

LEBANON THIS WEEK

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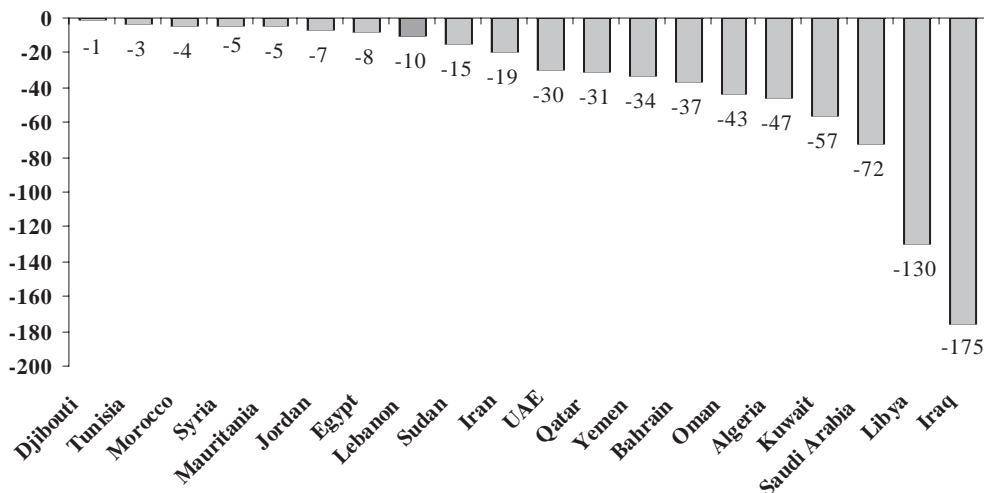
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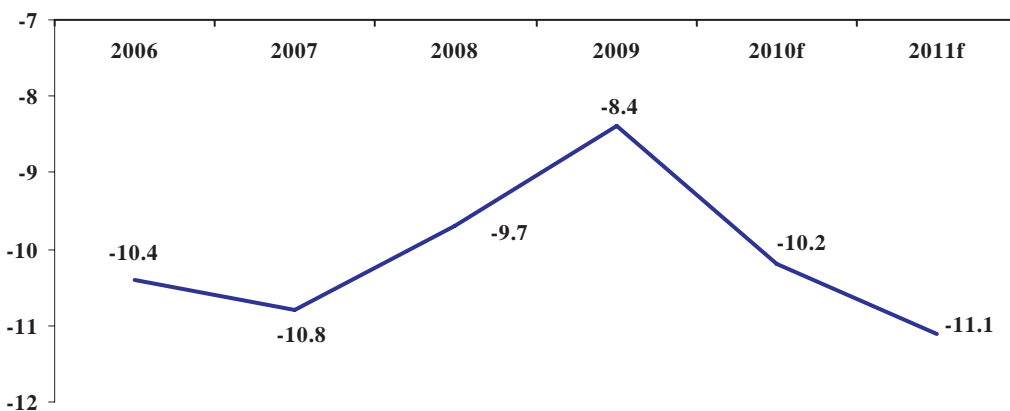
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Charts of the Week

Projected Non-Oil Fiscal Balance of Arab Countries in 2010 (% of non-oil GDP)



Fiscal Balance of Lebanon (% of GDP)



Source: International Monetary Fund

Quote to Note

“In light of the buoyant economy and the public debt burden, fiscal policy should aim at a higher primary surplus.”

The International Monetary Fund, on the primary surplus target of 0.5% of GDP in the 2010 budget

Number of the Week

LBP23,791bn: Aggregate amount of Certificates of Deposits issued by the Central Bank of Lebanon as at the end of March 2010

Economic Indicators

\$m (unless otherwise mentioned)	2008	Apr 09	2009	Feb 10	Mar 10	Apr 10	% Change*
Exports	3,478	231	3,486	342	374	328	41.99
Imports	16,133	1,797	16,241	1,206	1,934	1,377	(23.37)
Trade Balance	(12,655)	(1,566)	(12,755)	(864)	(1,560)	(1,049)	33.01
Balance of Payments	3,462	839	7,899	759	264	424	(49.46)
Checks Cleared in LBP	9,350	804	11,122	966	1,187	1,058	31.59
Checks Cleared in FC	43,174	3,222	45,270	3,929	5,302	4,615	43.23
Total Checks Cleared	52,524	4,026	56,392	4,895	6,489	5,673	40.91
Budget Deficit/Surplus	(2,921)	(76)	(2,960)	(176)	(377)	(110)	44.74
Primary Balance	597	363	1,078	123	62	291	(19.83)
Airport Passengers	4,085,334	392,556	4,986,544	339,237	363,742	438,328	11.66
\$bn (unless otherwise mentioned)	Dec 2008	Apr 09	Jan 10	Feb 10	Mar 10	Apr 10	% Change*
BdL FX Reserves	17.06	19.33	26.78	26.88	27.17	27.32	41.33
<i>In months of Imports</i>	<i>15.03</i>	<i>10.75</i>	<i>21.50</i>	<i>22.29</i>	<i>14.04</i>	<i>14.04</i>	<i>30.60</i>
Public Debt	47.02	47.77	51.65	51.98	51.46	51.49	7.79
Net Public Debt	41.49	42.69	43.92	44.20	44.40	44.34	3.87
Bank Assets	94.25	99.63	116.52	118.27	119.91	120.64	21.09
Bank Deposits (Private Sector)	77.78	82.62	95.99	97.07	98.14	99.13	19.98
Bank Loans to Private Sector	25.04	25.76	29.36	29.87	30.71	31.04	20.50
Money Supply M2	24.76	27.77	34.77	35.42	36.23	36.72	32.23
Money Supply M3	68.66	72.28	82.43	83.75	84.96	85.75	18.64
LBP Lending Rate (%)	9.95	9.83	8.91	8.83	8.69	8.48	(136b.p.)
LBP Deposit Rate (%)	7.22	7.08	6.61	6.42	6.11	6.00	(108b.p.)
USD Lending Rate (%)	7.47	7.21	7.26	7.26	7.01	7.10	(11b.p.)
USD Deposit Rate (%)	3.33	3.24	3.04	2.99	2.86	2.84	(40b.p.)
%* Change in CPI**	6.36	2.00	4.96	9.04	8.73	6.55	455b.p.

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

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

Sources: ABL, BdL

Capital Markets

Most Traded Stocks on BSE	Last Price (\$)	% Change*	Total Volume	Weight in Market Capitalization	Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
Solidere "A"	22.78	(1.39)	142,728	18.13%	Nov. 2010	6.875	101.90	1.65
Solidere "B"	22.73	(1.22)	34,736	11.76%	May 2011	7.875	104.50	2.72
Byblos Common	1.77	(1.12)	1,255,128	3.06%	Mar. 2012	7.500	106.75	3.43
Byblos Priority	1.82	0.00	1,328	2.98%	Sep. 2012	7.750	109.00	3.44
Byblos Pref. 08	100.00	0.00	8,100	1.59%	June 2013	8.625	113.00	3.95
BLOM GDR	89.90	(0.06)	24,025	5.29%	Apr. 2015	10.000	120.75	5.09
BLOM Listed	88.00	(4.35)	10,900	15.06%	Jan. 2016	8.500	115.50	5.25
Audi GDR	8.25	(0.12)	10,400	6.68%	May 2016	11.625	128.75	5.77
Audi Listed	8.20	0.00	36,600	22.47%	Mar. 2017	9.000	117.88	5.75
HOLCIM	13.94	(0.07)	3,370	2.17%	Apr. 2021	8.250	113.25	6.52

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

Source: Byblos Capital Markets

	June 21-26,10	June 14-18,10	% Change	May 2010	May 2009	% Change
Total Shares Traded	1,824,788	1,710,378	6.69	16,963,146	4,526,493	274.75
Total Value Traded	\$12,458,724	\$10,822,134	15.12	\$149,074,321	\$70,679,281	110.92
Market Capitalization	\$12.60bn	\$12.70bn	(1.20)	\$12.85bn	\$9.27bn	38.59

Source: Beirut Stock Exchange (BSE)



Growth revised upwards to 7% for 2010, fiscal vulnerabilities on the rise

Barclays Capital revised upwards its real GDP growth forecast for Lebanon to 7% in 2010 from 6% earlier, with potential upside for further revisions to 8% by year-end. It attributed the growth revision to favorable first quarter indicators that point towards robust growth. It said the growth momentum is also benefiting from the sustained recovery in regional and global economies, and remains almost unaffected by the current problems of the euro area. In parallel, it noted that the government approved the 2010 budget targeting a deficit of about 11% of GDP despite market concerns about sovereign risks. It indicated that the proposed expansionary fiscal budget and delays in structural reforms put Lebanon at odds with the rest of the world, and further exacerbates its fiscal vulnerabilities. It said that the government just approved the draft budget six months into the fiscal year, with discussions in Parliament delaying its ratification by at least another month, which significantly limits the government's ability to deploy resources into capital investment projects that are the budget's main focus. It added that several contentious points, either policy-related or politically-motivated, have delayed and could further delay budget discussions among political factions. It noted that this reflects the fact that moving forward with fiscal and economic reforms under the current national unity government will be difficult, slow and sub-optimal at best, given the urgent nature of reforms to address Lebanon's debt problems.

Barclays Capital indicated that the 2010 budget earmarks almost 4% of GDP, or 10% of total planned expenditures, for capital investment projects, representing a 148% annual increase. It noted that the absorptive capacity limitations will result in only a small fraction spent this year after the budget's ratification. As such, it expected the overall deficit to be limited to 8.5% of GDP in 2010, leading to a primary surplus of about 2% of GDP and a reduction of the debt-to-GDP ratio to 147% by year-end. It considered that the overall fiscal financing requirements of about \$13bn will be secured through the market, and notably through the liquidity-abundant banking sector. It added that the solvency risks in Lebanon are minimal due to robust economic growth, a decline in average interest rates on the public debt, the capacity to generate primary surpluses, continuing capital inflows, the strengthening of the external balance, and the fact that most of the public debt is held locally. However, it expressed concerns about political risks given the increasing geopolitical tensions in the region. It considered that the Lebanese economy would come under extreme strains in the case of a war that is similar to the 2006 conflict. But it noted that the system will be able to avoid any major refinancing problems despite severe weakening of growth drivers, given the robust and liquid financial sector, and the expected support of Arab governments and the international donor community.

Country Forecast Summary				
	2008	2009	2010f	2011f
Real GDP growth (%)	9.0	9.0	7.0	6.0
Consumer prices (avge) (%)	10.8	3.1	4.0	4.5
Fiscal balance (% of GDP)	-9.9	-8.8	-8.5	-10.0
Primary Balance (% of GDP)	2.0	3.2	1.1	1.5
Current-account balance (\$bn)	-3.4	-3.7	-3.3	-3.3
Current-account balance (% of GDP)	-11.5	-11.1	-8.9	-7.9
External debt (% of GDP)	175.3	193.5	181.9	175.8
Foreign currency external debt (% of GDP)	71.9	63.3	56.4	50.8
Public Debt (\$bn)	47.0	51.1	54.9	58.6
Public Debt (% of GDP)	159.5	152.1	146.9	143.0
International Reserves (\$bn)	28.3	39.2	45.1	48.4

Source: Barclays Capital

Number of tourists up 28.6% in first five months of 2010

The number of incoming tourists to Lebanon totaled 732,855 in the first five months of 2010, constituting an increase of 28.6% from 569,724 tourists in the same period of 2009. Arab tourists accounted for 41.5% of total visitors and were followed by visitors from Europe with 24.6%, Asia with 19.4%, America with 10%, Oceania with 2.7% and Africa with 1.8%. The number of tourists reached 170,232 in May 2010, constituting an increase of 25.8% from 135,306 in May 2009. Arabs accounted for 35.9% of total visitors in May 2010, followed by Europeans with 26.5%, Asians with 17.6%, Americans with 13.1%. Incoming tourists totaled 1.9 million in 2009, up 39% year-on-year and constituting the highest growth rate in the world in tourist arrivals last year.

Budget disappoints, delay in reforms and rise of global rates to negatively impact public finances

HSBC Bank Middle East indicated that the Cabinet's approval of the 2010 budget, the first budget to be ratified since 2005, reflects the slow normalization of policy-making after years of discord. It expressed disappointment about the content of the budget, adding that it is light on reforms and projects the largest fiscal deficit on record. It said the fact that the budget is still being debated half-way through the fiscal year points to the difficulties that continue to constrain effective policy-making. It noted that the lack of consensus within the Cabinet prevented the adoption of measures in the budget to capitalize on surging economic growth and strengthen public finances, despite an average fiscal deficit equivalent to 12% of GDP over the past decade. It added that the budget did not refer to privatization, long considered as the way to reduce the public debt stock, or to comprehensive steps to overhaul the inefficient and unprofitable state-owned Electricité du Liban.

HSBC expected cyclical gains to mask these policy shortcomings over the short-term and forecast the 2010 budget deficit to be at least 1% of GDP below the target 10.7% of GDP. It said this would reflect in part continued low global interest rates and improved confidence in Lebanon's near-term prospects, which should contain debt servicing costs and offset increases in non-debt expenditures. Also, it expected revenues to increase by at least \$1bn this year on strong economic growth, as supply-side indicators suggest the economic recovery that began in 2006 continues to carry momentum. But it warned that, while strong growth would allow public finances to strengthen in the near term, the improvements would be temporary and vulnerable to a reversal. It noted that Lebanon's public debt, at 150% of GDP, continues to be among the largest in the world and leaves the state subject to refinancing risks. It added that debt servicing accounts for about 40% of total expenditures and 47% of revenues, keeping the structural deficit firmly entrenched, with the debt likely to increase by \$3.5bn in 2010. HSBC considered that without reforms, the slowdown of Lebanon's economic growth will result in a deceleration of revenue growth, while an eventual increase in global interest rates may undo the drop in average interest rates on the debt. In turn, these developments would open the way for the renewed deterioration of public finances.

Lebanon ranks 134th globally, 18th in MENA region on peace index

The 2010 Global Peace Index ranked Lebanon in 134th place among 149 countries globally and 18th among 20 countries in the Middle East and North Africa region. It also ranked Lebanon in 32nd place among 34 upper-middle income countries (UMICs) included in the survey. Lebanon's rank increased by 3 places year-on-year, one of the top five improvements globally. The GPI ranks countries by their 'absence of violence', using metrics that combine both internal and external factors. The index is based on 23 indicators and is a composite of two sub-indices that measure internal peace, carrying a weight of 60%, and external peace with a weight of 40%. The index was developed by the Economist Intelligence Unit and the Institute for Economics and Peace.

Globally, Lebanon ranked ahead of Zimbabwe, the Central African Republic and Nigeria and came behind Sri Lanka, Myanmar and Burundi. It also ranked ahead of Colombia and Russia, and behind Turkey, Venezuela and South Africa among UMICs. Lebanon received a score of 2.64 points, worse than the global average of 2.02 points and the MENA and Arab averages of 2.14 points and 2.07 points respectively.

The report said that the political scene in Lebanon stabilized in late 2009 and enabled the eventual formation of a government of national unity in November. It noted that cautious optimism over the new government and better relations with Syria have partly eased concerns about domestic security, although these remain high due to the ongoing strength of sectarian militias. It added that the threat of violent demonstrations receded in 2009 and the human rights situation improved, after it had deteriorated in 2008 due to factional violence and political uncertainty.

Global Peace Index Rankings & Scores

	Score	MENA Rank	Global Rank
Qatar	1.39	1	15
Oman	1.56	2	23
Tunisia	1.68	3	37
Kuwait	1.69	4	39
UAE	1.74	5	44
Egypt	1.78	6	49
Libya	1.84	7	56
Morocco	1.86	8	58
Jordan	1.95	9	68
Bahrain	1.96	10	70
Iran	2.20	11	104
Saudi Arabia	2.22	12	107
Syria	2.27	13	115
Algeria	2.28	14	116
Mauritania	2.39	15	123
Turkey	2.42	16	126
Yemen	2.57	17	129
Lebanon	2.64	18	134
Israel	3.02	19	144
Iraq	3.41	20	149

Source: EIU, Institute for Economics and Peace

Market accessibility of Beirut Stock Exchange needs improvement in several areas

In its annual assessment of the market accessibility of 75 Developed, Emerging and Frontier equity markets, global portfolio analytics and indices provider MSCI Barra maintained Lebanon in its Frontier Markets category and evaluated the country's stock market based on four accessibility criteria that are openness to foreign ownership, ease of capital inflows and outflows, efficiency of the operational framework, and stability of the institutional framework. It said that these four criteria reflect the views of international institutional investors, which generally put a strong emphasis on equal treatment of investors, free flow of capital, cost of investment and country specific risk. It noted that Lebanon was neither upgraded nor downgraded in any of these categories in this year's review.

In terms of openness to foreign ownership, it said that there are no limits to foreign ownership on the Beirut Stock Exchange and that there is plenty of foreign room level, which is the proportion of shares still available for non-domestic investors, and noted the existence of a foreign board where non-domestic investors could trade with one another. However, it noted the need to improve equal rights to foreign investors as company-related information is not always readily available in English. Lebanon was one of two frontier markets with a 'no major issues' rating in terms of investor qualification requirements, one of 10 markets with a 'no issues' rating in terms of equal rights to foreign investors, one of 23 frontier markets with the same rating in terms of foreign room level, and one of 17 markets with a 'no issues' rating in terms of foreign ownership limit.

Regarding capital inflows and outflows, it said there are no restrictions on capital flows, but noted that there is no offshore currency market and there are constraints on the onshore currency market, as foreign investors are not allowed to hold Lebanese pound balances. Lebanon was among 23 frontier markets with a 'no issues' rating in terms of capital flows restrictions, and one of 10 markets with an 'improvements needed' rating in terms of liberalization level of the foreign exchange market.

Regarding the efficiency of the operational framework, it said market entry needs improvement, as registration is mandatory and may take up to five days. Also, not all regulations can be found in English, and the flow of information needs improvement as detailed stock market information is not always disclosed in English. It added that clearing and settlement procedures can be improved, as there is an absence of a real DVP system on the Beirut Stock Exchange, while there is no nominee status and no omnibus structures. In terms of custody, MSCI Barra said there is no formal segregation between custody and trading accounts for transactions on the Beirut market. In addition, there is only one active custodian available to foreign investors. It added that investors would welcome improvements in this area. Lebanon was among 11 frontier markets that received a 'no issues' rating in terms of market regulations, and one of 5 markets to get the same rating in terms of information flow.

In parallel, it said that not all listed shares are dematerialized in terms of registry and depository, and there is no central registry. It added that there is limited level of competition among brokers, which can lead to relatively higher trading cost, while in-kind transfers and off-exchange transactions are prohibited. Further, it noted the need for a regulatory framework allowing stock lending and a practical framework allowing short selling. Finally, MSCI Barra said that Lebanon, like most Emerging and Frontier Markets, exhibits some shortcomings in the stability of the institutional framework, and in particular in the enforcement of the rule of law.

Lebanon is one of 25 stock markets worldwide that fall under MSCI Barra's definition of Frontier Markets. The other such markets in the region are Tunisia, Bahrain, Jordan, Kuwait, Oman, Qatar, and the UAE. In November 2007, MSCI Barra included Lebanon in its MSCI Frontier Markets Index, a fully investable index for frontier equity markets. The index contains stocks from 19 developing markets in Asia, Emerging Europe, the Commonwealth of Independent States, Africa, and the Middle East.

Term savings attract 86% of customer deposits

Figures issued by the Central Bank about the distribution of bank deposits showed that term savings in the private sector deposits was the preferred type of account for resident and non-resident bank clients in Lebanese pounds as well as in foreign currencies as at March 2010. Term saving deposits accounted for \$39bn, or 80.8%, of resident deposits in foreign currency and were followed by checking and current accounts with \$7.4bn (15.3%), sight saving accounts with \$1.3bn (2.8%) and other creditor accounts with \$526m (1.1%). Further, term saving accounts attracted \$31.5bn, or 9.05%, of resident deposits in Lebanese pounds, followed by checking and current accounts with \$1.7bn (5.1%) and sight saving accounts with \$0.5bn (1.4%). Non-residents also favored term saving accounts, which accounted for \$11.8bn, or 85.7%, of their foreign currency deposits and for \$2.2bn, or 97.4%, of their Lebanese pound deposits. Term saving deposits in all currencies totaled \$84.6bn at the end of March 2010, accounting for 86% of deposits in Lebanese pounds and foreign currencies.

In parallel, Beirut and its suburbs accounted for 69% of private sector deposits and for 50% of depositors. It was followed by Mount Lebanon with 12.8% of deposits and 16.9% of beneficiaries; South Lebanon with 7% of deposits and 12% of beneficiaries; North Lebanon with 6.2% of deposits and 13.5% of depositors; and the Bekaa with 5.1% of deposits and 7.8% of beneficiaries.

Construction and public work activity up in first quarter of 2010

The Central Bank's quarterly business survey indicated that construction increased during the first quarter of 2010, with a balance of opinion standing at +19, compared to +2 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. For public work, the balance of opinion stood at -9 in the first quarter of 2010 compared to -10 in the same quarter of 2009. The balance of opinion for the general activity also increased from 0 in the first quarter of 2009 to +13 in the same period this year. The balance of opinion for construction costs increased from +16 to +49 in the same period. 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.

Construction and Public Work Activity: Year-on-year evolution of opinions				
Aggregate results	Q1-07	Q1-08	Q1-09	Q1-10
General activity	-23	-5	0	13
Construction	-16	-1	2	19
Public work	-38	-29	-10	-9
Portfolio of projects	-27	-19	-8	5
Construction costs	59	64	16	49
Investments (% of yes)	35%	34%	33%	39%

Source: Central Bank Business Survey Q1-10

Lebanon ranks 34th globally, 4th in MENA on Failed States Index

The 2010 Fund for Peace/Foreign Policy Magazine Failed States Index ranked Lebanon in 34th place among 177 countries globally and 4th among 20 countries in the Middle East and North Africa region. It also ranked Lebanon in first place among 34 upper-middle income countries included in the survey. The index ranks countries by their vulnerability to violent internal conflict and deteriorating conditions where Somalia, which ranked first globally, represents the country with the highest risk of failure, and Norway, which ranked last, represents the country with the lowest risk of failure. The index is based on 12 political, social and economic indicators. Lebanon received a score of 90.9 points, worse than the global average of 71.9 points and than the MENA average of 77 points.

Globally, Lebanon ranked after Liberia, Iran and the Republic of Congo and came before Burkina Faso, Uzbekistan and Georgia. It also ranked ahead of Colombia, Bosnia and Herzegovina, and Turkey among UMICs. Further, Lebanon ranked first along with Syria in the sub-category related to the massive movement of refugees or internally-displaced persons creating complex humanitarian emergencies. It also posted the second place in the sub-category related to the intervention of other states or external political actors. The level of vulnerability declined for Lebanon and worsened for Yemen, Iran, Mauritania and Algeria in the MENA region.

Failed States Index Rankings & Scores

	Score	MENA Rank	Global Rank
Iraq	107.3	1	7
Yemen	100.0	2	15
Iran	92.2	3	32
Lebanon	90.9	4	34
Mauritania	89.1	5	39
Syria	87.9	6	48
Egypt	87.6	7	49
Israel	84.6	8	54
Algeria	81.3	9	71
Saudi Arabia	77.5	10	87
Turkey	77.1	11	89
Jordan	77.0	12	90
Morocco	77.0	12	90
Libya	69.1	14	111
Tunisia	67.5	15	118
Kuwait	61.5	16	125
Bahrain	58.8	17	133
UAE	52.4	18	137
Qatar	51.8	19	139
Oman	48.7	20	144

Source: Foreign Policy, Fund for Peace

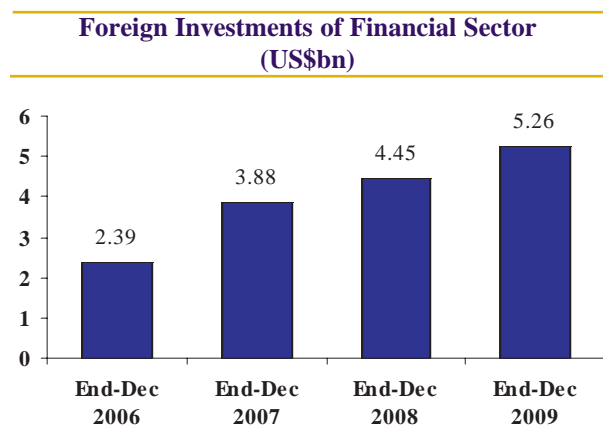
Foreign investments of financial sector at \$5.3bn at end-2009, commercial banks account for 67% of debt securities, financial institutions account for 47% of equity investments

Figures issued by the Central Bank show that the net investment portfolio of Lebanese banks and financial institutions in foreign debt and equity securities totaled \$5.3bn at the end of December 2009, constituting an increase of 18.4% from \$4.45bn at end-2008. Such investments totaled \$3.88bn at end-2007 and \$2.39bn at end-2006. Investments in equities totaled \$2.7bn at end-December 2009, accounting for 51.7% of the total, followed by investments in long-term debt securities with \$2.4bn, or 46% of the total, while short-term debt securities accounted for \$124.2m or 2.3% of the total. According to the Central Bank, the figures cover the net assets of resident financial institutions in tradable debt and equity instruments of non-resident issuers. They help provide a clearer picture about the flow of funds from Lebanon and, therefore, about balance of payments data.

The distribution of investments by institutions indicates that commercial banks' net portfolio in foreign long-term debt securities totaled \$1.57bn, accounting for 65.1% of total investments in such securities at the end of December 2009. The figure includes banks' investment for their own account, for their clients and on a custodial basis. They were followed by medium and long-term banks with \$453.7m (18.7%), financial institutions with \$344.3m (14.1%), insurance firms with \$42.8m (1.8%) and financial intermediaries with \$2.7m (0.12%). Commercial banks also represented 98.4% of investments in short-term debt securities, followed distantly by financial institutions with 0.9%.

In parallel, financial institutions' net assets in equity securities totaled \$1.3bn, accounting for 47.4% of total investments in such securities. They were followed by commercial banks with \$1bn (37.2%), medium and long-term banks with \$357.5m (13.1%), insurance firms with \$48.1m (1.8%), and financial intermediaries with \$14.4m (0.5%).

The distribution of investments by destination shows that the United States was the leading recipient of equity investments by financial institutions operating in Lebanon, reaching \$1.37bn and accounting for 50.6% of the total at end-December 2009. It was followed by Egypt with \$323.8m (11.9%), France with \$273m (10%), Jordan with \$116m (4.3%) and Saudi Arabia with \$114m (4.2%), while other countries accounted for the remaining 19%. In parallel, the United Kingdom accounted \$506.9m, or 21% of investments in long-term debt securities, followed by the United States with \$487.2m (20.1%), the UAE with \$183.2m (7.6%), and Switzerland with \$169m (7%), Luxembourg with \$165.7m (6.9%), while other countries accounted for the remaining 37.4%. Further, the United States accounted for 68.2% of investments in short-term debt securities, followed by the United Kingdom with 14.8% and Switzerland with 4.2%.



Source: Central Bank, Byblos Research

Cabinet endorses electricity reform plan

The Cabinet endorsed a five-year plan to reform the electricity sector. The plan, prepared by the Ministry of Energy & Water, consists of 10 inter-related initiatives that cover infrastructure, demand and the regulatory framework. The plan prioritizes energy sources that are environmentally-friendly such as gas and renewable energy, and includes the establishment of infrastructure for liquefied petroleum gas and the construction of a pipeline along the coast. The plan expects power production to reach 4,000 megawatts by 2014 and 5,000 megawatts starting in 2015, with round-the-clock electricity supply by 2014. It also stipulates improving the transmission and distribution network, restructuring tariffs, and reducing technical losses. The ministry estimated the plan's cost at \$4.87bn, to be funded by the state, the private sector and donors. It expected the Lebanese government to provide \$1.5bn, the private sector to extend \$2.3bn, and donors to contribute \$1bn, in addition to long-term needs of \$1.6bn. According to the ministry, the plan would gradually reduce the sector's overall losses, that it estimates at \$4.4bn for 2010, to break-even point by 2014. It noted that the state could start generating profits by 2015, and that losses would rise to \$9.5bn by then if the plan is not implemented. The plan stressed the need to amend exiting laws as a prerequisite to establish a clear regulatory framework, called for the corporatization of Electricité du Liban, and for adoption of a public-private partnerships (PPP) law.

Italy extends €8.5m to support Central Bank technology systems

Italy extended to the Central Bank of Lebanon a long-term soft loan of €8.5m to support the bank's Secure Information Technology Infrastructure (SITI) plan. The loan will help to expand the various services that the Central Bank provides to the banking sector, particularly in terms of payment systems, clearing checks and management information systems. Launched in 2003, SITI aims to provide the Central Bank with a solid infrastructure for secure transactions, allowing the bank to offer a wide range of electronic banking services through the principles of confidentiality, authenticity, integrity, non-repudiation and availability. It also provides the necessary support for the Secure Electronic Banking and Information for Lebanon (SeBIL), which aims to support the banking sector's electronic payment and reporting systems, real-time transaction settlement, electronic reporting, treasury and asset management systems, decision support systems, and automated clearing. The Italian General Directorate for Development and Cooperation, along with the Alsag Datamat company, will provide services and technical expertise for the program.

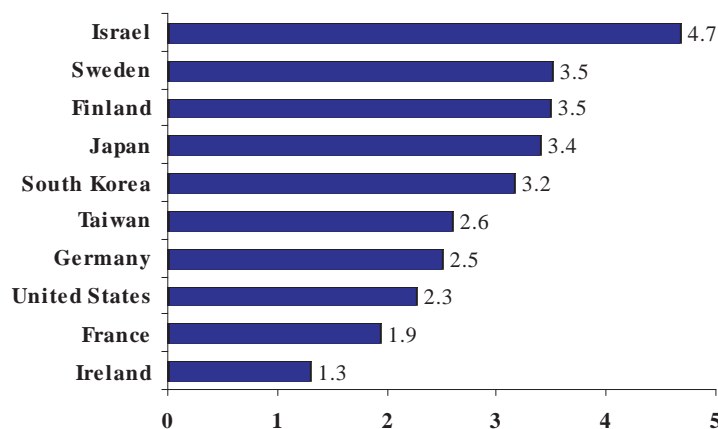
Trade deficit up 11.6% to \$5.4bn in first five months of 2010

Imports increased by 13.5% to \$7.13bn and exports increased by 20% to \$1.73bn in the first five months of 2010, leading to a trade deficit of \$5.4bn, up 11.6% year-on-year. The coverage ratio reached 24.2% year-to-May compared to 18.16% in the same period of 2009. The trade deficit was \$1bn in May 2010, down 4.8% from May 2009. China was the main source of imports with \$627m or 9% of the total, followed by the United States with \$622m (9%), Italy with \$576m (8%), Germany with \$500m (7%) and France with \$477m (7%). Switzerland was the main export destination with \$257m or 15% of the total, followed by the UAE with \$156m (9%), Iraq with \$110m (6%), Turkey with \$106m (6%) and Saudi Arabia with \$100m (6%). Lebanon's main export was jewelry at \$487m or 28% of total exports, followed by machinery and mechanical appliances with \$286m (17%), base metals with \$216m (12%), prepared foodstuff with \$132m (8%) and transportation equipment with \$119m (7%). Re-exports totaled \$60m in the five months of 2010, up 4.7% from \$63m in the same period last year.

Byblos Bank launches initiative to support research and innovation in Lebanon

The Byblos Bank Group granted \$50,000 to the Olayan School of Business (OSB) at the American University of Beirut to establish the Byblos Bank OSB Faculty Research & Development Fund. The donation will support the development of research initiatives at OSB that would cover the banking sector and its macroeconomic environment, among other fields. The initiative aims to encourage and support innovation and creativity in Lebanon through research, which is considered a cornerstone of economic competitiveness and social progress in advanced nations. Global expenditures on research and development (R&D) total \$1,107bn, with North America accounting for \$393bn, or 35.5% of the total, followed by Asia with \$343bn (31%), Europe with \$313bn (28.2%), and Latin America with \$26bn (1.2%), while the Middle East & Africa comes last with \$16bn or 1.3% of the total. Further, global R&D is concentrated in a few high-income countries, with the United States accounting for 33% of global R&D, followed by Japan with 13%, China with 9%, Germany with 6% and France with 4%. As such, the top two countries account for 47% of global R&D expenditures and the top five countries represent about 66% of the total. In addition, Byblos Bank's initiative aims to help Lebanon join global trends in R&D support where the private sector is becoming the main source of funding for research and development. Businesses in Japan account for 78% of overall R&D spending, while they account for 74% of such expenditures in South Korea, 70% in China, 68% in Germany, and 66.4% in the United States. Further, research is increasingly being conducted by the private sector, as companies in Japan account for 78% of research activity, while firms in South Korea represent 76% of such activity, those in the United States account for 72% of performed research, and firms in Germany for 70% of research initiatives. The Arab world lags behind the rest of the world in terms of research support, as Harvard University's annual budget on research is equal to the aggregate spending of Arab countries on scientific research.

Non-defense Expenditures on R&D (% of GDP)



Source: OECD

ADIR rating reaffirmed at 'A'

Insurance rating agency i.e. Muhanna & co Rating Services reaffirmed the 'A' rating of ADIR Insurance sal, the insurance affiliate of the Byblos Bank Group. ADIR came in the 'secure' category, which includes insurers with a sound and balanced capacity to meet policyholders' obligations. The agency said the financial strength of ADIR is based on a good level of liquidity and good level of earnings, but high underwriting exposure. It noted that ADIR's retention ratio increased from 63.7% in 2008 to 86.5% in 2009, higher than the market average of 72.1%. Also, its expense ratio decreased from 34.2% in 2008 to 17.8% in 2009, significantly lower than the market average of 45% and reflecting the firm's good underwriting profitability in the market. Also, ADIR's liquidity ratio was 86.6% in 2009, up from 83.1% in 2008 and 80.7% in 2007. Total reserves reached \$27.2bn at end-2009 relative to \$34.5m at end-2008 and \$24.7bn at end-2007.

Further, ADIR posted net profits of \$3.4m in 2009 relative to \$3.6m in 2008 and \$2.7m in 2007. Its shareholders' equity reached \$19.6m last year, up from 8.5% from \$18m in 2008; while return on equity was 18.8% in 2009 compared to 21.8% in the previous year. ADIR's profits and return on equity increased in six out of the last seven year. The firm's gross premiums reached \$34.84m in 2009, constituting an increase of 77.6% from \$20m in 2008, with the non-life category accounting for 79% of the total, up from 71% in 2008. ADIR was one of only 15 Arab insurers to have an 'A' rating from a universe of 60 rated insurers. Also, ADIR was one of 40 insurers that maintained their ratings in 2009, while 12 insurers were downgraded and 8 were upgraded. ADIR is in the process of a geographical expansion in the MENA region with the collaboration of its European partner, Natixis Assurances-France and Byblos Bank.

Ciment de Sibline's profits up 131% to \$15m in 2009

Ciment de Sibline sal, Lebanon's third largest cement producer, posted net profits of \$15m in 2009, constituting an increase of 131% from \$6.5m in 2008. The firm's total assets reached \$151m at end-2009, including \$41.8m in current assets of which \$4.5m in cash. Non-current assets totaled \$108.8m, including 105m in fixed assets. The firm reduced its borrowings in 2009, as its short-term debt to banks declined by 96% to \$400,000 year-on-year, while its long-term loans declined by 24% to \$13m as at end-2009. The firm's shareholders' equity reached \$115.6m at the end of 2009.

Balance sheet of financial institutions posts 26% annual increase in March

Figures released by the Central Bank show that the consolidated balance sheet of financial institutions in Lebanon reached LBP 1,506bn, or \$1bn, at the end of March 2010, constituting an increase of 4.1% from end-2009 and an increase of 26% from end-March 2009. Liabilities to the private sector reached \$227.9m, up 24% from end-2009 and by 88% year-on-year. Commitments to the financial sector reached \$369m at the end of March, representing a decrease of 5% from end-2009 but an increase of 7.9% year-on-year.

On the assets' side, financial institutions' operations with commercial banks reached \$335.5m at end-March 2010, up 4.8% from end-2009 and up by 45.3% from end-March 2009. Lending to the private sector reached \$496.4m, constituting an increase of 7.1% from end-2009 and an increase of 21.9% year-on-year. Investments in government securities totaled \$129m at end-March 2010, down 6.5% from end-2009 and down 1% from end-March 2009. Further, the aggregate capital account of financial institutions reached \$279m at the end of March, up 7.6% from the end of 2009 and up by 13.3% from \$246.1m at the end of March 2009. There were 46 financial institutions operating in Lebanon at mid-2008.

Four Seasons Hotel officially inaugurated

The Four Seasons Hotel Beirut was officially inaugurated in the Beirut Central District, after its launched it operations through a soft opening last December. 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.

Solidere reschedules General Assembly

The Board of Directors of Solidere sal rescheduled its Annual General Assembly that was planned on June 24, 2010 to July 19, 2010 due to the lack of quorum. The agenda of the meeting includes hearing the Board of Directors and the auditors' reports for 2009, approving the financial statements of 2009, and granting clearance to the Chairman and Board members for their administrative duties during 2009.

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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