



LEBANON THIS WEEK

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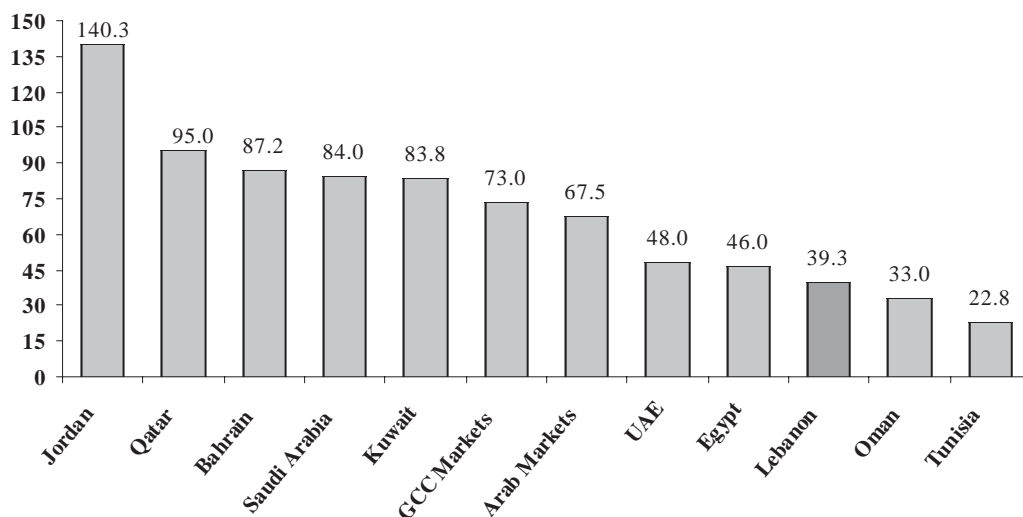
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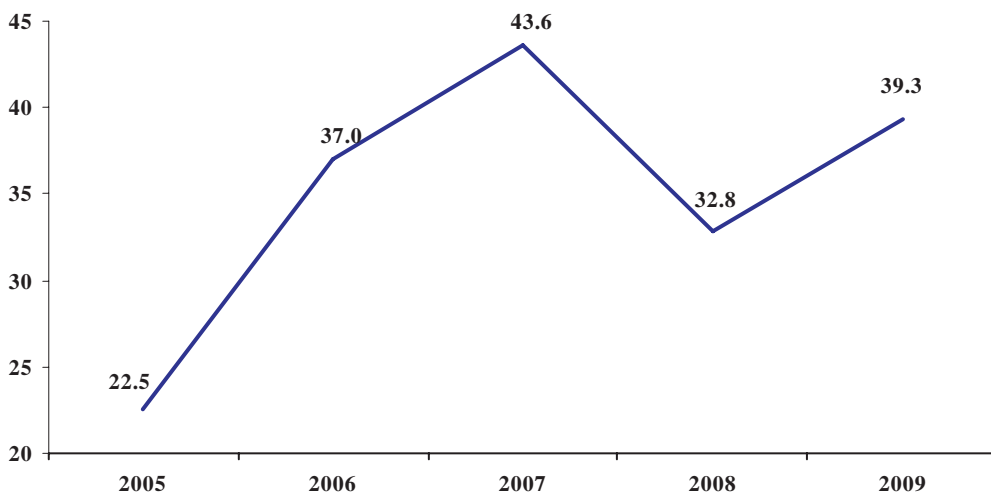
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Charts of the Week

Estimated Market Capitalization-to-GDP Ratio of Arab Stock Markets in 2009 (%)



Estimated Market Capitalization-to-GDP Ratio of the Beirut Stock Market



Source: Local Stock Markets, International Monetary Fund

Quote to Note

“I don’t think we will have any privatization in 2010.”

Finance Minister Raya El Hassan, on the prospects of privatizing state-owned enterprises this year as part of implementing structural reforms

Number of the Week

118%: The Central Bank’s assets in foreign currencies, relative to GDP, when including gold reserves at end-2009

Economic Indicators

\$m (unless otherwise mentioned)	2007	Oct 08	2008	Aug 09	Sep 09	Oct 09	% Change*
Exports	2,816	254	3,478	239	298	327	28.74
Imports	11,815	1,490	16,133	1,439	1,250	1,291	(13.35)
Trade Balance	(8,999)	(1,236)	(12,655)	(1,200)	(952)	(964)	(22.00)
Balance of Payments	2,036	231	3,462	1,020	475	1,167	405.19
Checks Cleared in LBP	8,409	848	9,350	937	900	1,102	29.95
Checks Cleared in FC	29,893	3,936	43,174	4,233	3,882	4,600	16.87
Total Checks Cleared	38,302	4,784	52,524	5,170	4,782	5,702	19.19
Budget Deficit/Surplus	(2,546)	(67)	(2,921)	(127)	(381)	(190)	183.58
Primary Balance	731	297	597	122	47	210	(29.29)
Airport Passengers	3,408,834	351,753	4,085,334	612,956	463,919	388,771	10.52
\$bn (unless otherwise mentioned)	Dec 2007	Oct 2008	Dec 2008	Aug 09	Sep 09	Oct 09	% Change*
BdL FX Reserves	9.78	16.16	17.06	22.82	23.21	24.12	49.26
<i>In months of Imports</i>	<i>9.19</i>	<i>10.84</i>	<i>15.03</i>	<i>15.86</i>	<i>18.57</i>	<i>18.68</i>	<i>72.32</i>
Public Debt	42.03	46.08	47.02	48.52	49.18	49.90	8.29
Net Public Debt	39.03	40.74	41.49	43.24	43.61	43.74	7.36
Bank Assets	82.26	90.43	94.25	107.37	109.90	111.57	23.38
Bank Deposits (Private Sector)	67.29	74.80	77.78	89.30	91.19	92.44	23.58
Bank Loans to Private Sector	20.42	24.61	25.04	27.11	27.89	28.09	14.14
Money Supply M2	16.47	23.10	24.76	30.91	31.57	32.36	40.09
Money Supply M3	59.83	66.38	68.66	77.22	78.73	79.71	20.08
LBP Lending Rate (%)	10.10	9.90	9.95	9.27	9.22	9.32	(58b.p.)
LBP Deposit Rate (%)	7.40	7.28	7.22	7.00	6.94	6.86	(42b.p.)
USD Lending Rate (%)	8.02	7.53	7.47	7.05	7.24	7.28	(25b.p.)
USD Deposit Rate (%)	4.69	3.54	3.33	3.18	3.16	3.18	(36b.p.)
%* Change in CPI**	5.92	11.16	6.36	1.52	1.99	1.66	(950b.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"	23.71	(1.04)	132,687	18.18%
Solidere "B"	23.78	(1.00)	55,651	11.85%
Byblos Common	2.10	(0.47)	145,419	3.50%
Byblos Priority	2.12	0.47	287,683	3.35%
Byblos Pref. 08	101.50	0.00	0	1.56%
BLOM GDR	90.85	0.89	12,891	5.15%
BLOM Listed	85.00	1.19	10,960	14.01%
Audi GDR	91.00	0.00	22,577	6.86%
Audi Listed	87.85	3.35	25,698	23.18%
HOLCIM	12.50	0.00	0	1.87%

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

Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
Mar. 2010	7.125	100.70	2.02
May 2011	7.875	106.00	3.28
Mar. 2012	7.500	107.50	3.87
Sep. 2012	7.750	109.00	4.12
June 2013	8.625	112.13	4.76
Apr. 2015	10.000	119.75	5.62
Jan. 2016	8.500	113.75	5.76
May 2016	11.625	128.75	6.08
Mar. 2017	9.000	117.38	5.99
Apr. 2021	8.250	112.50	6.56

Source: Byblos Capital Markets

	Jan 11-15, 2010	Jan 4-8, 2010	% Change	December 2009	December 2008	% Change
Total Shares Traded	730,546	308,707	136.65	3,174,705	3,338,870	(4.92)
Total Value Traded	\$12,480,605	\$8,253,829	51.21	\$49,395,830	\$41,192,782	19.91
Market Capitalization	\$13.04bn	\$12.95bn	0.72	\$12.84bn	\$9.61bn	33.66

Source: Beirut Stock Exchange (BSE)



Lebanon ranks 93rd globally, 11th in the MENA region in electronic government readiness

The United Nations' Electronic Government Readiness Index for 2010 ranked Lebanon in 93rd place among 183 countries worldwide and 11th among 19 countries in the Middle East and North Africa region. Lebanon came in 74th place globally and in 8th place regionally in the previous survey that was conducted in 2008. Also, Lebanon ranked in 26th place among 37 upper-middle income countries (UMICs) in 2010 and in 23rd place in the previous survey. The index provides a quantitative appraisal of the use of e-government as a tool in the delivery of services to the public at large. It is a composite index based on website assessment, telecommunications infrastructure and human resources. The survey adopted a people-centric approach to e-government, as it measured government-to-citizen (G2C) and citizen-to-government (C2G) relationships. The United Nations said the concept of connected government looks towards technology as a strategic tool and as an enabler for public service innovation and productivity growth.

Globally, Lebanon ranked ahead of Ecuador, Cuba and Bolivia, and came behind Maldives, Kyrgyzstan and Vietnam. It ranked ahead of St Vincent & the Grenadines and behind St Lucia among UMICs. Lebanon's numerical score was 0.4388 points, down 9.3% from 0.484 points in the previous survey. It came below the global average of 0.440 points, the MENA average of 0.4395 points and the UMICs' average of 0.4937 points.

Lebanon ranked in 93rd place globally, down from 80th place in the previous survey, on the Web Measure Sub-Index. The sub-index reflects governments' ability to deliver online services to their citizens. Globally, Lebanon ranked ahead of Lesotho and behind Cape Verde. It ranked ahead of Barbados and behind Panama among UMICs, while it tied with Iran, ranked ahead of the UAE and came behind Qatar in the MENA region.

Lebanon ranked in 85th place globally, down from 76th place in the previous survey, on the Telecommunications Infrastructure Sub-Index. The sub-index includes five primary variables reflecting a country's infrastructure capacity as they relate to the delivery of e-government. The variables cover the penetration of personal computers, telephone lines, television sets, Internet usage, on-line population and mobile subscriptions. Globally, Lebanon ranked ahead of Moldova and behind Belarus. It ranked ahead of South Africa and behind Mexico among UMICs, while it ranked ahead of Tunisia and came behind Oman in the region.

Lebanon ranked in 95th place globally, down from 82nd place in the previous survey, on the Human Capital sub-index. The index reflects the adult literacy rate and the combined primary, secondary and tertiary gross enrolment ratios. Lebanon ranked ahead of Indonesia and behind Fiji worldwide, while it ranked ahead of Malaysia and behind Grenada among UMICs. It ranked ahead of Saudi Arabia and behind Jordan in the region. South Korea is the world's leader in e-government readiness with a score of 0.8785 points, while the Niger came last and scored 0.1098 points.

MENA Countries Rankings & Scores

Country	MENA Rank	Global Rank	Score
Bahrain	1	13	0.7363
Israel	2	26	0.6552
UAE	3	49	0.5349
Kuwait	4	50	0.5290
Jordan	5	51	0.5278
Saudi Arabia	6	58	0.5142
Qatar	7	62	0.4928
Tunisia	8	66	0.4826
Oman	9	82	0.4576
Egypt	10	86	0.4518
Lebanon	11	93	0.4388
Iran	12	102	0.4234
Libya	13	114	0.3799
Morocco	14	126	0.3287
Algeria	15	131	0.3181
Syria	16	133	0.3103
Iraq	17	136	0.2996
Sudan	18	154	0.2542
Yemen	19	164	0.2154

Source: United Nations, Byblos Research

Components of E-Government Readiness Index for Lebanon

Sub-Index	Global Rank	MENA Rank	UMICs Rank	Lebanon Score	Global Average Score	MENA Average Score	UMICs Average Score
Web Measure	93	10	21	0.2667	0.2818	0.3123	0.3013
Telecom Infrastructure	85	9	31	0.1965	0.2357	0.2288	0.2942
Human Capital	95	7	25	0.8583	0.7974	0.7813	0.8907

Source: United Nations, Byblos Research

Merrill Lynch downgrades its recommendation on Lebanese Eurobonds to 'Under Weight', Eurobonds post 22nd best performance in 2009

Merrill Lynch revised downwards its recommendation on Lebanon's external debt to 'Under Weight' from 'Market Weight' in its model portfolio of emerging markets debt and reduced Lebanon's market weight to 2.1% in January 2010 after it rebalanced its portfolio at the end of last year to reflect its 2010 views of the external debt market. Lebanon's allocation was 5.5% in each of October and September, 5.8% in August, 5.9% in July, 5.8% in June, 6% in May, 7.4% in April, 7.3% in March, and 6.9% in January. In June 2008, Merrill Lynch upgraded its recommendation to 'Market Weight' from 'Under Weight' following the Doha Accord that restored political stability in May 2008.

Lebanon's external debt rating of 'Under Weight' placed Lebanon in the same category as Colombia, Peru, Mexico, the Philippines and South Africa. Lebanon's 'Under 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. Lebanon accounted for 7.5% of the allocations in the EMEA region in January compared to in October, and a high of 25% last March. Lebanon's allocation was the 14th highest among countries in the portfolio, down from 9th in October and 5th highest in March. Lebanon accounted for 10.5% of allocations to similarly-rated countries, down from 23.4% in October.

In parallel, Lebanon's external debt posted the 12th highest return at 26.86% among 20 markets in the EMEA region in 2009, as well as the 22nd best return among the 40 emerging markets included in Merrill Lynch's Sovereign Plus Debt Index. Lebanon underperformed the EMEA returns of 30.66% and the overall emerging market returns of 27.8% in the covered period. Also, Lebanon's external debt underperformed the 36.1% returns posted by similarly-rated sovereigns during the year, while it posted the 9th best performance at 27.4% in the EMEA region and the 18th best performance in emerging markets in US dollar terms. But it underperformed significantly the 57.2% returns of US dollar 'B'-rated bonds. Further, Lebanon's external debt posted the 6th highest returns among 8 countries in the Middle East & Africa region during the covered period, as it came ahead of Egypt with 11.1% and Tunisia with 26.6%, but behind Iraq with 97.2%, Ghana with 96.3%, Gabon with 70.8%, Morocco with 32.1%, and South Africa with 28%. Also, it posted returns of 1.23% in December, ahead of Morocco (-0.63%), Tunisia (0.25%), Egypt (0.42%) and South Africa (1.09%), but behind Ghana (3.95%), Iraq (3.92%) and Gabon (3.49%).

Further, Lebanon's external debt posted the 7th highest return in the EMEA region and the 14th highest return in emerging markets during December 2009. It outperformed the EMEA returns of 0.9%, the emerging markets returns of 0.4% and the 0.34% returns of similarly-rated sovereigns for the same month. Merrill Lynch said the spread on Lebanese Eurobonds ended 2009 at 320 basis points, 11th narrowest in the EMEA region and 22nd narrowest among emerging markets. It was wider than the EMEA spread of 249 basis points and the emerging markets overall spread of 277 basis points as at end-2009.

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 to 5.10% from 5.18% previously, starting in February. The rate, considered as the reference rate for lending in foreign currency, replaced last 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 to 8.58% from 8.66% previously. 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.

Emerging Markets External Debt Portfolio		
Country	Bonds	Weight (%)
Venezuela	Vz '16s, '18Ns, '19s	10.3
Brazil	Brazil '17s, '18s, '19s	10.0
Indonesia	Indonesia '18s, '19s	9.6
Russia	Russia '30s	9.6
Turkey	Turkey '18s, '19s	9.5
Mexico	Mexico '17s	8.5
Philippines	Philippines '16Ns, '20s	8.3
Colombia	Colombia '17s, '19s	5.0
Argentina	Pars	3.9
Uruguay	Uruguay '22s	3.8
Panama	Panama '36s	3.4
Ukraine	Ukraine '11	3.4
Peru	Peru '19s, '37s	3.1
Lebanon	Lebanon '13s	2.1
South Africa	South Africa '14s	1.9
El Salvador	El Salvador '23s	1.7
Dubai	Dubai '14s	0.5
Qatar	Qatar '19s	0.5
Ivory Coast	FLIRB's	0.3
Cash		4.6
Total		100

Source: Merrill Lynch, January 2010

Fiscal deficit to narrow this year, reforms to remain elusive

Regional investment bank EFG Hermes maintained its economic growth forecast for Lebanon at 4% for 2010, down from estimates of 6% in 2009. It said the euphoric level of growth seen in late 2008 and early 2009 is slowing, as reflected by a slowdown in the growth of non-oil imports to an average of 5.5% annually in September and October from average growth of 12.4% annually in the first 8 months of 2008. It noted that sentiment is still positive following the formation of the new government last November and its confirmation in December. But it expressed pessimism about the prospects of serious economic reforms in 2010 and considered that there is little prospect of the national unity government tackling the large fiscal deficit and debt burden. It noted that the major potential reforms include cutting the public sector wage bill, privatizing the two mobile phone licenses, restructuring the loss-making Electricité du Liban, and increasing tax revenues. It considered that such reforms are politically difficult, particularly with the delicate balance inside the new government. It indicated that selling the mobile licenses would sharply reduce the level of the public debt, while the recent extension of a French loan required Lebanon to remain committed to the privatization of the telecom sector. However, it noted that the new Posts & Telecommunications Minister ruled out the sale of the two mobile phone licenses shortly after his appointment.

EFG Hermes revised downward its forecast for the fiscal deficit from 9.6% of GDP to 9% of GDP for 2009, and projected the deficit to further narrow to 8.9% of GDP in 2010 and 8.4% of GDP in 2010. As a result, it expected the debt-to-GDP ratio to decline gradually in 2010 and 2011 even though privatization is unlikely in 2010. It said the fiscal deficits to continue to be largely financed with Lebanese pound-denominated debt, as was the case last year. It also expected Lebanon to post smaller balance of payments surpluses in 2010 and 2011 compared to 2009, as one-off flows, attracted by greater political stability and banking secrecy, start to decline, and added that political tensions remain a key risk to the balance of payments.

Further, EFG Hermes projected the inflation rate at 3% at the end of 2009 and at 3.5% at end-2010. It forecast the annual growth of broad money at 7.5% in 2010 relative to 15% last year, while it projected private-sector lending to grow by 12% this year relative to 15% last year. It also forecast external debt to decline to 64% of GDP by end-2010 and to 60% of GDP by end-2011, and for domestic debt to rise to 89% of GDP at the end of this year and to 88% of GDP by the end of 2011.

Merrill Lynch forecast 5% growth, Standard Chartered projects 4% expansion in 2010

Merrill Lynch projected Lebanon economic growth at 5% in 2010, similar to growth in Egypt and Russia, and the third highest growth in the Emerging Europe, the Middle East & Africa region (EMEA) for this year after Iraq and Nigeria. It forecast the consumer price index to average 4.5% this year relative to 2% last year, constituting the sixth lowest inflation rate among the 15 covered EMEA economies. Further, Merrill Lynch projected the fiscal balance to post a deficit of 8.2% of GDP this year, down from 9% of GDP in 2009, but still the second highest after Egypt in the EMEA region. It also forecast the public debt at 152% of GDP at end-2010, down from 159% of GDP at end-2009, but still the highest such ratio by far in the EMEA universe. Further, it expected the current account balance to post a deficit of 9.1% of GDP in 2010, up from 7.7% of GDP in 2009, and the highest such deficit among the 15 covered economies of the EMEA region.

In parallel, Standard Chartered Bank projected Lebanon's real GDP growth at 4% in 2010, similar to Jordan, Iran and Oman, and constituting the third highest growth among 15 economies in the Middle East & North Africa region. It also constituted the 23rd highest growth forecast among emerging markets in Asia, Africa, Latin America and the MENA regions for this year. It expected annual average inflation at 4.5% for 2010, similar to Kuwait, and constituting the 9th lowest inflation rate in the MENA region. Further, it forecast the current account to post a deficit of 9.5% of GDP in 2010, constituting the highest deficit in the MENA region and the second highest after The Gambia in its universe of emerging market economies.

Cleared checks up 7.4% to \$56bn in 2009

The value of cleared checks totaled \$56.4bn in 2009, constituting an increase of 7.4% from 2008. The value of cleared checks in Lebanese pounds rose by 18.9% to the equivalent of \$11.1bn, while the value of cleared checks in U.S. dollar increased by 4.9% to \$45.3bn. The dollarization rate of cleared checks decreased from 82.2% in 2008 to 80.3% in 2009.

Balance of payments posts surplus of \$6.3bn in first 11 months of 2009

Central Bank figures show that Lebanon's balance of payments (BoP) posted a surplus of \$6.3bn in the first 11 months of 2009 compared to a surplus of \$2.75bn in the same period of the previous year. The BoP posted a surplus of \$280m in November compared to a surplus of \$1.17bn in October and to a surplus of \$303m in November 2009. The November 2009 surplus was caused by a rise of \$668m in the Central Bank's net foreign assets and a decrease of \$388m in those of banks and financial institutions. The cumulative surplus over the first 11 months of 2009 was caused by a rise of \$7.71bn in the Central Bank's net foreign assets and a decline of \$1.42bn in those of banks and financial institutions. The balance of payments posted a cumulative surplus of \$3.5bn in 2008.

Net public debt at \$44bn at end-November 2009

Lebanon's gross public debt reached \$50.5bn at the end of November 2009, constituting an increase of 7.3% from end-2008 and a rise of 7.7% from end-November 2008. Domestic debt increased by 14.1% to \$29.3bn, while external debt increased by 0.03% annually to \$21.1bn. Local currency debt accounted for 58.2% of gross public debt at end-November 2009 compared to 54.9% a year earlier, while foreign currency-denominated debt represented 41.8% of the total at the end of November relative to 45.1% a year earlier. Market issued Eurobonds account for about 67% of external debt.

Commercial banks accounted for 60.4% of the local public debt at the end of November 2009 compared to 62% a year earlier. They were followed by the Central Bank with 23.4%, up from 22.5% at end-November 2008; while public agencies, financial institutions and the general public accounted for 16.2% of local debt relative to 15.5% a year earlier. Eurobond holders, foreign private sector loans and special T-bills in foreign currencies accounted for 85.5% of the external debt, followed by multilateral institutions with 7.5%, foreign governments with 4.9% 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 6.9% to \$44bn.

Commercial banks' assets reach \$114bn at end-November 2009

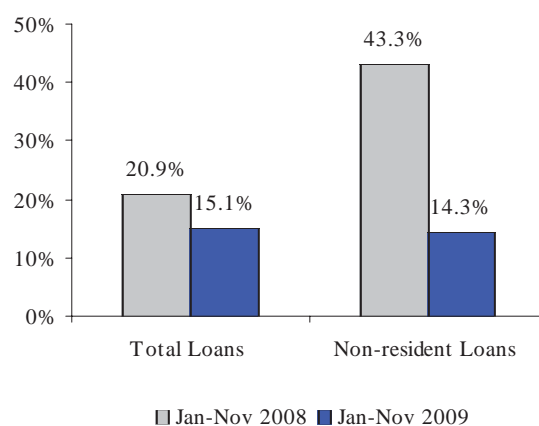
The consolidated balance sheet of commercial banks operating in Lebanon shows that total assets reached \$113.6bn at the end of November 2009, up 20.5% from end-2008 and up 23.8% from end-November 2008. Private sector deposits totaled \$94.1bn, up 20.9% from end-2008 and up 24.4% from end-November 2008. Deposits increased by \$1.62bn in November, \$1.25bn in October, \$1.89bn in September, \$1.62bn in August, \$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 39% from end-2008 and by 43.5% year-on-year, while deposits in foreign currencies increased by 13% from the end of last year and by 16.1% from end-November 2008. Non-resident foreign currency deposits reached \$13.8bn at end-November 2009, increasing by 29.8% from end-2008 and by 39.1% year-on-year. In parallel, deposits of non-resident banks reached \$4.9bn, up 13.1% from end-2008 and up 28.2% from end-November 2008. The dollarization rate of deposits reached 65% at end-November 2009, down from 69.6% at end-2008 and from 69.7% a year earlier. Further, the average deposit rate in Lebanese pounds reached 6.81% compared to 7.27% a year earlier, while the same rate in US dollars was 3.07%, down from 3.47% in November 2008.

Loans to the private sector amounted to \$28.8bn, up 15.1% from end-2008 and up 16.7% year-on-year. Non-resident foreign currency loans reached \$4.5bn at end-November 2009, increasing by 14.3% from end-2008 and by 18.8% year-on-year. The dollarization rate in private sector lending reached 84.6% compared to 86.6% at end-2008 and 86.8% a year earlier. The average lending rate in Lebanese pounds was 9.13% in November 2009 compared to 10.08% a year earlier, while the same average in US dollars was 7.25% compared to 7.54% in November 2008. Claims on the public sector stood at \$28.8bn, up 13.3% from end-2008 and up 14.6% year-on-year, and accounted for 50% of the banking sector's total loans but for just 25.3% of the sector's asset base. The ratio of private sector loans to deposits in foreign currencies stood at 39.9%, well below the Central Bank's limit of 70%, and down from 40.7% a year earlier. In parallel, the same ratio in Lebanese pounds was 13.4% compared to 14.2% a year earlier. The ratio of total private sector loans to deposits stood at 30.6%, down from 32.6% a year earlier. The banks' aggregate capital base stood at \$7.83bn, up 10.2% from end-2008 and 9.5% from \$7.15bn in November 2008.

Construction permits up 6% in first 11 months of 2009

Figures released by the Association of Engineers of Beirut & Tripoli show that construction permits reached 11.42 million square meters in the first 11 months of 2009, up 6% from 10.77 million square meters in the same period last year. Construction permits totaled 1,207 thousand square meters in November 2009, down 8.6% from 1,320 thousand square meters in November 2008. In parallel, cement deliveries reached 4.19 million tons in the first 10 months of the year, an increase of 20.4% from 3.48 million tons in the same period of 2008. Cement deliveries increased by 43.7% year-on-year to 516,000 tons in October 2009.

Growth in Private Sector Loans (%)



Source: Association of Banks in Lebanon

Most tourist spending in Lebanon originated from Saudi Arabia in 2009

According to Global Refund, the cash refund operator for international shoppers, tourists from Saudi Arabia spent the most in Lebanon in 2009, equivalent to 22% of total tourist spending, followed by tourists from Kuwait (12%), UAE (11%), Egypt (7%) and Syria (7%). Beirut attracted 81% of total spending in 2009, followed by the Metn area with 14%, the Keserwan region with 3% and the Baabda area with 1%. Fashion & clothing accounted for 66% of total spending, followed by watches with 11%, home & garden with 5%, perfume & cosmetics with 5% and department stores with 5%.

France to finance modernization of Beirut bourse, Italy approves financing for new development projects

The Beirut Stock Exchange and French company Société Arche Informatique, signed a Memorandum of Understanding to undertake a study on the modernization of the Beirut bourse. The project is for €23,148 and is financed by the French Ministry of Economy, Industry & Employment. In parallel, the Italian Development Cooperation Office in Lebanon approved the execution of four new development projects for €4.8m. The projects include the establishment of a national policy on public health for maternal and child healthcare in the poorest regions in Lebanon, the improvement of tourism in Baalbeck and the Bekaa, a contribution to the UNDP for the development of a plan on water resources, and a contribution to a UNIDO project on poverty reduction through productive activities.

Byblos Bank Syria to increase capital to \$132m

Byblos Bank Syria (BBS), the Syrian affiliate of the Byblos Bank Group, announced plans to increase its capital to SYP 6bn, or about \$132m, from the current SYP 2bn. The capital increase will be carried out in two stages over the coming two years, with the first SYP 2bn expected to take place before June 2010 and the second hike before June 2011. BBS listed all of its shares on December 22nd on the Damascus Securities Exchange (DSE), becoming the 7th bank and the 12th institution to be listed on the DSE. Byblos Bank sal, one of Lebanon's top 3 banks, posted net profits of \$95.9m in the first 9 months of 2009, up 21.3% from the same period of the previous year. It had total assets of \$13.04bn, loans of \$2.94bn and aggregate deposits of \$9.82bn at end-September 2009. The Byblos Bank Group operates in Lebanon, Syria, Iraq, the United Arab Emirates, Sudan, Nigeria and Armenia, as well as in Belgium, France, the United Kingdom and Cyprus. Byblos Bank's shares are already listed on the Beirut Stock Exchange and the Bank's Global Depository Receipts trade on the London Stock Exchange. Last month, Moody's Investors Service revised to 'positive' from 'stable' the outlook on Byblos Bank's 'B2' long-term foreign currency deposit ratings and the outlook on Byblos Bank's 'B1' senior unsecured debt rating.

EFG-Hermes to sell stake in Bank Audi

Regional investment bank EFG-Hermes Holding Company S.A.E. announced that it plans to sell its stake in Bank Audi sal. In January 2006, EFG-Hermes acquired a 20% stake in the bank through a \$450m capital increase by the latter, and then increased its stake gradually to 28.6% currently. Its stake consists to 7.55 million local shares and 2.48 million Global Depository Receipts. It said it plans to sell at \$91 per share for a total of \$913.4m. EFG-Hermes' planned at first to acquire a majority stake in the bank. Then it tried to fully merge with Bank Audi two years ago, but it announced in November 2008 that merger negotiations with the bank have ended, even though they were ongoing for more than one year. The proposed deal reportedly envisaged the formation of a Dubai-based holding company that would own Bank Audi - Audi Saradar Group and EFG-Hermes through a share swap based on the valuation of each side. The Dubai holding would have 15 board members, with each side represented by 7 members in addition to an independent board member. The proposed entity was supposed to offer synergies on a regional level between the two institutions. EFG-Hermes' income from the Audi stake accounted for 32.8% of its total net revenues in the third quarter of 2009. Its net profits declined by 22% to EGP 151m in the third quarter of 2009 and its net revenues regressed by 25% to EGP 346m from the third quarter of 2008. M1 Group, the investment firm of former Prime Minister Najib Mikati and his brother Taha, is reportedly looking to buy about half of the available shares, with the other half to be sold to current Audi shareholders and an investor from the Abu Dhabi ruling family.

Political stability, economic growth and real estate demand to support Solidere shares

EFG-Hermes issued a 'Buy' recommendation on the share of Solidere, the Lebanese Company for the development of the Beirut Central District, and estimated its fair value at \$33.30 relative to its price of \$24.28 on January 6th. It said Lebanon's economic growth and relative political stability have helped support the company's performance. It noted that Solidere's share price started to pick-up in May ahead of the June parliamentary election and continued to edge higher following the elections and the formation of a unity Cabinet in November, helping to push the stock price up 47% year-on-year. It indicated that Solidere has one of the most attractive land banks in the Arab world, given its prime location in downtown Beirut, which is further supported by the scarcity of supply. It expected sale prices to grow by 10% in 2010 and 2011, given the strong economy. It noted that Solidere has recently opened the South Souks in Beirut, which are likely to drive strong recurring revenue growth, and expected the Souks to add about \$25m in annual earnings with a gross margin of 60%. It added that future developments, such as the North Souks that are due to be built over the next three years, would further increase recurring revenues. It considered, however, that Solidere International is adding limited value to Solidere. It expected that the volume of off-plan and completed real estate transaction in Lebanon to remain healthy this year, as long-term demand is not only a function of population growth and political stability but is also determined by demand for second residences and holiday homes by Lebanese expatriates. It projected Solidere to post net profits of \$210m in 2010 and \$266m in 2011 on revenues of \$371m in 2010 and \$456m in 2011.

Car sales down 3.7% in 2009

Figures released by the Association of Automobile Importers in Lebanon indicate that a total of 32,177 new passenger cars were sold in 2009, constituting a decrease of 3.7% from the 33,428 cars sold in 2008. Japanese cars accounted for 47.3% of total sales, followed by European vehicles with 24.9% of sales, Korean automobiles with a 19.6% market share, American cars with 7.2% and Chinese cars with 0.9%. Chinese cars posted the biggest growth rate in sales with a 467.3% jump year-on-year. Sales of American cars posted a 14% decrease year-on-year, followed by Japanese cars with a 4.3% decline, European cars with a 3% drop and Korean cars with a 2.1% contraction. Nissan was the leading brand in the Lebanese market with 6,924 cars sold in 2009, followed by Toyota with 4,463 cars sold, Kia with 3,922, Hyundai with 2,378, Renault with 1,496 and Peugeot with 1,486 cars. The number of new passenger cars sold reached 3,055 in December 2009, constituting an increase of 8.1% from 2,825 in December 2008.



Kafalat loan guarantees at \$140m in 2009

Figures released by the Kafalat Corporation show that loans extended to small- and medium-size companies under the guarantee of Kafalat reached \$139.6m in 2009, up 8.6% from \$128.5m in 2008. The number of loan guarantees totaled 1,050 in 2009 compared to 930 in 2008. The average loan size reached \$132,964 compared to \$138,145 in 2008. Mount Lebanon accounted for 45.7% of guarantees, followed the South & Nabatieh with 20.3%, the Bekaa with 14.5%, the North with 13.5% and Beirut with 6%. The agriculture sector accounted for 42.6% of total guarantees, followed by industries with 39.6%, tourism with 12.9%, handicraft with 2.6%, and techniques with 2.3%. 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.

AFC gets license to operate in Syria

The Syrian Commission on Financial Markets and Securities granted a formal license to local brokerage firm the Arab Finance Corporation sal (AFC) to set up an affiliate in Syria in order to provide financial consultancy services. AFC will hold a 49% stake in the new firm, three Syrian investors will hold a combined 49% stake, while Sami Akhras, AFC's general manger will own the remaining 2%. The new firm, named Arab Finance Corporation-Syria, is a limited liability company and will have a capital of SYP 20m, or about \$0.45m. The scope of the current license differs from the preliminary license that AFC received in August of 2008, which covered consultancy services as well as IPO management services, and that required a capital of SYP 70m. The current license authorizes AFC to provide financial consultancy services. AFC is engaged in brokerage and financial consultancy services and other investment banking activities.

MEA implements new baggage management system

National flag carrier Middle East Airlines (MEA) announced it has started to implement the first ever integrated baggage management system in Lebanon. It said the new system, provided by aviation IT specialist SITA, will reduce the level of mishandled baggage and will facilitate security at the Rafic Hariri International Airport. It added that the system will immediately benefit 80% of the airlines flying to Lebanon whose flights are handled by Middle East Airlines Ground Handling (MEAG) and will also be made available to other ground handlers at the airport. MEA expects that reducing the number of mishandled bags would help reduce related costs by 30%, as each mishandled bag costs on average \$90 for airlines. The new system will also allow MEA to meet ICAO's security rules regarding baggage reconciliation prior to flight departure. In parallel, MEA announced that it has started on January 14 to operate daily flights from Beirut to Baghdad. Also, the airline is considering direct flights to Erbil and Najaf and is conducting related feasibility studies. MEA intends to float 25% of its capital on the Beirut Stock Exchange.

Four Seasons Hotel opens in Beirut

The Four Seasons Hotel Beirut launched its operations in the Beirut Central District. The five-star hotel has 230 rooms, including 60 suites, in addition to a health and fitness facility, a Spa, a swimming pool on the 26th floor, as well as conference and business amenities. The hotel is Canada-based Four Seasons Hotels & Resorts' first property in Lebanon and constitutes the ninth in the Four Seasons chain of hotels in the Arab world. The hotel has been developed by Saudi Prince Al-Waleed bin Talal's Kingdom Hotel Investments at a cost of about \$146m, and is one of nine Four Seasons properties owned by Kingdom. Other five-star hotels such as the Grand Hyatt Hotel and the Summerland Kempinski Hotel are expected to open in Beirut in coming years. The number of incoming tourists to Lebanon totaled 1.71 million in the first 11 months of 2009, constituting an increase of 43.5% from the same period in 2008.

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	Oct 2008	Sept 2009	Oct 2009	Change*	Risk Level
Political Risk Rating	57.5	56.5	56.5	▼	High
Financial Risk Rating	28.0	27.5	28.0	↔	High
Economic Risk Rating	30.0	27.5	35.5	▲	Low
Composite Risk Rating	57.7	55.7	60.0	▲	Moderate

Regional Average	Oct 2008	Sept 2009	Oct 2009	Change*	Risk Level
Political Risk Rating	65.6	65.1	65.1	▼	Moderate
Financial Risk Rating	41.1	41.7	42.0	▲	Very Low
Economic Risk Rating	39.0	34.7	34.8	▼	Moderate
Composite Risk Rating	72.8	70.7	70.9	▼	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	Positive	B2		Positive
Fitch	B-	B	Stable	B-		
S&P	B	B	Positive	B	B	Positive
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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