2008. In parallel, cement deliveries reached 3.34 million tons in the first 8 months of the year, an increase of 20.5% from 2.77 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 12.6% year-on-year to 457 thousand tons in August 2009.

Corporate Highlights

Kafalat loan guarantees at \$102m in first 9 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 \$101.8m in the first 9 months of 2009, up 4.2% from \$97.7m in the same period last year. The number of loan guarantees totaled 766 in the first 9 months of 2009 compared to 704 in the same period last year. The average loan size reached \$132,935 compared to \$138,825 in the first 9 months of 2008.

Mount Lebanon accounted for 46.5% of guarantees, followed the South & Nabatieh with 19.3%, the Bekaa with 15%, the North with 13.5% and Beirut with 5.7%. The agriculture sector accounted for 44.5% of total guarantees, followed by industries with 37.7%, tourism with 12.9%, and handicraft with 2.5%. 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.

Investors acquire mineral water firm, plan \$60m wellness resort

FFA Private Bank sal announced the completion of a private equity placement of an 86% equity stake in Naas Bikfaya Mineral Water Company sal. It said the shares have been acquired by FFA Private Bank and a group of Lebanese investors to re-launch the company's activity while capitalizing on its brand name. The firm has produced the Naas mineral water brand in Lebanon for many years. The new ownership plans to establish an upscale wellness resort at a cost of about \$60m in the heart of the mountains adjacent to the water source. The project will be developed by FFA Real Estate sal, a subsidiary of FFA Private Bank. The latter said it acted as the arranger and placement agent for the deal, and invested in the company as part of its merchant banking activities. It added that it will continue to advise the company on its funding needs and manage the planned IPO and listing of shares on the Beirut Stock Exchange.

Lebanese insurance companies' premiums account for 10% of total Arab premiums in 2008

Al-Bayan magazine's annual survey of the top insurance companies in the Arab world showed that the premiums of the 49 Lebanese insurance firms accounted for 9.9% of the aggregate premiums of 283 Arab insurers in 2008. The study shows that 17 Lebanese insurance firms ranked among the top 150 Arab insurers in terms of total assets for 2008, 17 among the top 150 in terms of shareholders' equity, 25 among the top 150 in terms of profits, and 10 among the top 150 in terms of capital. Also, the premiums of the top 15 Lebanese insurers accounted for 8.5% of total Arab premiums, while their profits represented 6.1% of the total profits of Arab insurers in 2008.

Top 15 Lebanese insurance companies in terms of total premiums in 2008 (\$m)

	Total Premiums	Rank	Assets	Shareholders' Equity	Net Profits	Capital
Medgulf	515.9	6	757.8	237.3	41.9	59.9
Arabia	204.0	17	358.8	105.0	4.7	34.0
Libano Suisse	117.0	39	157.2	17.3	2.9	9.1
Arope	80.9	54	238.9	61.3	4.7	47.1
Allianz SNA	77.8	58	183.3	31.0	3.0	27.9
Union Nationale	68.6	65	97.9	30.3	4.5	13.7
Bankers	65.2	67	80.8	19.0	6.5	10.0
Libano-Arabe	58.7	77	172.2	54.7	7.0	41.5
AXA ME	49.2	89	56.4	8.5	0.8	6.7
Libanaise	45.3	93	70.8	22.9	2.7	15.0
Bancassurance	30.6	114	143.3	7.4	3.4	3.0
ADIR	30.2	116	77.7	18.0	3.6	3.3
Fidelity	28.5	124	22.8	5.9	0.2	6.9
Assurex	21.7	132	36.4	9.9	-1.3	3.3
Mashrek	19.4	143	45.1	21.9	0.2	4.7

Source: *Al Bayan* magazine

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 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	July 2008	July 2009	Aug 2009	Change*	Risk Level
Political Risk Rating	57.0	57.5	57.5	▲	High
Financial Risk Rating	31.5	28.0	27.5	▼	High
Economic Risk Rating	28.5	30.0	27.5	▼	High
Composite Risk Rating	58.5	57.7	56.2	▼	High

Regional Average	July 2008	July 2009	Aug 2009	Change*	Risk Level
Political Risk Rating	65.6	65.1	65.1	▼	Moderate
Financial Risk Rating	41.2	41.6	41.7	▲	Very Low
Economic Risk Rating	39.8	34.4	34.3	▼	Moderate
Composite Risk Rating	73.3	70.5	70.5	▼	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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