

LEBANON THIS WEEK

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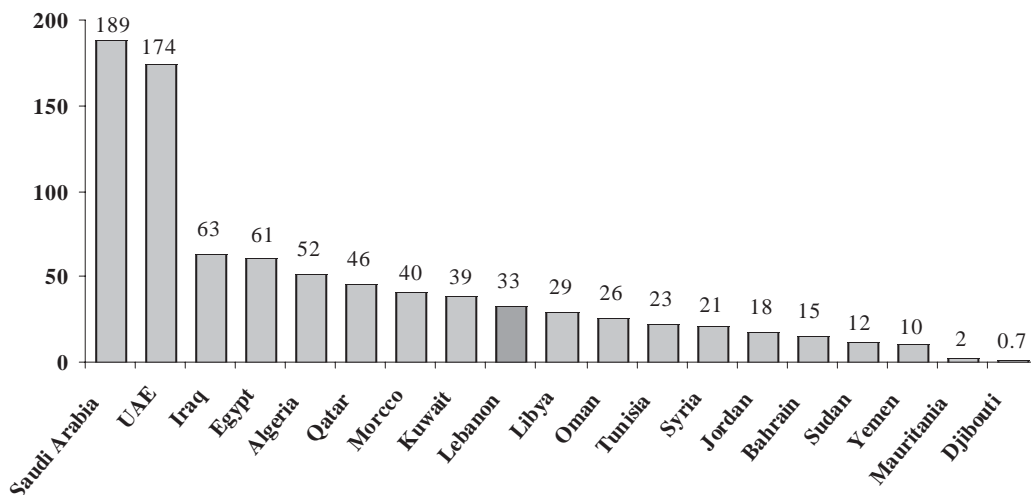
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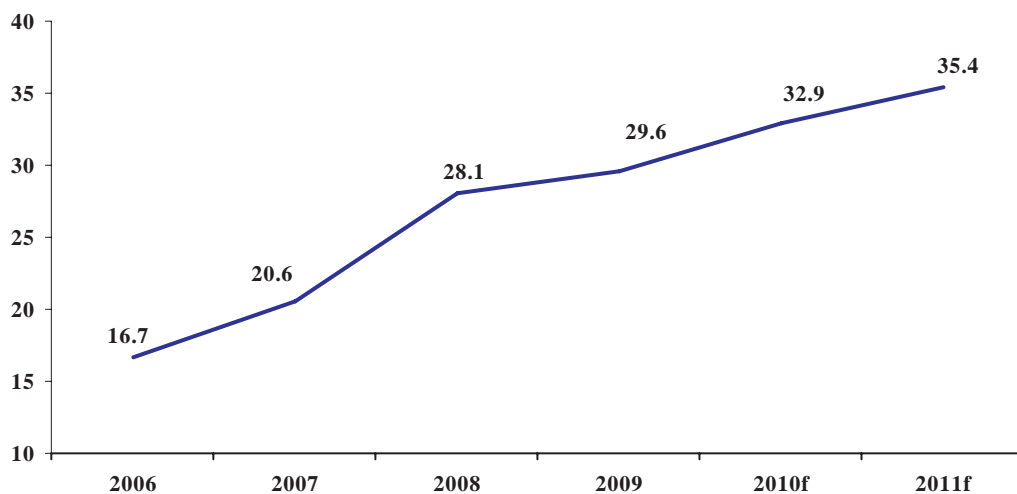
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Charts of the Week

Projected Imports of Goods and Services of Arab Countries in 2010 (\$bn)



Imports of Goods and Services from Lebanon (\$bn)



Source: International Monetary Fund

Quote to Note

“The current environment of low global interest rates and abundant liquidity will not persist indefinitely.”

The International Monetary Fund, on the limited window of opportunity for Lebanon to implement fiscal reforms and reduce its public finance imbalances

Number of the Week

\$27.3bn: The Central Bank of Lebanon's gross foreign currency reserves at the end of April 2010, as estimated by the Association of Banks in Lebanon

Economic Indicators

\$m (unless otherwise mentioned)	2008	Mar 09	2009	Jan 10	Feb 10	Mar 10	% Change*
Exports	3,478	270	3,486	313	342	374	38.52
Imports	16,133	1,138	16,241	1,245	1,206	1,934	69.95
Trade Balance	(12,655)	(868)	(12,755)	(932)	(864)	(1,560)	79.72
Balance of Payments	3,462	(367)	7,899	(44)	759	264	(171.93)
Checks Cleared in LBP	9,350	899	11,122	1,088	966	1,187	32.04
Checks Cleared in FC	43,174	3,294	45,270	4,444	3,929	5,302	60.96
Total Checks Cleared	52,524	4,148	56,392	5,532	4,895	6,489	56.44
Budget Deficit/Surplus	(2,921)	(508)	(2,960)	(18)	(176)	(377)	25.79
Primary Balance	597	(110)	1,078	202	123	62	(156.36)
Airport Passengers	4,085,334	302,709	4,986,544	369,694	339,237	363,742	20.16
\$bn (unless otherwise mentioned)	Dec 2008	Mar 09	Dec 09	Jan 10	Feb 10	Mar 10	% Change*
BdL FX Reserves	17.06	18.66	25.66	26.78	26.88	27.17	45.61
<i>In months of Imports</i>	<i>15.03</i>	<i>16.40</i>	<i>18.59</i>	<i>21.50</i>	<i>22.29</i>	<i>14.04</i>	<i>(14.39)</i>
Public Debt	47.02	47.85	51.09	51.65	51.98	51.46	7.54
Net Public Debt	41.49	42.34	44.11	43.92	44.20	44.40	4.87
Bank Assets	94.25	97.94	115.25	116.52	118.27	119.91	22.43
Bank Deposits (Private Sector)	77.78	80.50	95.77	95.99	97.07	98.14	21.91
Bank Loans to Private Sector	25.04	25.45	28.37	29.36	29.87	30.71	20.67
Money Supply M2	24.76	26.86	34.16	34.77	35.42	36.23	34.88
Money Supply M3	68.66	70.52	82.08	82.43	83.75	84.96	20.48
LBP Lending Rate (%)	9.95	10.10	9.04	8.91	8.83	8.69	(141b.p.)
LBP Deposit Rate (%)	7.22	7.10	6.75	6.61	6.42	6.11	(99b.p.)
USD Lending Rate (%)	7.47	7.32	7.28	7.26	7.26	7.01	(31b.p.)
USD Deposit Rate (%)	3.33	3.26	3.05	3.04	2.99	2.86	(40b.p.)
%* Change in CPI**	6.36	2.10	4.20	4.96	9.04	8.73	663b.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"	23.10	0.17	69,547	18.17%
Solidere "B"	23.01	0.66	39,658	11.76%
Byblos Common	1.79	(0.56)	1,315,160	3.06%
Byblos Priority	1.82	(0.55)	27,000	2.95%
Byblos Pref. 08	100.00	(0.30)	1,566	1.57%
BLOM GDR	89.95	(2.18)	36,400	5.23%
BLOM Listed	92.00	0.00	0	15.56%
Audi GDR	8.26	(3.39)	57,869	6.61%
Audi Listed	8.20	(1.20)	148,010	22.20%
HOLCIM	13.95	(0.36)	1,743	2.14%

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

Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
Nov. 2010	6.875	101.90	1.91
May 2011	7.875	104.50	2.82
Mar. 2012	7.500	106.75	3.46
Sep. 2012	7.750	109.00	3.23
June 2013	8.625	113.00	3.97
Apr. 2015	10.000	120.75	5.10
Jan. 2016	8.500	115.50	5.25
May 2016	11.625	128.75	5.79
Mar. 2017	9.000	117.88	5.76
Apr. 2021	8.250	113.25	6.52

Source: Byblos Capital Markets

	June 14-18,10	June 7-11,10	% Change	May 2010	May 2009	% Change
Total Shares Traded	1,710,378	923,559	85.19	16,963,146	4,526,493	274.75
Total Value Traded	\$10,822,134	\$13,312,083	(18.70)	\$149,074,321	\$70,679,281	110.92
Market Capitalization	\$12.70bn	\$12.80bn	(0.64)	\$12.85bn	\$9.27bn	38.59

Source: Beirut Stock Exchange (BSE)



Delay in reforms to eventually lead to economic contraction

A report commissioned by the Lebanese Businessmen Association (RDCL) indicated that the Lebanese economy will significantly benefit over the short and medium terms from fiscal adjustment and structural reforms, as well as from growth-enhancing reforms; while it will benefit substantially from privatization and social reforms over the longer term. The study assessed the impact of the four reform tracks proposed at the Paris III conference, and compared them with a status quo scenario.

It said the fiscal adjustment and structural reforms scenario assumes a reduction in the level of the public debt by 50 percentage points to 98% of GDP from about 148% of GDP currently. Under this scenario, the economy would benefit at the macroeconomic and sectoral levels, with real GDP growing by 6% to 8% in 2015 and 2020. It noted that this would lead to a drop in the unemployment rate by about 3% to 4%, a regular drop in prices, an increase in imports and a sharp rise in exports in all sectors, especially in trade and agriculture. Further, the study said that the growth-enhancing reforms scenario, which includes improving governance and the business environment, trade liberalization, capital markets developments and debt management, would lead to economic growth of between 3.5% and 4.5% in 2015 and 2020, as well as a sharp improvement in imports and exports activities and a drop in prices.

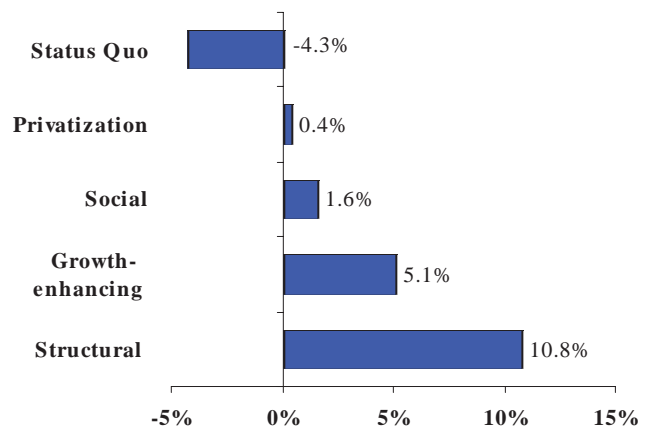
The study said that the social reforms scenario assumes that the government takes measures to reduce poverty and improve the quality of education and health care, which would help increase labor and capital productivity over the long term. It expected the implementation of such reforms to yield mild results in the short and medium terms through an average increase in GDP in 2005 and 2020, but to have significant results in the longer term. Further, it said the privatization component includes privatizing the telecommunications sector, the electricity sector with the exception of power transmission, as well as selling idle oil refineries, water concessions, ports and airports. Under this scenario, it anticipated the economy to significantly grow over the long term due to the efficient distribution of resources, despite a mild slowdown in the short and medium terms.

In contrast, the study warned that under a worst case scenario of no reforms, which reflects the current status quo, the economy would contract by 3% and enter a depression stage starting in 2012. It said that, under this scenario, all demand variables such as private investment and consumption, exports, imports, and government expenditures will drop sharply and prices will rise. The study stressed the necessity to implement reforms as soon as possible given the time needed for results to materialize and the ensuing positive long-term economic outlook, and given the alternative scenario. The study was conducted by a team of economics professors at Université Saint Joseph.

U.S. grants \$27.5m to improve water sector in Lebanon

The U.S. government signed two memoranda of understanding with the Ministry of Energy & Water to provide in-kind assistance and capacity building support worth \$27.5m for Lebanon's water sector. The funding was made available through the U.S. Agency for International Development (USAID). The agreements stipulate that the International Resource Group (IRG) will support the Litani River Authority (LRA), while Development Alternatives Inc. (DAI) will help Lebanon's four water authorities reach financial and operational sustainability. IRG will provide technical assistance and training, implement limited-scale infrastructure activities and procure specialized equipment for the LRA under the \$8m Litani River Basin Management Support program. Also under the USAID's \$19.5m Lebanon Water & Wastewater Sector Support program, DAI will improve the management and operations and services of Lebanon's water authorities. IRG is a U.S.-based development consulting firm that helps governments and the private sector manage critical resources. DAI is a U.S.-based development firm whose work covers environmental and water resources management, among others.

Long-term impact of Reform Scenarios on GDP



Source: Lebanese Businessmen Association

Cabinet endorses 2010 budget draft, projected fiscal deficit at 11% of GDP

The Lebanese Cabinet endorsed the budget draft for 2010, the first budget to be approved since 2005. The budget draft still needs to be ratified by Parliament to become law. The budget draft for 2010 shows overall budget and Treasury expenditures at \$13.2bn, constituting an increase of 15.5%, or \$1.8bn, from 2009; and aggregate revenues of \$9.2bn, up 8.6% or \$726m, from the previous year. As a result, the fiscal deficit would reach \$4bn, or 30.5% of overall spending compared to a deficit of \$3bn or 25.6% of expenditures in 2009. The Finance Ministry estimated the deficit at 10.7% of GDP in 2010, up from 8.6% of GDP in 2009; and the primary surplus at 0.05% of GDP compared to 2.5% of GDP last year. The spending figures exclude the reimbursement of \$303m in soft loans related to capital expenditures. When including this amount, the deficit would rise to \$4.3bn, or 11.5% of GDP. The ministry based its projections on real GDP growth of 4.5% and average inflation of 3.5% this year. It estimated the debt-to-GDP ratio at 147.5% of GDP at end-2010, unchanged from a year earlier.

On the expenditures side, it projected debt servicing at \$4.34bn, an increase of 1.8% year-on-year, accounting for 33% of overall spending and absorbing 47% of total revenues. It also forecast current expenditures to rise by 11.3% to \$6.7bn and for capital spending to jump by a massive 148% to \$1.35bn, leading to a 22.6% increase to \$8bn in primary budgetary outlays. The ministry estimated capital spending at 3.6% of GDP for 2010 compared to 1.6% of GDP last year. It said such spending would reach \$2.3bn or 6.1% of GDP when including off-budgetary spending, compared to \$0.9bn or 2.7% of GDP in 2009.

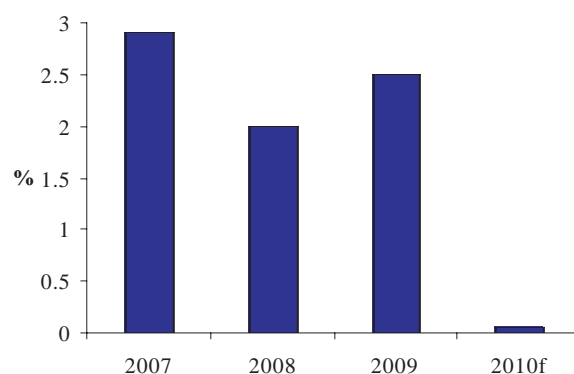
On the revenues side, it expected tax receipts to rise by 12% to \$6.7bn and to account for 73% of total revenues; while it forecast non-tax income to contract by 4.7% to \$1.9bn due to an 8% drop in telecom revenues. In order to boost revenues, the ministry said it imposed "slight increases" in certain taxes. It increased the tax on deposit interest rates to 7% from 5% and the tax on real estate registration fees to 7% from 5% on properties exceeding \$0.5m in value. It also imposed a new 3% fee on one-time revaluations of fixed assets and real estate of companies, as well as subjected empty buildings to the built property tax.

Net public debt at \$44.3bn at end-April 2010

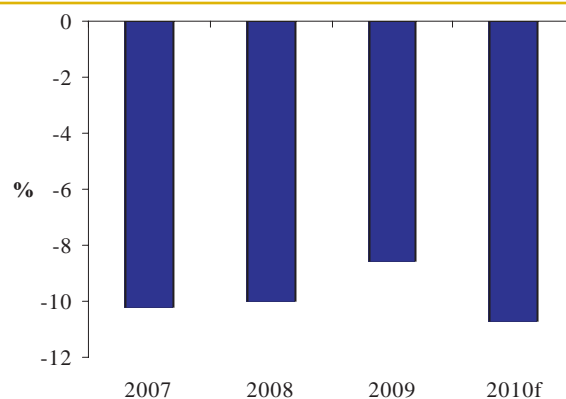
Lebanon's gross public debt reached \$51.5bn at the end of April 2010, constituting an increase of 0.8% from end-2009, and an increase of 7.8% from end-April 2009. Domestic debt increased by 15% to \$30.4bn, while external debt decreased by 1.1% annually to \$21.1bn. Local currency debt accounted for 59% of gross public debt at end-April 2010 compared to 55.3% a year earlier, while foreign currency-denominated debt represented 41% of the total at the end of April relative to 44.7% a year earlier. The weighted interest rate on outstanding Treasury bills was 8.32%, while the weighted interest rate on Eurobonds was 7.31% at the end of April. Further, the weighted life on Eurobonds was 5.04 years, while that on Treasury bills was 565 days.

Commercial banks accounted for 60.2% of the local public debt at the end of April 2010 compared to 59% a year earlier. It was followed by the Central Bank with 23%, down from 25.3% at end-April 2009; while public agencies, financial institutions and the general public accounted for 16.8% of local debt relative to 15.6% a year earlier. Eurobond holders, foreign private sector loans and special T-bills in foreign currencies accounted for 86.8% of the external debt, followed by multilateral institutions with 7%, foreign governments with 4.5% and Paris II loans with 1.6%. 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 3.8% to \$44.3bn. 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.

Overall Primary Balance (% GDP)



Fiscal Balance (% GDP)



Source: Ministry of Finance

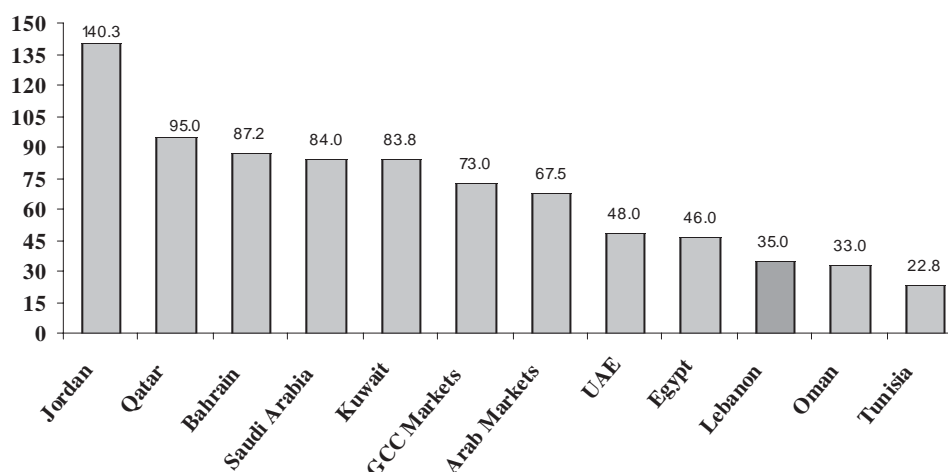
Beirut stock market needs wide-ranging reforms to play an active role

A report by French consulting firm Arche Experts indicated that the Beirut Stock Exchange (BSE) is underdeveloped and does not play an active role in the Lebanese economy. It considered that the revitalization of the stock market requires institutional reforms as well as wider structural reforms at the macroeconomic level. It noted that the changes are beyond the responsibilities and capacities of the BSE alone, and can only be implemented at the public level with strong political support. It recommended modifying the culture and the institutional environment of the equity market by promoting a business-oriented culture at the exchange. It called for putting one entity, such as a Financial Reforms Committee, in charge of designing and implementing a capital markets reform plan. It also called for transforming the BSE into a private, commercially-oriented entity, as exchanges around the world have become specialized service providers that offer and develop services to a wide range of customers. It noted, however, that this approach is currently lacking at the BSE, and would be hard to implement if the stock exchange remains a 100% government-owned entity. As such, it advocated the privatization of the BSE and mandating it with a commercial mission. Also, Arche strongly recommended setting up an independent market authority, with the necessary technical requirements to join the International Organization of Securities Commissions. Further, it encouraged the BSE to set up financial training programs that would target the range of market participants in order to raise awareness about the benefits of listing and an active stock market.

On the macroeconomic level, it recommended bringing substance to the BSE via a privatization program of state-owned entities and other actions. It proposed the launch of a comprehensive privatization plan through a series of operations over a number of years, and to implement privatization through a series of IPOs and listings on the BSE rather than through private placements. It also proposed supporting the growth of small and medium-size firms in order to have enough firms that meet the size criteria for listing. Further, it called for actively promoting the benefits of listing domestically and outside the country, and suggested the launch of tradable financial products independent from listed firms such as Exchange Traded Funds (ETFs), or derivative products such as Contracts for Difference (CFDs). It also encouraged the BSE to establish links with countries in the region that have similar technology and organize order book sharing within a private network.

In addition, Arche noted that institutional investors play a major role in the development of financial markets. As such, it advocated stimulating long-term institutional demand by identifying at least one central institutional investor, such as the National Social Security Fund of Intra Investment Company, to play a counter-cyclical investment role. It also suggested developing long-term investment plans through reforming the Lebanese pension system and clarification of life insurance regulations that would help introduce employee pension programs and individual retirement plans. In parallel, Arche recommended reviving the role of investment banks as financial intermediaries and giving them direct market access, as well as encouraged banks to increase their fee-based income and capital markets activity over their interest-based revenues.

Market Capitalization-to-GDP Ratio of Arab stock Markets at end-2009



Source: Local Stock Markets, Byblos Research

UNDP to support energy-saving initiative

The Central Bank of Lebanon and the United Nations Development Program (UNDP) signed a memorandum of understanding for technical cooperation on launching a national initiative for energy efficiency and renewable energies (NEEREA). The initiative aims to have a positive impact on the purchasing power of Lebanese citizens and on the balance of payments, as Lebanon imports all of its energy needs. The Central Bank considered that it is necessary to adopt an efficient energy strategy in Lebanon because oil prices are expected to increase in the future, which would lead to upward pressure on inflation in the country. The MoU includes a complete funding mechanism that allows organizations from different sectors to implement models of energy conservation for the first time in Lebanon. Lebanon plans to raise the contribution of sustainable energy to 12% of its total energy demand by 2020.

Coincident Indicator up 15.3% year-on-year in April 2010

The Central Bank's Coincident Indicator, an index of economic activity in Lebanon, reached 259.4 points in April 2010 compared to 264.5 points in March 2010 and 236.5 points in April 2009. The Coincident Indicator, an average of 8 weighted economic indicators, regressed by 2% month-on-month, and rose by 9.7% year-on-year. The indicator averaged 237.4 points in the 12-months ending April 2010 compared to 235.5 points in the 12-months ending March 2010 and to 206 points in the 12-months ending April 2009. As a result, the average coincident indicator rose by 15.3% year-on-year. The indicator posted its second best performance in April 2010 after posting its best performance ever in March of this year. Further, the month-to-month decrease in April constitutes the third highest decline ever for the indicator for the covered month. In parallel, the indicator improved 13 times, and regressed 5 times in the month of March since 1993. The indicator averaged 225.8 point in 2009 and 198.4 points in 2008.

Balance of payments posts surplus of \$1.4bn in first four months of 2010

Central Bank figures show that Lebanon's balance of payments posted a surplus of \$1.4bn in the first four months of 2010 compared to a surplus of \$1.1bn in the same period last year. The balance of payments posted a surplus of \$424.7m in April compared to a surplus of \$264m in March and \$839m in April 2009. The April 2010 surplus was caused by a rise of \$178m in the Central Bank's net foreign assets and \$247m in those of banks and financial institutions. The cumulative surplus over the first four months of 2010 was caused by a surplus of \$1.96bn in the Central Bank's net foreign assets and a decline of \$552m 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.

Cleared checks up 39.3% to \$23bn in first four months of 2010

The value of cleared checks increased by 39.3% to \$22.6bn in the first four months of 2010 compared to the same period of 2009. The value of cleared checks in Lebanese pounds rose by 24.8% to the equivalent of \$4.3bn, while the value of cleared checks in U.S. dollar rose by 43.1% to \$18.3bn. The dollarization rate of cleared checks increased from 78.8% to 81% year-on-year.

Construction permits up 57% in first four months of 2010

Figures released by the Association of Engineers of Beirut & Tripoli show that construction permits reached 5.1 million square meters in the first four months of 2010, up 57.2% from 3.2 million square meters in the same period last year. Construction permits totaled 1.3 million square meters in April 2010, up 35.6% year-on-year from one million square meters in April 2009. In parallel, cement deliveries reached 1.6 million tons in the first four months of 2010, an increase of 15.1% from 1.4 million tons in the same period last year. Cement deliveries reached 502,000 tons in April 2010, up 9.6% from 458,000 tons in April 2009.

Overdrafts account for 33% of bank credits, share of trade & services at 37% of utilized credits

Figures issued by the Central Bank about the distribution of bank credits by type show that overdrafts accounted for \$11.2bn, or 32.8% of total private sector credits at the end of March 2010. They were followed by advances against real estate with \$7.8bn (22.8%), advances against personal guarantees \$5.7bn (16.9%), advances against cash collateral or bank guarantees \$5.1bn (14.9%), advances against other real guarantees \$2.5bn (7.5%), and advances against financial values \$1.7bn (5.1%). In parallel, utilized credits by the private sector totaled \$34bn at the end of March 2010, with the trade & services sector accounting for \$12.6bn, or 37.1% of such credits. It was followed by personal credits with \$7.6bn (22.3%), construction with \$5.5bn (16.2%), industry with \$3.9bn (11.4%), financial intermediaries with \$3.1bn (9%) and agriculture with \$298m (0.8%), while other sectors accounted for the remaining \$1.1bn (3.2%). Also, wholesale trade represented 42.9% of trade & services credits, followed by real estate services with 20%, retail with 14.6%, transport & storage with 12.4%, hotels & restaurants with 6.5% and educational services with 3.6%.

Personal credits accounted for 76.2% of loan beneficiaries, followed by trade & services with 13% of beneficiaries, industry with 3.6%, construction with 1.7%, financial intermediaries with 0.9%, agriculture with 0.8%, while other sectors accounted for 3.8%. Further, the aggregate number of loan beneficiaries grew by 24.6% year-on-year to 295,072, while 89% of beneficiaries had loans ranging from LBP 5 million to LBP 100 million by end-March 2010. Beirut and its suburbs accounted for 81.2% of bank credits and for 57% of beneficiaries. It was followed by Mount Lebanon with 7.8% of credits and 15.3% of beneficiaries; South Lebanon with 4% of credits and 8.3% of beneficiaries; North Lebanon with 3.8% of credits and 12.7% of beneficiaries; and the Bekaa with 3.2% of deposits and 6.4% of beneficiaries.



Subsidized interest loans reach \$3bn at end-March 2010

Figures released by the Central Bank show that the cumulative amount of subsidized interest loans to productive sectors in Lebanon reached \$2.99bn at end-March 2010. The industrial sector accounted for \$1.77bn, or 59% of the total, followed by tourism with \$869m (29%), agriculture with \$282.8m (9.5%), specialized technology with \$73.2m (2.4%) and handicrafts with \$1.2m. Subsidized interest loans extended in 2009 totaled \$543m relative to \$467m in 2008 and \$247m in 2007.

Subsidized medium & long-term loans reached \$1.99bn, equivalent to 66.6% of the total at end-March 2010. Industry accounted for 59.4% of the total, followed by tourism with 34.4%, agriculture with 4.4% and specialized technologies with 1.8%. 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 \$687.7m, or 23% of the total. Industry accounted for 53.5% of Kafalat-backed subsidies, followed by agriculture with 27.3%, tourism with 16%, 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 \$142.9m, or 4.8% of the total, with industry accounting for 52.1% 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 \$90.3m at the end-March 2010, or 3% of the total, with industry accounting for 97.5% and tourism with 2.5% of such subsidies. Finally, subsidized interest loans granted by the International Finance Corporation totaled \$64.3m, or 2.1% of the total, with industry accounting for 73.2%, tourism for 17.9% and agriculture for 8.9%, while subsidized interest loans to finance working capital totaled \$10.3m, or 0.3% of the total with tourism accounting for 100% of the total.

Commercial activity up in first quarter of 2010

The Central Bank's quarterly business survey of opinions indicated that the volume of commercial sales increased during the first quarter of 2010, with the balance of opinion standing at 22, compared to 18 during the same quarter of 2009. 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. The balance of opinion for inventory levels in all commercial sub-sectors declined to 8 in the first quarter of the year from 12 in the same period last year. The balance of opinion is the difference between the proportion of managers out of those surveyed who estimate that there has been an improvement in a particular variable and the proportion of those who reported a decline in the variable.

Commercial Activity: year-on-year evolution of opinions				
Aggregate results	Q1-07	Q1-08	Q1-09	Q1-10
Sales volume	-33	-11	18	22
Inventories of finished goods	-13	3	12	8
Q4-09 Regional results	Beirut / Mount Lebanon	North	South	Bekaa
Sales volume	30	24	-26	-1
Inventories of finished goods	14	8	2	-8

Source: Central Bank Business Survey Q1-10

Commercial banks' assets reach \$121bn at end-April 2010

The consolidated balance sheet of commercial banks operating in Lebanon shows that total assets reached \$120.6bn at the end of April 2010, up 4.7% from end-2009 and up 21.1% from end-April 2009. Private sector deposits totaled \$99.1bn, up 3.5% from end-2009 and up 20% from end-April 2009. Deposits in Lebanese pounds reached \$36.5bn, up 7.3% from end-2009 and up 36.1% year-on-year, while deposits in foreign currencies reached \$62.6bn, up 1.4% from the end of last year and up 12.2% from end-April 2009. Non-resident foreign currency deposits reached \$14bn at end-April 2010, decreasing by 1.2% from end-2009 and increasing by 19.7% year-on-year. In parallel, deposits of non-resident banks reached \$5.2bn, up 13.6% from end-2009 and up 25.6% from end-April 2009. The dollarization rate of deposits reached 63.2% at end-April 2010, down from 64.5% at end-2009 and from 67.5% a year earlier. Further, the average deposit rate in Lebanese pounds reached 6% compared to 7.08% a year earlier, while the same rate in US dollars was 2.84%, down from 3.24% in April 2009.

Loans to the private sector amounted to \$31bn, up 9.4% from end-2009 and up 20.5% year-on-year. The dollarization rate in private sector lending reached 82.9% compared to 84% at end-2009 and 85.8% a year earlier. The average lending rate in Lebanese pounds was 8.48% in April 2010 compared to 9.83% a year earlier, while the same average in US dollars was 7.1% compared to 7.21% in April 2009. Claims on the public sector stood at \$29.1bn, up 13.5% year-on-year and up 0.2% from end-2009, and accounted for 48.4% of the banking sector's total loans. The ratio of private sector loans to deposits in foreign currencies stood at 41.1%, well below the Central Bank's limit of 70%, and slightly above the ratio of 39.6% a year earlier. In parallel, the same ratio in Lebanese pounds was 14.5%, up from 13.6% a year earlier. The ratio of total private sector loans to deposits stood at 31.3%, compared to 31.2% a year earlier. The banks' aggregate capital base stood at \$8.4bn, up 5.6% from end-2009 and up 14.2% from \$7.34bn in April 2009.

Balance sheet of investment banks posts 9.4% growth in first quarter

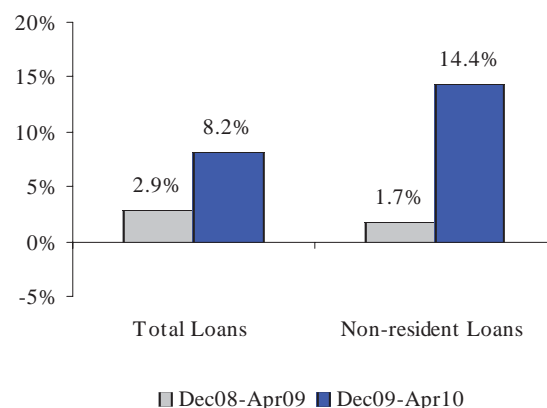
Figures released by the Central Bank show that the consolidated balance sheet of investment banks in Lebanon reached LBP 8,458bn, or \$5.61bn, at the end of March 2010, constituting an increase of 9.4% from end-2009 and a rise of 26.5% from end-March 2009. Liabilities to the private sector reached \$3.63bn, up 11.7% from end-2009 and up by 37.7% year-on-year. Commitments to the financial sector reached \$672.7m at the end of March, representing a decrease of 9.7% from end-2009 and a decrease of 7.2% year-on-year.

On the assets' side, investment banks' operations with commercial banks reached \$2.93bn at end-March 2010, up 7% from end-2009 and up by 54.1% from end-March 2009. Lending to the private sector reached \$1.06bn, constituting an increase of 5.4% from end-2009 and up by 19.7% year-on-year. Investments in government securities totaled \$1.32bn at end-March 2010, up by 19.9% from end-2009 and down 6% from end-March 2009. Further, the aggregate capital account of investment banks reached \$629.4m at the end of March, up 0.24% from the end of 2009 and up by 7.8% from \$584m a year earlier.

Launch of award to support creative industries in Lebanon

The Bader Young Entrepreneurs Program and the Deutsche Bank Middle East Foundation announced the launch of the Deutsche Bank Awards in Lebanon. The awards offer practical and financial support to artists, craftspeople, designers and performers to start a business or carry out a project. Deutsche Bank will offer two awards of €10,000 each to Lebanese candidates. It said the awards aim to foster creative enterprises by providing financial support as well as by offering business planning guidance and mentoring. Bader noted that creative industries can play an important role in the development of Lebanese entrepreneurship, as they can lead to the creation of small- and medium-size enterprises. The Bader Young Entrepreneurs Program is a non-governmental and non-profit organization that promotes entrepreneurship in Lebanon through promoting entrepreneurship education, access to finance, and networking. The initiative marks the first time that the Deutsche Bank Awards have been offered outside the United Kingdom.

Growth in Private Sector Loans (%)



Source: Association of Banks in Lebanon

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

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