

LEBANON THIS WEEK

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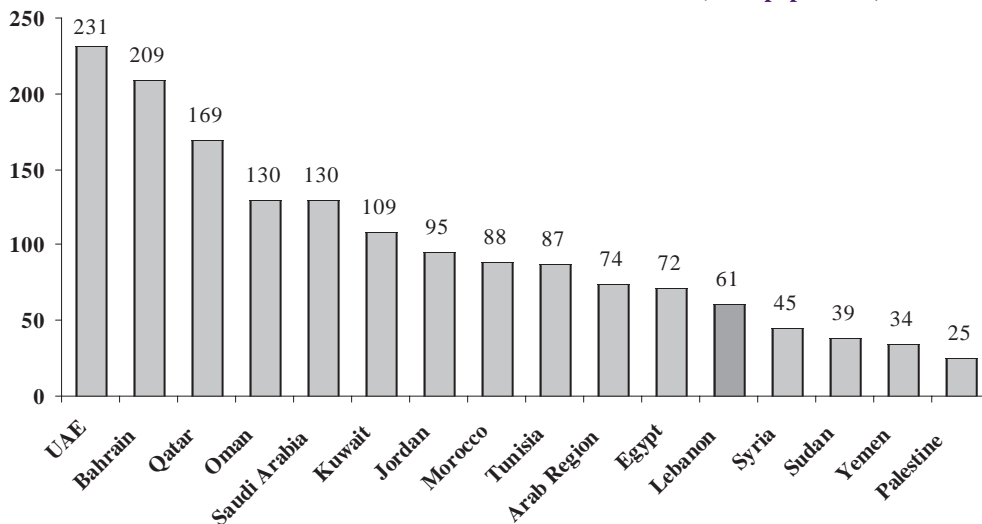
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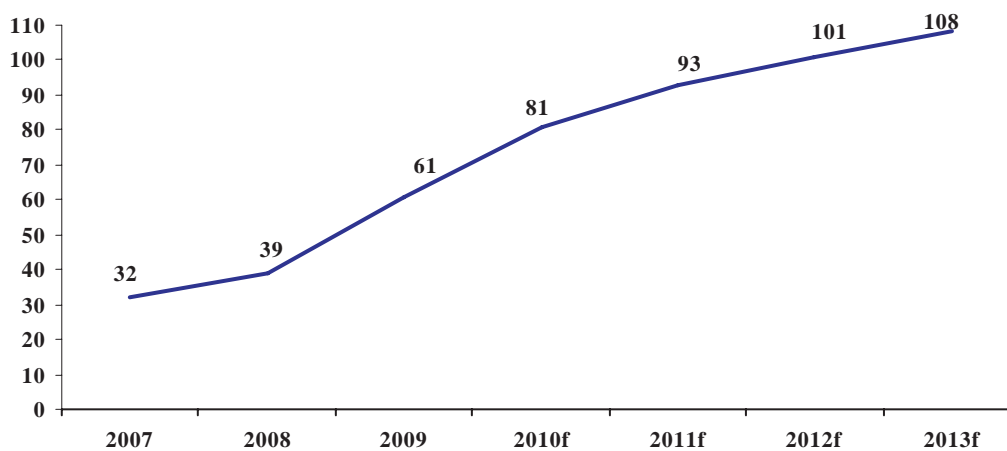
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Charts of the Week

Mobile Penetration Rates in Arab Countries in 2009 (% of population)



Mobile Penetration Rate in Lebanon (% of population)



Source: Informa TM

Quote to Note

“The fragile equilibrium that defines Lebanon’s politics means that reforms are inevitably fraught with conflict between various vested interests.”

Standard Chartered Bank, on the key obstacle to the implementation of structural reforms

Number of the Week

28%: Gross domestic investments as a percentage of GDP in 2009, according to Fitch Ratings

Economic Indicators

\$m (unless otherwise mentioned)	2008	Feb 09	2009	Dec 09	Jan 10	Feb 10	% Change*
Exports	3,478	376	3,486	364	313	342	(9.04)
Imports	16,133	1,035	16,241	1,380	1,245	1,206	(0.87)
Trade Balance	(12,655)	(659)	(12,755)	(1,016)	(932)	(864)	31.11
Balance of Payments	3,462	300	7,899	1,610	(44)	759	153
Checks Cleared in LBP	9,350	815	11,122	1,061	1,088	966	18.53
Checks Cleared in FC	43,174	2,872	45,270	4,756	4,444	3,929	36.80
Total Checks Cleared	52,524	3,687	56,392	5,817	5,532	4,895	32.76
Budget Deficit/Surplus	(2,921)	(325)	(2,960)	(368)	(18)	(176)	45.85
Primary Balance	597	(826)	1,078	72	202	123	(114.89)
Airport Passengers	4,085,334	276,825	4,986,544	738,211	369,694	339,237	22.55
\$bn (unless otherwise mentioned)	Dec 2008	Feb 09	Nov 09	Dec 09	Jan 10	Feb 10	% Change*
BdL FX Reserves	17.06	18.24	24.81	25.66	26.78	26.88	47.37
<i>In months of Imports</i>	<i>15.03</i>	<i>17.62</i>	<i>15.69</i>	<i>18.59</i>	<i>21.50</i>	<i>26.20</i>	<i>48.69</i>
Public Debt	47.02	47.21	50.46	51.09	51.65	51.98	10.10
Net Public Debt	41.49	41.89	44.01	44.11	43.92	44.20	5.51
Bank Assets	94.25	95.12	113.57	115.25	116.52	118.27	24.34
Bank Deposits (Private Sector)	77.78	78.88	94.06	95.77	95.99	97.07	23.06
Bank Loans to Private Sector	25.04	24.94	28.81	28.37	29.36	29.87	19.77
Money Supply M2	24.76	26.23	33.19	34.16	34.77	35.42	35.04
Money Supply M3	68.66	69.41	81.04	82.08	82.43	83.75	20.66
LBP Lending Rate (%)	9.95	10.03	9.13	9.04	8.91	8.83	(120b.p.)
LBP Deposit Rate (%)	7.22	7.13	6.81	6.75	6.61	6.42	(71b.p.)
USD Lending Rate (%)	7.47	7.28	7.25	7.28	7.26	7.26	(2b.p.)
USD Deposit Rate (%)	3.33	3.25	3.07	3.05	3.04	2.99	(26b.p.)
%* Change in CPI**	6.36	2.80	4.47	4.20	4.96	9.04	624b.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"	22.77	(0.83)	149,133	17.78%
Solidere "B"	22.72	(0.09)	22,445	11.53%
Byblos Common	1.90	(5.00)	124,761	3.22%
Byblos Priority	1.92	(4.48)	23,060	3.09%
Byblos Pref. 08	100.00	0.00	13,400	1.56%
BLOM GDR	92.00	(3.66)	23,938	5.31%
BLOM Listed	92.00	0.00	2,832	15.45%
Audi GDR	88.50	(0.06)	100	7.03%
Audi Listed	82.85	3.66	37,800	22.27%
HOLCIM	12.60	(2.70)	1,001	1.92%

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

Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
Nov. 2010	6.875	102.00	2.84
May 2011	7.875	105.13	2.76
Mar. 2012	7.500	107.00	3.56
Sep. 2012	7.750	109.13	3.61
June 2013	8.625	113.00	4.12
Apr. 2015	10.000	120.25	5.30
Jan. 2016	8.500	115.13	5.38
May 2016	11.625	128.75	5.87
Mar. 2017	9.000	117.88	5.80
Apr. 2021	8.250	112.38	6.64

Source: Byblos Capital Markets

	May 3-7, 10	Apr 26-30, 10	% Change	April 2010	April 2009	% Change
Total Shares Traded	4,744,400	2,972,661	59.60	26,726,767	2,614,635	922.20
Total Value Traded	\$12,100,033	\$11,743,109	3.04	\$84,719,621	\$42,197,348	100.77
Market Capitalization	\$12.80bn	\$13.01bn	(1.59)	\$13.01bn	\$8.61bn	51.12

Source: Beirut Stock Exchange (BSE)



Lebanon's brand perception declines in first quarter

The Nation Brand Perception Index (NBPI) ranked Lebanon in 179th place among 200 countries and territories around the world and in 14th place among 20 countries in the Middle East and North Africa region in the first quarter of 2010. Lebanon ranked in 43rd place globally and in fourth place regionally in the fourth quarter of 2009. Lebanon also came in 34th place among 37 upper-middle income countries (UMICs) included in the survey. The NBPI analyzes international perceptions of a country's brand. It covers the tone, whether positive or negative, and frequency of mentions in the international media. It said the number of times a country is mentioned reflects the strength of the brand, but not necessarily its quality. The index is based on a quarterly analysis of millions of mentions of countries in hundreds of thousands of news articles in 38 prominent global media sources. The index scores rely both on the overall quality of the media coverage and the prominence of the country, determined by the number of country references or mentions.

Globally, Lebanon ranked ahead of North Korea, Rwanda and Myanmar and came behind Serbia, Sri Lanka and Angola. It also ranked ahead of Russia and Chile, and behind Poland and Venezuela among UMICs. Lebanon received a score of 39.6 points, below the global and UMICs averages of 49.9 points, the MENA average of 43 points and the Arab average of 43.6 points. Lebanon's score decreased by 25.4% in the first quarter of 2010 from 53.1 points in the fourth quarter of 2009. Its score was 41.6 points in the third quarter, 43 points in the second quarter and 36.4 points in the first quarter of 2009.

In parallel, Lebanon was the 63rd most mentioned country in the international media in the first quarter of 2010, the 11th most mentioned country from the MENA region and the 10th most mentioned among UMICs. Globally, Lebanon was mentioned more than Syria, Georgia and Sudan, and less than the Fiji, Argentina and Vietnam. It was also mentioned more than Venezuela and Hungary and less than Poland and Argentina among UMICs. It was the 37th most mentioned country in the previous quarter and the 41st most mentioned in the first quarter of 2009. Lebanon was mentioned 7,041 times in the international media, below the global average mentions of 19,728 times, the MENA average mentions of 16,417 times, and the Arab average mentions of 10,445 times, but above the UMICs' average mentions of 6,528 times. Lebanon's number of mentions in the first quarter of 2010 was lower than its 11,824 mentions in the preceding quarter and its 13,126 mentions in the first quarter. Singapore had the best nation brand perception in the world with a score of 103.9 points and Pakistan the worst brand perception with a score of 3.2 points.

Net public debt at \$44.4bn at end-March 2010

Lebanon's gross public debt reached \$51.5bn at the end of March 2010, constituting an increase of 0.7% from end-2009, and an increase of 7.4% from end-March 2009. Domestic debt increased by 11.2% to \$29.5bn, while external debt decreased by 1% annually to \$21.2bn. Local currency debt accounted for 57.3% of gross public debt at end-March 2010 compared to 55.3% a year earlier, while foreign currency-denominated debt represented 41.2% of the total at the end of March relative to 44.7% a year earlier.

Commercial banks accounted for about 59% of the total public debt at the end of March 2010 compared to 56.3% a year earlier. They were followed by the Central Bank with 20% relative to 21% at end-March 2009; while public agencies, financial institutions and the general public accounted for 10.5% of the debt relative to 9.8% a year earlier. Further, multilateral and bilateral loans represented 5.5% of the debt compared to 6% at the end of March 2009, while other holders accounted for the remaining 4.8%. In parallel, residents held 89.7% of the public debt at the end of March 2010, up from 87% a year earlier. 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 4.9% to \$44.4bn. In parallel, the gross market debt accounted for about 67% 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.

Balance of payments posts surplus of \$978m in first quarter of 2010

Central Bank figures show that Lebanon's balance of payments posted a surplus of \$978m in the first quarter of 2010 compared to a surplus of \$297m in the same period last year. The balance of payments posted a surplus of \$264m in March compared to a surplus of \$759m in February and a deficit of \$367m in March 2009. The March 2010 surplus was caused by a rise of \$341m in the Central Bank's net foreign assets and a decrease of \$77m in those of banks and financial institutions. The cumulative surplus over the first three months of 2010 was caused by a surplus of \$1.8bn in the Central Bank's net foreign assets and a decline of \$799m in those of banks and financial institutions. The balance of payments posted a cumulative surplus of \$7.9bn in 2009 and \$3.5bn in 2008.

MENA Scores & Rankings in Q1-2010

	Score	MENA Rank	Global Rank
Kuwait	72.1	1	6
Bahrain	62.5	2	15
Qatar	62.4	3	16
Oman	54.0	4	34
Morocco	53.6	5	40
Tunisia	52.0	6	59
Saudi Arabia	47.8	7	148
Syria	47.0	8	152
Egypt	46.9	9	153
Jordan	46.1	10	160
Libya	45.1	11	163
Algeria	44.6	12	166
Turkey	43.5	13	170
Lebanon	39.6	14	179
UAE	38.1	15	185
Israel	27.5	16	194
Palestine	24.7	17	195
Iran	19.0	18	196
Yemen	17.6	19	197
Iraq	16.4	20	198

Source: East West Communications, Byblos Research

US maintains Lebanon on Watch List of intellectual property rights protection, says authorities are making progress in fighting violations

In its annual Special 301 review of the state of intellectual property rights (IPR) protection and enforcement around the world, the Office of the United States Trade Representative (USTR) maintained Lebanon on the Watch List, along with 29 other countries and jurisdictions. The USTR placed Lebanon on the Watch List in 1999 and then downgraded it to the more critical Priority Watch List in 2001 where it remained till 2007. It then upgraded Lebanon to the Watch List in 2008. Piracy-related losses incurred in Lebanon by copyright-based industries totaled \$29m in 2009 compared to \$31m in 2008, \$26.8m in 2007 and \$25.6m in 2006. The figures are partial estimates as they do not cover several categories of pirated materials. The USTR also included 11 countries this year on its Priority Watch List. Countries from the Middle East on the 2010 Watch List include Egypt, Kuwait, Lebanon, and Turkey, while Algeria remained on the more critical Priority Watch List and Saudi Arabia was removed from the Watch List due to improvements in its IPR protection and enforcement regime.

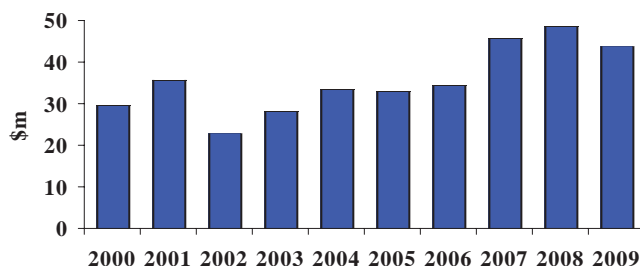
The USTR indicated that Lebanon has made incremental progress in fighting piracy and strengthening enforcement of existing IPR laws, and the Cyber Crime and Intellectual Property Rights Bureau of the police department has been responsive to rights holders' concerns. It added that the government has demonstrated a commitment to protecting IPR by expressing its intention to ratify the WIPO Internet treaties, by reengaging with U.S. technical experts on the update of the 1999 Copyright Law, and through training and public campaigns aimed at raising awareness about the importance of IPR protection. However, the USTR expressed concerns about weak enforcement against piracy and counterfeiting, and cited the need for deterrent sentencing for IPR crimes. It also highlighted the growing problem of counterfeit pharmaceutical products in Lebanon, adding that Lebanon does not provide effective protection against unfair commercial use of data generated to obtain marketing approval for pharmaceutical products. It added that the Cyber Crime and Intellectual Property Rights Bureau lacks *ex officio* authority and requires continued training to deal effectively with infringements on the Internet. The USTR encouraged Lebanon to pass the pending legislative amendments to strengthen IPR protection. It also pledged to continue working with Lebanon to strengthen its IPR laws and improve its enforcement regime through Lebanon's WTO accession process, a pending review under the U.S. Generalized System of Preferences, and other bilateral areas.

The Generalized System of Preferences (GSP) trade program provides unilateral duty-free access of goods from Lebanon and other developing countries to the U.S. market based on "the adequate and effective protection of intellectual property rights". Lebanon exported \$43.6m worth of duty-free products to the United States in 2009, equivalent to 56.5% of its total exports to the U.S. in 2009, compared to \$48.6m in 2008, or 49% of total exports to the U.S. in 2008, and \$45.8m or 46.5% of total exports to the U.S. in 2007. The USTR 'accepted for review' in September 2003 a petition from the International Intellectual Property Alliance (IIPA) to have the U.S. government evaluate whether to suspend some or all of Lebanon's benefits under the GSP trade program for failure to adequately protect copyrights. But the IIPA shelved its recommendation in 2008 due to the improvement in enforcement, and encouraged U.S. authorities to provide the Lebanese government with some additional time, while continuing to monitor progress in key problem areas.

Cleared checks up 38.7% to \$17bn in first quarter of 2010

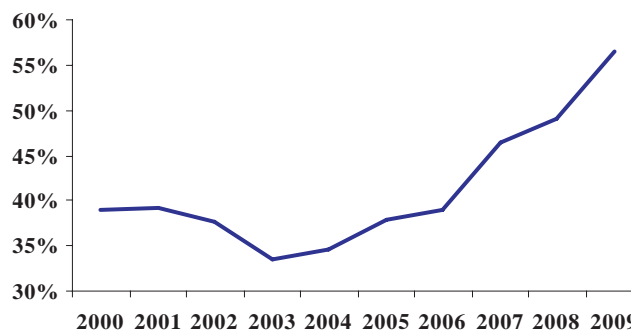
The value of cleared checks increased by 38.7% to \$16.9bn in the first quarter of 2010 compared to the same period of 2009. The value of cleared checks in Lebanese pounds rose by 26.2% to the equivalent of \$3.3bn, while the value of cleared checks in U.S. dollar rose by 42.2% to \$13.6bn. The dollarization rate of cleared checks increased from 78.4% to 80.3% year-on-year.

Lebanese exports to the U.S. under the GSP program in US\$m



Source: IIPA, Byblos Research

Percentage of Lebanese exports to the U.S. under the GSP program



Source: IIPA, Byblos Research

Size of cigarette market at \$437m, cost of smoking at 1.1% of GDP

A study issued by the AUB Tobacco Control Research Group estimated the size of the Lebanese retail market for cigarettes at \$437.3m in 2009, with imported brands having a 79% market share and local brands accounting for the balance. It said Lebanon is a net importer of tobacco, with a trade deficit reaching \$130m in 2008, as the country exports unprocessed tobacco leaves and imports manufactured tobacco products, mainly cigarettes; adding that total tax revenues from tobacco reached \$189m in 2008, including receipts from excise, customs, and value-added taxes. Further, there are approximately 450 licensed tobacco distributors and about 100,000 licensed retailers in the country.

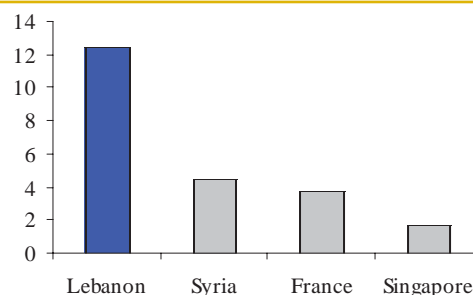
It added that Lebanese aged 18 years and above smoke 2,979 cigarettes per year on a per capita basis, as males consume 4,228 cigarettes per year and females consume 1,807 cigarettes annually on average. As a result, Lebanon has one of the highest adult cigarette consumption rates in the world at 12.4 packs per person per month, compared to 3.7 packs per month in France, 3.5 packs in Jordan and 1.7 packs in Singapore. The report said 53% of adults in the country smoke cigarettes or water pipes, as 43% of Lebanese male adults and 28% of female adults are cigarette smokers, and 26% of males and 23.3% of females are water-pipe smokers. Further, 64.5% of boys and 54.6% of girls between 13 and 15-year old smoke water pipes, while 15% of males and 7% of females in the same age bracket smoke cigarettes. In parallel, it indicated that Lebanon uses approximately 3.2% of its agricultural land for tobacco cultivation, making it, along with Malawi, North and South Korea, and Macedonia, the only countries in the world that allocate more than 1% of their agricultural land to growing tobacco.

The report said the economy posted net aggregate revenues of \$271.3m from tobacco, with government revenues accounting for 44.8% of the total, followed by international tobacco companies with 42.3%, distribution channels with 31% and the state's tobacco monopoly Régie with 18.5%. It conservatively estimated the direct and indirect cost of smoking on the Lebanese economy at \$326.7m, excluding the impact of second hand smoke on non-smokers. It calculated the direct cost of smoking at \$262.1m, which includes the cost of smoking-related diseases at \$146.7m, productivity-related costs at \$102.2m, and environmental degradation costs at \$13.6m. Further, it estimated the indirect costs of smoking due to tobacco-related deaths at \$64.6m. As a result, it estimated the net losses of smoking to the Lebanese economy at \$55.4m, equivalent to about 1.1% of GDP in 2008 and compared to 1.5% of GDP in Denmark, 0.8% of GDP in Egypt and 0.3% of GDP in Singapore. The study was sponsored by the Issam Fares Institute for Public Policy and International Affairs at the American University of Beirut.

Airport passengers up 18% in first four months of 2010

Figures released by the Hariri International Airport (HIA) show that the number of airport passengers (arrivals, departures, transit) amounted to 1,511,001 in the first four months of 2010, up 18.1% year-on-year. The UAE accounted for 309,695 passengers, or 20.5% of total passenger activity. It was followed by Saudi Arabia with 196,640 passengers, or 13% of the total, France with 139,849 travelers (9.3%) and Kuwait with 117,995 travelers (7.8%). The total number of flights reached 19,601 in the first four months of 2010, up 24.5% year-on-year. Middle East Airlines registered 5,572 flights, accounting for 28.4% of the total. It was distantly followed by Royal Jordanian Airlines with 938 flights or 4.8% of the total, National Air Services (NAS) with 616 flights, Etihad Airways with 614 flights, Emirates Airlines with 573 flights and Jazeera Airways with 508 flights. The UAE was the biggest source and destination of traffic to Lebanon, as aircraft movement to and from the UAE totaled 3,151 flights, accounting for 16.1% of the total. Also, the HIA processed 24,661 metric tons of cargo in the first four months of 2010, of which 24,307 tons of freight and 354 tons of mail. Total cargo processed in the first four months increased by 8.8% compared to the same period last year. MEA processed 6,669 tons of freight, of which 6,563 tons in regular freight and 106 tons in mail.

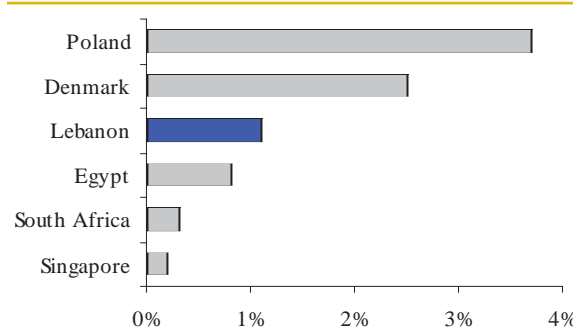
Consumption of Cigarette Packs*



* Per person, per month

Source: AUB Tobacco Control Research Group

Cost of Smoking (% of GDP)



Source: AUB Tobacco Control Research Group

Credit and debit cards reach 1.64 million cards, ATMs total 1,222 at end of March

Figures released by the Central Bank of Lebanon show that the number of credit and debit cards issued in Lebanon reached 1,644,248 cards at the end of 2009, constituting a 0.9% increase from end-2009, and a 3.2% rise on a yearly basis. Resident cardholders accounted for 97.1% of total cards issued in Lebanon. The distribution of payment cards by type shows that debit cards with residents accounted for 63% of the total, followed by credit cards with residents (21.4%), charge cards with residents (10.2%), resident prepaid cards (2.5%), non-resident debit cards (2.3%), non-resident charge cards (0.4%), non-resident credit cards (0.2%), and non-resident pre-paid cards (0.03%). The number of ATMs rose by 1.2% to 1,222 machines on a quarterly basis and by 7.3% from 1,139 ATMs at the end of March 2010. The Greater Beirut area had 603 ATMs, accounting for 49.3% of the total, followed by Mount Lebanon with 273 (22.3%), the North with 131 (10.7%), the South with 101 (8.3%), the Bekaa with 91 (7.4%), and Nabatiyeh with 23 (1.9%). Further, the aggregate number of point of sales accepting payment cards reached 45,455 by the end of the year, increasing by 2.2% annually.

The average monthly domestic payment by residents totaled \$104.1m in the first quarter of 2009, declining by 6.1% quarter-to-quarter and rising by 32.7% from the first quarter of 2009, while the average monthly payment and cash withdrawal abroad by residents decreased by 6.3% to \$60.7m from the last quarter of 2009 basis and increased by 31.8% from the first quarter of 2009.

Further, the average monthly value of cash withdrawals by residents using ATMs decreased quarterly by 10.4% and rose by 4.6% from the same quarter of the previous year to \$362.8m, while average monthly withdrawals by non-residents regressed by 6.6% to \$5.4m quarter-to-quarter and rose by 10.4% from the same period last year. Also, the average monthly purchases in Lebanon by non-residents regressed by 7.6% quarter-to-quarter and increased by 5.3% annually to \$1.7m. Domestic card payments in Lebanese pounds accounted for 12.2% of aggregate payments in all currencies, while local currency withdrawals represented 65.7% of the total in the fourth quarter.

Number and Usage of Payment Cards Issued in Lebanon			
	2009	2008	Change
Cards			
With residents	1,596,926	1,549,290	3.1%
With non-residents	47,322	43,343	9.2%
Total	1,644,248	1,592,633	3.2%
ATMs			
Points of Sales	45,455	44,463	2.2%
Purchases (in US\$m)			
by residents in Lebanon	\$312.5	\$235.6	32.7%
<i>% in Lebanese pounds</i>	<i>12.2%</i>	<i>12.0%</i>	
by non-residents in Lebanon	\$5.1	\$4.8	5.2%
by residents outside Lebanon	\$182.1	\$138.2	31.8%
Cash withdrawal (in US\$m)			
by residents in Lebanon	\$1,088.5	\$1,041.0	4.6%
<i>% in Lebanese pounds</i>	<i>65.7%</i>	<i>67.4%</i>	
by non-residents in Lebanon	\$16.2	\$14.7	10.5%

Source: Central Bank of Lebanon, Byblos Research

Construction permits up 66% in first quarter of 2010

Figures released by the Association of Engineers of Beirut & Tripoli show that construction permits reached 3.8 million square meters in the first quarter of 2010, up 65.9% from 2.3 million square meters in the same period last year. Construction permits totaled two million square meters in March 2010, up 105.2% year-on-year from one million square meters in March 2009. In parallel, cement deliveries reached 645 million tons in the first two months of 2010, an increase of 7.3% from 601 million tons in the same period last year. Cement deliveries reached 318 million tons in February 2010, up 20.5% from 264 million tons in February 2009.

Subsidized interest loans reach \$2.85bn at end-2009

Figures released by the Central Bank show that the cumulative amount of subsidized interest loans to productive sectors in Lebanon reached \$2.85bn from 1997 till the end of 2009. The industrial sector accounted for \$1.68bn, or 58.9% of the total, followed by tourism with \$841m (29.5%), agriculture with \$268m (9.4%), specialized technology with \$60m (2.1%) and handicrafts with \$1m. Subsidized interest loans extended in 2009 totaled \$543m relative to \$467m in 2008 and \$247m in 2007. Subsidized medium & long-term loans reached \$1.9bn, equivalent to 66.6% of the total at end-2009. Industry accounted for 59.2% of the total, followed by tourism with 35.1%, agriculture with 4.4% and specialized technologies with 1.3%. The program was established in the first quarter of 1997 and consists of a 5% to 7% subsidy on the interest for loans extended in foreign currencies to productive sectors. Also, subsidized interest loans guaranteed by the Kafalat Corporation totaled \$641.1m, or 22.5% of the total. Industry accounted for 53.7% of Kafalat-backed subsidies, followed by agriculture with 27.5%, tourism with 15.6%, special technologies with 3% and handicrafts with 0.2%. Kafalat provides financial guarantees for loans of up to \$400,000 for small and medium-sized enterprises in productive sectors.

Further, interest subsidized under the protocol signed with the European Investment Bank totaled \$143.2m, or 5% of the total, with industry accounting for 52.3% of the total, followed by tourism with 35.2%, specialized technologies with 11.1%, and agriculture with 1.5%. In addition, subsidized interest loans granted by leasing companies totaled \$88.1m at the end of 2009, or 3.1% of the total, with industry accounting for 97.4%, tourism with 2.5% and specialized technologies with 0.1% of such subsidies. Also, subsidized interest loans granted by the International Finance Corporation totaled \$63.3m, or 2.2% of the total, with industry accounting for 72.8%, tourism for 18.1% and agriculture for 9.1%. Finally, subsidized interest loans to finance working capital totaled \$10.3m, or 0.4% of the total with tourism accounting for 100% of the total while subsidized interest loans granted by the French Development Agency totaled \$4.7m, or 0.2% of the total with industry accounting for 100% of the total.

Commercial activity down in fourth quarter of 2009

According to the Central Bank's business survey, the volume of commercial sales decreased during the fourth quarter of 2009, with a balance of opinion standing at 32, compared to 37 during the same quarter of 2008. The business survey reflects the opinions of enterprise managers on the evolution of their businesses, in order to depict the evolution of a number of key economic variables. For inventory levels in all commercial sub-sectors, the balance of opinion went up from 9 in the fourth quarter of 2008 to 10 in the same quarter of 2009. The balance of opinion is the difference between the proportion of managers out of total surveyed managers estimating that there has been an improvement in the said variable and the proportion of those who have reported a decline in the variable.

Commercial Activity: year-on-year evolution of opinions				
Aggregate results	Q4-06	Q4-07	Q4-08	Q4-09
Sales volume	-42	16	37	32
Inventories of finished goods	-17	-3	9	10
Q4-09 Regional results	Beirut / Mount Lebanon	North	South	Bekaa
Sales volume	39	33	-31	33
Inventories of finished goods	20	-4	-6	0

Source: Central Bank Business Survey Q4-09

Trade deficit up 44.5% to \$3.4bn in first quarter of 2010

Imports increased by 35.3% to \$4.38bn and exports increased by 12.2% to \$1.03bn in the first quarter of 2010, leading to a trade deficit of \$3.36bn, up 44.5% year-on-year. The coverage ratio reached 23.5% year-to-March compared to 28.3% in the same period of 2009. The trade deficit reached \$1.56bn in March 2010, up 77.7% from March 2009.

The United States was the main source of imports with \$447m or 10% of the total, followed by China with \$374m (9%), Italy with \$340m (8%), France with \$287m (7%) and Germany with \$283m (6%). Switzerland was the main export destination with \$132m or 13% of the total, followed by the UAE with \$96m (9%), Iraq with \$68m (7%), Turkey with \$61m (6%) and Syria with \$60m (6%). Lebanon's main export was jewelry at \$279m or 27% of total exports, followed by machinery and mechanical appliances with \$163m (16%), base metals with \$124m (12%), paper and paperboard articles with \$82m (8%) and prepared foodstuff with \$75m (7%). Re-exports totaled \$39m in the first quarter of 2010, up 5.4% from \$37m in the same period of 2009.

Corporate Highlights

HSBC sets Solidere's share price target at \$31.50

HSBC initiated coverage on Solidere with an "Overweight" rating and a target price of \$31.50, implying potential returns of 37.6% from its current share price. It said Solidere benefits from a low-cost and valuable land bank, strong macroeconomic and real estate market fundamentals, and a recent appreciation in land values. It added that the key risks to the company are the potential for future political instability in Lebanon, stagnation in Lebanon's real estate market, and a lack of near-term catalysts. It considered that the stock looks attractive even with a 20% decline in land prices or a five-year delay in the duration of sales, as it would still provide returns of 13% from the current price. It noted that Solidere is trading at a discount of 65% to net asset value, adding that the discount is excessive given the firm's strong fundamentals and valuable land bank.

HSBC considered that Solidere is currently benefiting from the country's relatively strong economic profile and increasingly scarce land in the Beirut Central District, and has been able to more than double prices for its land since 2006. Also, it is likely to benefit from any upside at its foreign affiliate Solidere International, but will not be hurt by potential problems at SI. It expected Solidere to report solid earnings growth from both land sales and recurring revenues from rental portfolios, resulting in steadily increasing dividends. It estimated a gross margin of 74% in 2009 and expected it to grow given flat accounting costs for land and rising prices. It expected Solidere to be insulated from the overheating real estate market in Lebanon due to its business model that consists of selling land instead of completed residential units, its ability to focus sales on other properties such as retail or office space, and a well-located land bank that should hold value as long as there is political stability. It noted that land sales accounted for 90% of revenues and 93% of gross profits in 2008, and expected this trend to continue despite revenue growth from rental properties. It considered that the greatest risk to the company is a delay in land sales that could result from a stagnating Lebanese real estate market. It said a five-year delay to the end of land sales would imply a 13% decrease to its target price to \$27.5 per share, while its worst case scenario of a 10-year delay in sales would imply a 37% decrease to \$20 per share.

Solidere Key Indicators (\$m)					
	2008	2009E	2010E	2011E	2012E
Net Profits	183	178	210	396	561
Total Assets	2,454	2,301	2,392	2,517	2,628
Total Liabilities	594	442	501	440	386
Shareholders' Equity	1,860	1,859	1,891	2,077	2,242
P/E Ratio		19.9	16.9	9.0	
P/BV Ratio		2.0	2.0	1.8	

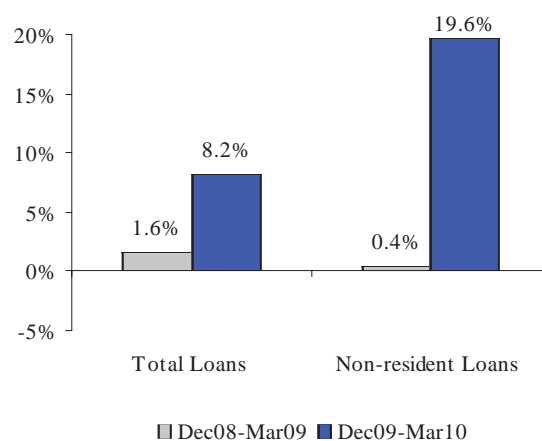
Source: HSBC

Commercial banks' assets reach \$120bn at end-March 2010

The Association of Banks in Lebanon released the consolidated balance sheet of commercial banks showing that total assets reached \$119.9bn at the end of March 2010, up 4% from end-2009 and up 22.4% from end-March 2009. Private sector deposits totaled \$98.1bn, up 2.5% from end-2009 and up 21.9% from end-March 2009. Deposits in Lebanese pounds reached \$36bn, up 5.8% from end-2009 and up 38.6% year-on-year, while deposits in foreign currencies reached \$62.1bn, up 0.6% from the end of last year and up 13.9% from end-March 2009. Non-resident foreign currency deposits reached \$13.8bn at end-March 2010, decreasing by 3% from end-2009 and increasing by 22.8% year-on-year. In parallel, deposits of non-resident banks reached \$5.5bn, up 19.8% from end-2009 and up 24.6% from end-March 2009. The dollarization rate of deposits reached 63.3% at end-March 2010, down from 64.5% at end-2009 and from 67.7% a year earlier. Further, the average deposit rate in Lebanese pounds reached 6.11% compared to 7.10% a year earlier, while the same rate in US dollars was 2.86%, down from 3.26% in March 2009.

Loans to the private sector amounted to \$30.7bn, up 8.2% from end-2009 and up 20.7% year-on-year. The dollarization rate in private sector lending reached 83.5% compared to 84% at end-2009 and 85.9% a year earlier. The average lending rate in Lebanese pounds was 8.69% in March 2010 compared to 10.10% a year earlier, while the same average in US dollars was 7.01% compared to 7.32% in March 2009. Claims on the public sector stood at \$29.5bn, up 14.7% year-on-year and up 1.5% from end-2009, and accounted for 49% of the banking sector's total loans. The ratio of private sector loans to deposits in foreign currencies stood at 41.3%, well below the Central Bank's limit of 70%, and slightly above the ratio of 40.1% a year earlier. In parallel, the same ratio in Lebanese pounds was 14.1%, up from 13.8% a year earlier. The ratio of total private sector loans to deposits stood at 31.3%, down from 31.6% a year earlier. The banks' aggregate capital base stood at \$7.9bn, down 0.6% from end-2009 and up 10.6% from \$7.14bn in March 2009.

Growth in Private Sector Loans (%)



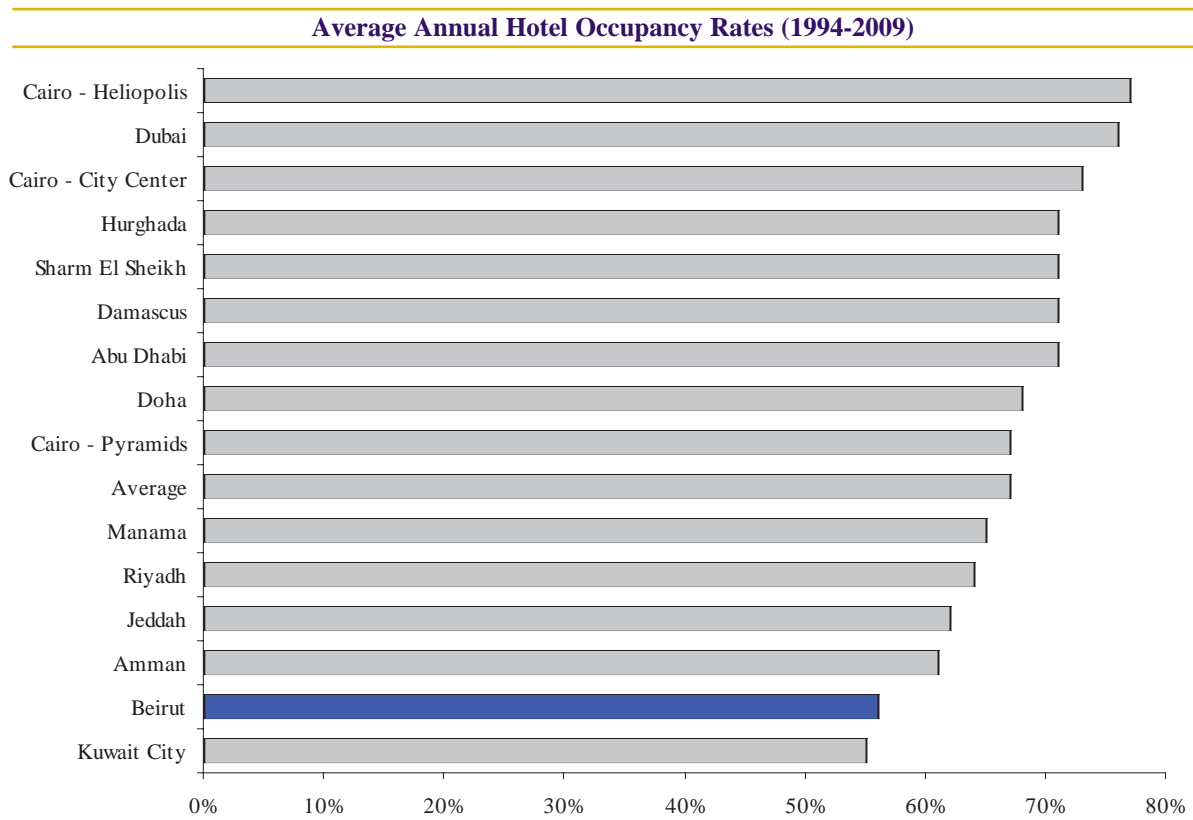
Source: Association of Banks in Lebanon

Corporate Highlights

Average annual hotel occupancy rate at 56% during past 16 years

The annual survey of the Middle East hotel sector by global hotel consulting firm HVS indicated that the average occupancy rate at Beirut hotels was 56% during the 1994-2009 period compared to the Middle East's average of 67% over the same period, constituting the second lowest occupancy rate in the region after Kuwait City among 15 hotel markets covered in the survey. Also, the average occupancy rate at Beirut hotels was 70% in 2009, tying with Cairo's City Center and coming in 7th place regionally, compared to the region's average occupancy rate of 69% last year. The occupancy rate at Beirut hotels in 2009 increased by 13 percentage points from 2008 compared to a contraction of 6 percentage points for the region, and was the second best occupancy rate in Lebanon since 1994 following the 71% rate posted in 2004. The survey pointed out that Beirut was the only market in the Middle East to post a rise in occupancy rates last year. In parallel, HVS said the average rate per room at Beirut hotels reached \$281 in 2009 relative to \$191 for the region, up 97% year-on-year and constituting the highest growth rate in the region last year compared to growth of 3% in the Middle East. The average room rate at Beirut hotels in 2009 was the third highest in the region behind Riyadh at \$297 and Abu Dhabi at \$294, and the highest by far in Lebanon during the previous 16 years, as the second highest average room rate was \$168 in 2004.

Further, HVS indicated that revenues per available room (RevPAR) reached \$197 in 2009 relative to the regional average of \$130, up 143% year-on-year, and constituting the highest growth rate in the region last year compared to a contraction of 7% in the Middle East. Beirut hotels posted the third highest RevPAR in the region behind Abu Dhabi at \$216 and Riyadh at \$200 in 2009, and the highest in Lebanon during the previous 15 years, as the second highest RevPAR was \$119 in 2004. HVS expected the hotel sector in Beirut and Lebanon to see an unprecedented level of investment activity in case political stability continues. It warned, however, that the country's infrastructure cannot cope with the growing number of tourists, as the airport is reaching its maximum capacity and the road network is under pressure. It called for significant improvements to the tourism infrastructure, such as expanding the airport, as well as improving roads, tourism attractions and business facilities.



Source: HVS Research

Ratio Highlights

(in % unless specified)	2007	2008	2009	Change*
Nominal GDP ⁽¹⁾ (\$bn)	25.0	29.3	32.7	
External Debt / GDP	84.9	72.2	65.0	(720)
Local Debt / GDP	83.2	88.3	91.2	290
Total Debt / GDP	168.1	160.5	156.2	(430)
Trade Balance / GDP	(36.0)	(43.2)	(39.0)	420
Exports / Imports	23.8	21.6	21.5	(10)
Budget Revenues / GDP	23.2	24.0	25.8	180
Budget Expenditures / GDP	33.4	33.9	34.8	90
Budget Balance / GDP	(10.2)	(10.0)	(9.0)	100
Primary Balance / GDP	2.9	2.0	3.3	130
BdL FX Reserves / M2	59.4	68.9	75.1	620
M3 / GDP	239.3	234.3	251.0	1,670
Bank Assets / GDP	329.0	321.7	352.4	3,070
Bank Deposits / GDP	269.1	265.5	292.9	2,740
Private Sector Loans / GDP	81.7	85.5	86.8	130
Dollarization of Deposits	77.3	69.6	64.5	(510)
Dollarization of Loans	86.4	86.6	84.0	(260)

* Change in basis points 08/09

(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	Feb 2009	Jan 2010	Feb 2010	Change*	Risk Level
Political Risk Rating	57.0	57.0	57.5	▲	High
Financial Risk Rating	28.0	28.0	28.0	↔	High
Economic Risk Rating	30.0	35.5	35.5	▲	Low
Composite Risk Rating	57.5	60.2	60.5	▲	Moderate

Regional Average	Feb 2009	Jan 2010	Feb 2010	Change*	Risk Level
Political Risk Rating	65.7	64.8	64.7	▼	Moderate
Financial Risk Rating	41.1	42.0	42.1	▲	Very Low
Economic Risk Rating	38.9	35.3	35.7	▼	Low
Composite Risk Rating	72.8	71.0	71.2	▼	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	B1	NP	Stable	B2		Stable
Fitch	B	B	Stable	B		Stable
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

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

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BYBLOS BANK GROUP

LEBANON

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

SYRIA

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

SUDAN

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

IRAQ

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

ARMENIA

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

NIGERIA

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

BELGIUM

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

ENGLAND

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

FRANCE

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

CYPRUS

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

UNITED ARAB EMIRATES

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