



LEBANON THIS WEEK

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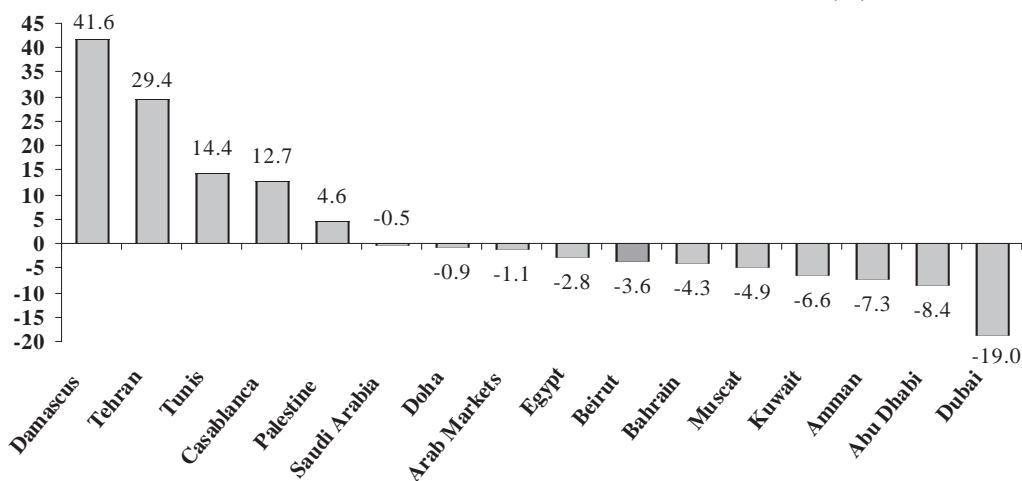
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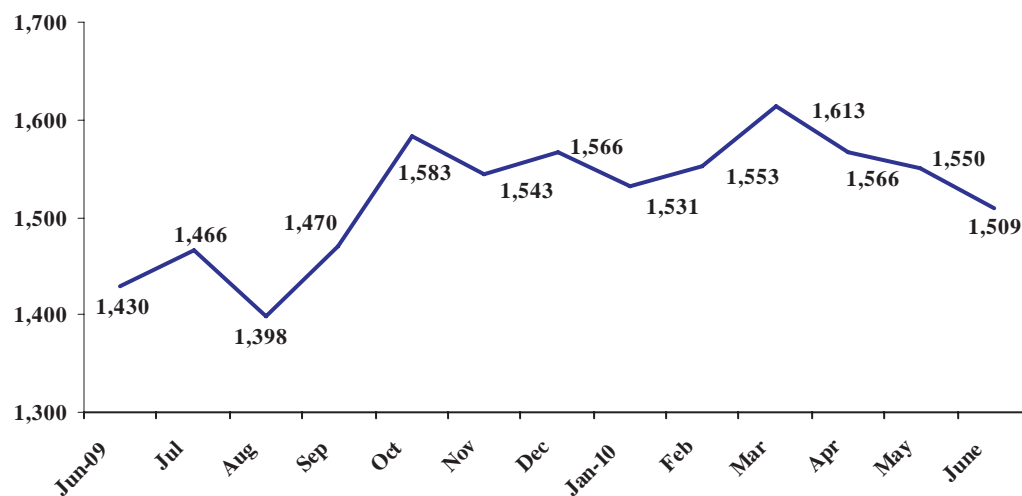
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Charts of the Week

Performance of MENA Stock Markets in First Half of 2010 (%)



Performance of Beirut Stock Market*



*BLOM Stock Index
 Source: Local Stock Markets

Quote to Note

“Policy-makers need to tighten monetary policy sooner than consideration of macro-economic prospects alone might suggest.”

The Bank for International Settlements, urging central banks to start raising interest rates to avoid market distortions, which would eventually force a rise in interest rates in Lebanon

Number of the Week

2.93%: Average interest rate on deposits of commercial banks at the Central Bank of Lebanon as at end-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
Solidere "A"	22.53	(1.10)	139,994	18.05%
Solidere "B"	22.49	(1.06)	66,462	11.71%
Byblos Common	1.78	0.56	1,246,341	3.10%
Byblos Priority	1.80	(1.10)	10,139	2.97%
Byblos Pref. 08	100.00	0.00	890	1.60%
BLOM GDR	88.40	(1.67)	823	5.23%
BLOM Listed	87.40	(0.68)	9,863	15.05%
Audi GDR	8.34	1.09	25,000	6.80%
Audi Listed	8.15	(0.61)	40,000	22.47%
HOLCIM	13.68	(1.87)	490	2.14%

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

Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
Nov. 2010	6.875	101.75	1.89
May 2011	7.875	104.50	2.62
Mar. 2012	7.500	106.75	3.37
Sep. 2012	7.750	108.88	3.45
June 2013	8.625	112.88	3.95
Apr. 2015	10.000	120.50	5.11
Jan. 2016	8.500	115.50	5.22
May 2016	11.625	128.75	5.73
Mar. 2017	9.000	117.88	5.75
Apr. 2021	8.250	113.25	6.51

Source: Byblos Capital Markets

	June 28-July 3,10	June 21-26,10	% Change	June 2010	June 2009	% Change
Total Shares Traded	1,582,825	1,824,788	(13.26)	5,167,659	8,778,166	(41.13)
Total Value Traded	\$10,003,992	\$12,458,724	(19.70)	\$47,678,154	\$174,823,842	(72.73)
Market Capitalization	\$12.50bn	\$12.60bn	(0.63)	\$12.50bn	\$11.31bn	10.51

Source: Beirut Stock Exchange (BSE)



Government missed opportunity to improve public finances, basic revenue-enhancing measures would have raised primary surplus to 3.7% of GDP in 2010

The Institute of International Finance indicated that Lebanese authorities missed an opportunity to implement significant fiscal measures during the current favorable economic conditions, as the 2010 budget does not aim for a substantial primary surplus through the implementation of long-delayed reforms. It noted that the budget's revenue-enhancing measures are not ambitious and fall short of the Paris III reform agenda. It stressed the need for larger primary surpluses that would generate a more rapid decline in the debt-to-GDP ratio, particularly in the context of the current global financial environment following the crisis in Greece. It said the current favorable environment of rapid growth, low global interest rates, and abundant liquidity in the Lebanese banking system is unlikely to persist over the medium term. At such, it urged authorities to avoid complacency and build a consensus on reforms that, combined with political stability, could lead to a real GDP growth rate of about 5% annually beyond 2010 and reduce the government debt to more sustainable levels.

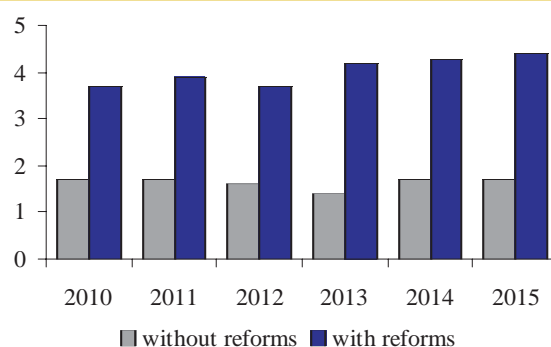
The IIF noted that the overall fiscal deficit, excluding grants, narrowed from 9.9% of GDP in 2008 to 8.6% of GDP in 2009 and the primary surplus improved from 1.3% of GDP to 2.6% of GDP during the same period due to sharp increases in revenues. It also noted the limited scope to reduce primary government spending, with the exception of the transfers to Electricité du Liban (EdL) that account for 13% of total expenditures and are equivalent to 4% of GDP.

The IIF called for implementing additional revenue-enhancing initiatives through several tax measures. It said there is considerable scope to increase the current 10% VAT rate, which is well below the OECD average of 18% and one of the lowest among comparable emerging markets and developing economies. It noted that the introduction of the VAT in 2002 was a major success, generating 5.7% of GDP in revenue in 2009. It estimated that raising the VAT rate from 10% to 12% would generate additional revenues of \$390m, equivalent to 1.1% of GDP, which would bring total VAT contribution to the budget to 6.8% of GDP in 2010. It said additional revenues could also be raised by removing VAT exemptions on precious and semiprecious stones as well as on yachts and other excursion or sports sailboats. The IIF also recommended an increase in real estate transaction fees. It said the 2010 budget increased the property transfer fee from 5% to 7% for properties valued at over \$500,000, adding that this measure is not adequate as property taxes in Lebanon remain low relative to other comparable countries. It estimated that a further increase in the real estate registration fee from 7% to 10% for properties exceeding \$300,000 could generate additional revenues of \$350m, equivalent to about 1% of GDP, and would limit property speculation. It added that imposing a 10% capital gains tax could generate additional revenues from real estate, as there is no capital gains tax on real estate in Lebanon currently.

The IIF estimated that the tax measures would have improved the primary surplus to 3.7% of GDP at end-2010 compared to a surplus of 1.7% of GDP without them. It also forecast a decline in the debt-to-GDP ratio to 138% of GDP at end-2010 if these reforms were adopted, compared to 143% of GDP at end-2010 without the revenue-enhancing measures. It considered that the adverse impact of the two revenue-enhancing measures on growth and inflation would be limited and temporary. It expected real GDP growth to slow down to 7.5% instead of a projected 8.2%, and for the average inflation rate to increase to 5.4% under the reform scenario from 4.4% under the baseline scenario.

The IIF warned that, in the absence of major fiscal reforms and the rehabilitation of EdL over the medium term, the primary surplus would be lower than 2% of GDP annually, real GDP growth will decelerate to around 3% over the medium term, and the debt-to-GDP ratio will remain very high, declining only to 137% by 2015. It noted that under the reform scenario, the primary surplus would gradually increase to 6% of GDP, real GDP growth could be maintained at around 5% over the medium-term, and the debt-to-GDP ratio would decline rapidly to relatively more sustainable levels of 108% of GDP by 2015.

Primary Balance (% of GDP)



Source: Institute of International Finance

Comparative Tax Rates (%)

	VAT	Corporate	Capital Gains
Uruguay	22	25	12
Estonia	21	21	21
Morocco	20	30	20
Bulgaria	20	10	10
Chile	19	17	17
Cyprus	15	10	20
Costa Rica	13	30	0
Egypt	10	20	0
Lebanon	10	15	0

Source: Institute of International Finance

Increase in fiscal spending in 2010 budget inconsistent with fiscal consolidation and debt reduction goals

Merrill Lynch projected Lebanon's real GDP growth at 6.5% in 2010 and 5.1% in 2011, adding that this year's forecast is conservative as the Lebanese economy is well-placed to sustain the momentum of the previous year. It noted that domestic indicators suggest strong demand with double-digit annual increases in tourist arrivals, cleared checks, construction permits and deposit inflows. It noted, however, that decision-making in Lebanon requires political consensus, which constitutes an obstacle to addressing structural issues. It added that geopolitical risks remain, with the increasing isolation of Iran following the imposition of sanctions.

Merrill Lynch noted that the 2010 draft budget includes a deficit of 10.7% of GDP with a planned spending increase of 15.5%, mainly earmarked to alleviate infrastructure bottlenecks. It said the government intends to run down its primary surplus and is counting on up to 5% growth to keep the public debt stable. It considered the increase in fiscal outlays to be misplaced, given its inconsistency with the medium-term objective of fiscal consolidation and debt reduction, as well as given question marks about execution efficiency. It expected strong domestic political opposition to an increase in the VAT rate, adding that any future revenue-enhancing measures are more likely to include some modest broadening of the VAT scope given the existing exemptions and refunds, along with a broader package of tax on interest or property.

Merrill Lynch stressed on the limitations of maintaining high debt levels, but noted that Lebanon is insulated for now given that the highly liquid local banks hold the bulk of the public debt. It added that the government has been funding itself increasingly locally, with local currency debt representing 58.8% of gross public debt at end-March 2010 compared to 50.3% in 2005, while commercial banks hold 60.8% of the stock of domestic debt relative to 48.5% in 2005. It considered that the low correlation of Lebanese external debt with global markets should continue to make it a safe haven for investors.

Country Forecast Summary				
	2008	2009E	2010F	2011F
Real GDP (%y/y)	9.0	9.0	6.5	5.1
CPI (% average)	10.8	3.4	4.7	5.3
Policy Rate (end-year %)	12.0	12.0	10.0	10.0
Fiscal Balance (%GDP)	(9.9)	(8.9)	(8.2)	(9.0)
Public Debt (%GDP)	159.5	149.4	147.0	145.0
Current Account (\$bn)	(3.4)	(3.7)	(4.2)	(4.4)
Current Account (%GDP)	(11.6)	(11.0)	(11.3)	(10.9)
Gross External Debt (\$bn)	55.0	56.5	59.0	61.2
Gross External Debt (% of GDP)	186.7	168.2	159.3	153.0
Foreign Reserves (\$bn)	20.2	28.7	32.0	33.0
Import Cover (in months)	14.9	23.0	21.3	19.8
Short-term Debt Cover (%)	44.8	57.5	61.5	61.7

Source: Merrill Lynch

Consumer Price Index up 4.9% annually in May 2010

The Central Administration of Statistics' Consumer Price Index indicates that inflation increased by 4.9% in May 2010 from May 2009. Prices of water, electricity, gas & other fuels increased by 14.1%, followed by prices of transportation (+12.9%), education (+9.6%), housing (+6.1%), restaurants & hotels (+4.2%), recreation & entertainment (+3.4%), alcoholic beverages & tobacco (+3.0%), miscellaneous goods & services (+1.7%), food & non-alcoholic beverages (+1.7%) and furniture & household equipment (+1.1%). Prices of clothing & footwear regressed by 3.2%, followed by communication (-2.7%), and health care (-0.7%). Imported inflation accounts for about 70% of inflation in the country. Lebanon has an import-based economy and imports most of its energy needs, as the value of imports historically has been equivalent to about five times that of exports.

The Consumer Price Index decreased by 0.1% in May 2010 from April 2010. Prices of clothing & footwear increased by 1.4%, followed by restaurants & hotels (+1.0%), water, electricity, gas and other fuels (0.7%), miscellaneous goods & services (+0.3%), and furniture & household equipment (0.1%). Prices of health care regressed by 1.6% month-on-month as well as food & non-alcoholic beverages (-0.9%) and transportation (-0.1%). Housing prices remained unchanged month-to-month along with those of communication, education, recreation & entertainment, and alcoholic beverages & tobacco.

NSSF to pay LBP 500m to economic associations

The Labor Ministry and the Association of Lebanese Industrialists agreed on a plan to temporarily resolve repayment problems related to the National Social Security Fund (NSSF). The plan consists of paying all bills of up to LBP 500m within a three months period, and bills of up to LBP 1bn within a six months period. The two sides also agreed that the payment of dues that exceed LBP 1bn will take place within two years. A temporary agreement with economic associations will be signed after submitting it to the NSSF board for approval. The Labor Ministry stated that officials are considering a new mechanism for paying back dues to organizations, which consists of paying a lump sum without going into bills' details.



Lebanon is 7th largest source of inter-Arab investments in 2009, Saudi Arabia is main destination

Figures released by the Arab Investment & Export Guarantee Corporation show that investments from Lebanon in Arab countries totaled \$725.5m in 2009, constituting a decline of 68.4% from \$2.3bn in 2008 and compared to \$465m in 2007. Lebanon was the 7th largest source of inter-Arab investments in 2009, down from fourth largest in 2008 and 6th largest in 2007. Also, Lebanon accounted for 3.8% of aggregate inter-Arab investments in 2009 compared to 6.8% in 2008 and 3.3% in 2007. Saudi Arabia was the largest destination of Lebanese direct investments, as it received \$414m last year, accounting for 57% of total Lebanese investments in the Arab world. It was followed by the UAE with \$251.3m, or 3.5% of the total, Egypt with \$49.5m (6.8%), Morocco with \$8.6m (1.2%), Jordan with \$1.4m (0.2%), and Yemen with \$0.7m (0.1%). In comparison, Sudan was the biggest destination of Lebanese investments in the Arab world in 2008, as it received \$1.88bn, or 82% of the total; while Saudi Arabia was the biggest destination in 2007 with \$279m, or 60% of the total for that year. Kuwait was the largest source of inter-Arab investments with \$6.1bn or 31% of the total in 2009, followed by the UAE with \$5bn, Bahrain with \$1.7bn, Qatar with \$1.25bn, Jordan with \$1.1bn, and Saudi Arabia with \$1bn, as the six economies accounted for 85% of inter-Arab investments last year.

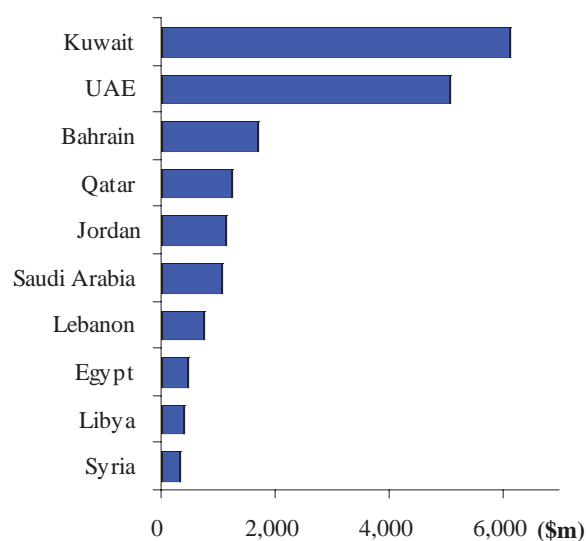
Further, Lebanese foreign direct investments in Arab countries totaled \$8.25bn during the 1985-2009 period, making Lebanon the sixth largest source of inter-Arab investments during the covered period, as it accounted for 5% of such investments during the past 25 years. Lebanese investments in Sudan totaled \$2.63bn, accounting for 32% of the total and making Sudan the biggest destination of Lebanese investments in the Arab world during the previous 25 years. It was followed by Saudi Arabia with \$2.43bn, or 29.5% of the total, the UAE with \$1.5bn (18%), Kuwait \$684m (8.3%), Egypt with \$465m (5.6%), Syria with \$205m (2.5%), Yemen with \$102m (1.2%), Qatar with \$91.6m (1%), Morocco with \$33.6m (0.4%), Algeria with \$31.5m (0.38%), Libya with \$31.3m (0.37%), Bahrain with \$21.5m (0.3%), Jordan with \$15.7m (0.2%), Palestine with \$2.8m (0.03%), Tunisia with \$1.8m (0.02%), Djibouti with \$1.5m (0.02%), Oman with \$0.9m (0.01%), and Iraq with \$0.3m (0.007%). Lebanese investments in Arab countries averaged \$330m annually.

In parallel, Aggregate Arab investments in Lebanon totaled \$12.25bn during the 1985-2008 period, making Lebanon the third largest destination of inter-Arab investments during the covered period. Lebanese authorities did not submit 2009 figures the Arab Investment & Export Guarantee Corporation. Saudi Arabia was the largest Arab investor in Lebanon with \$4.8bn, or 39% of the total during the 24-year period. It was followed by the UAE with \$2.86bn, Kuwait with \$2.81bn, Qatar with \$728m, Syria with \$411m, Jordan with \$263m, Bahrain with \$127m, Egypt with \$83.3m, Sudan with \$65.3m, Somalia with \$27m, Yemen with \$12.3m, Algeria with \$11.2m, Tunisia with \$8.3m, Oman with \$4.3m, Libya with \$1.8m, and Djibouti with \$0.1m. Saudi Arabia, the UAE and Kuwait accounted for 86% of Arab direct investments in Lebanon during the covered period. Arab investments in Lebanon averaged \$510.4m annually during the 1985-2008 period.

Association of Banks amends reference rate on US dollar and Lebanese pound lending

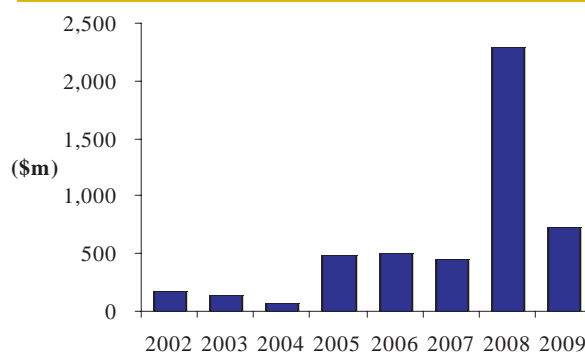
The Association of Banks in Lebanon (ABL) recommended to its member banks to decrease the Beirut Reference Rate in US dollars to 4.8% from 4.88% previously starting in June. The rate, considered as the reference rate for lending in foreign currency, replaced last year the London Inter-Bank Offering Rate (LIBOR) since the ABL considered that the LIBOR no longer accurately reflects the cost of funding and lending in Lebanon. Additionally, the ABL recommended to its member banks to decrease the Beirut Reference Rate in Lebanese pounds to 7.6% from 7.72% previously. The Beirut Reference Rate in US dollars and Lebanese pounds were adopted in March and May 2009, respectively. The ABL indicated that the BRR does not replace the Beirut Prime Lending Rate in each currency, but constitutes the basis to calculate the prime rate after adding the cost of liquidity and refinancing, credit risks, and the profitability of banks to the prime lending rate. The prime lending rate for US dollar and Lebanese pounds are 7.93% and 10.04% respectively.

Top 10 sources of Inter-Arab Investments in 2009



Source: AIEGC, Byblos Research

Lebanese FDI in Arab countries (US\$m)



Source: AIEGC, Byblos Research

Beirut is 80th most expensive city in the world, fourth most expensive among Arab cities

The annual survey on the cost of living in 214 cities around the world by Mercer Human Resource Consulting ranked Beirut as the 80th most expensive city worldwide and the fourth most expensive among 18 Arab cities surveyed in 2010. It was also considered as the 11th most expensive city among the Upper Middle Income Countries (UMICs) included in the survey. Mercer noted that it added 71 cities to this year's rankings, which does not allow for a direct comparison of the rankings between 2010 and 2009. Beirut was the 41st most expensive city worldwide among 143 cities in 2009. The study measures the comparative cost of over 200 items in each location, including the cost of housing, food, clothing and household goods, as well as transportation and entertainment. It compares the cost of high-end items that are important to expatriates and their employers such as upscale residential areas and entertainment venues. New York is used as the base city for the index and all cities are compared against it. The survey is conducted annually to help multinational companies determine compensation allowances for their expatriate workers.

On a global basis, Beirut ranked behind Toronto in Canada, Taipei in Taiwan and Yaoundé in Cameroon, and was considered more expensive than Stuttgart in Germany, Riga in Latvia and Amman. Among UMICs, Beirut was considered less expensive than Bogota in Colombia, Brasilia in Brazil and Almaty in Kazakhstan, while it was considered more expensive than Riga in Latvia, Warsaw in Poland, and Caracas in Venezuela. Regionally, Beirut ranked immediately ahead of Amman and Cairo and behind Abu Dhabi, Dubai and Djibouti.

Mercer noted that the weakening of many currencies against the US dollar led to an increase in the cost of living in the countries with currencies pegged to the U.S dollar.

It said the global rank of all Arab cities dropped due to the addition of new cities to the rankings. Abu Dhabi is the most expensive Arab city in 2010, while Tunis is the least costly. The survey included four non-Arab cities from the region, as Tel Aviv ranked in 19th place globally, Istanbul came in 44th place, Tehran ranked in 103rd place and Limassol was in 113th place. Luanda in Angola replaced Tokyo as the world's most expensive city, while Karachi in Pakistan is the world's cheapest city, replacing Johannesburg in South Africa.

Cost of Living Rankings 2010		
City	Arab Rank	Global Rank
Abu Dhabi	1	50
Dubai	2	55
Djibouti	3	62
Beirut	4	80
Amman	5	83
Cairo	6	87
Casablanca	7	108
Damascus	8	111
Algiers	9	115
Manama	10	139
Riyadh	11	144
Doha	12	146
Kuwait City	13	152
Muscat	14	176
Jeddah	15	181
Tripoli	16	186
Nouakchott	17	189
Tunis	18	199

Source: Mercer Consulting, Byblos Research

Central Bank foreign assets increase by 7.3% to \$30.4bn in first half of 2010

The Central Bank's interim balance sheet reached \$58.2bn at the end of June 2010 compared to \$53.75bn at the end of 2009 and to \$47.2bn at the end of June 2009. Assets in foreign currencies increased by 7.3% in the first half of the year to \$30.4bn, up from \$28.3bn at the end of 2009. Assets in foreign currencies increased by \$109m in June, \$146.2m in April, \$561.7m in March, \$236.9m in February, and by \$1bn in January, while they declined by \$1.65m in May. This resulted in an aggregate increase of nearly \$2.05bn in the first half of 2010. Further, assets in foreign currencies rose by \$6.85bn, or 29%, year-on-year.

The value of the Central Bank's gold reserves increased by 14% in the first half and by 32.4% year-on-year to \$11.5bn, reaching a new all-time high. Its securities portfolio increased by 2.7% in the first half and by 1.7% annually to \$7.87bn. Further, deposits of the financial sector rose by \$2.97bn, or 7.8% in the first half of the year and by \$5.7bn or 16.2% annually to \$40.8bn due to capital inflows into the banking sector; while deposits of the public sector declined by 2.4% in the first half but rose by 72% year-on-year to \$5.8bn. Assets in foreign currencies increased by \$28.3bn in 2009, \$7.34bn in 2008, declined by \$580m in 2007 and rose by \$1.32bn in 2006.

Industrial exports up 29% to \$1.45bn in first five months of 2010

Figures released by the Ministry of Industry show that industrial exports reached \$1.45bn in the first five months of 2010, constituting an increase of 29% from \$1.12bn in the same period last year. Industrial exports reached \$320m in May 2010, up by 21.7% from April 2010 and by 43.5% from May 2009. Machinery and mechanical appliances accounted for \$286m, or 19.7% of total industrial exports in the first five months of 2010, followed by pearls & precious or semi-precious stones at \$274m (18.9%), and base metals & articles of base metals at \$216m (14.9%). In parallel, imports of industrial equipment and machinery reached \$96.7m in the first five months of 2010, up 10.4% from the same period last year. Italy was the main source of imports of industrial equipments, accounting for 27.3% of total, followed by China with 15% and Germany with 15%.

Fiscal deficit down 39% to \$864m in first five months of 2010

Figures released by the Finance Ministry show that the fiscal deficit reached \$864m in the first five months of 2010, down 38.6% from \$1.4bn in the same period last year. The deficit was equivalent to 19.5% of total budget and Treasury expenditures compared to 29% in the first five months of 2009. Overall government expenditures reached \$4.4bn, down 8.2% year-on-year, while total revenues increased by 4.4% to \$3.6bn in the covered period. Budgetary expenditures increased by 5.9% to \$3.5bn and included \$343m in outlays from previous years, while budget revenues rose by 3.6% to \$3.4bn. Tax revenues improved by 22.1% year-on-year to \$2.85bn, of which 31.5%, or \$897.4m, were in VAT receipts that posted a 12.5% annual rise. Tax revenues accounted for 84% of budgetary revenues and for 80% of total Treasury and budget receipts.

The distribution of other tax revenues shows that customs revenues rose 5.5% year-on-year to \$738m, income tax receipts grew by 43% to \$673.4m, real estate registration fees improved by 95% to \$231m, stamp fees increased by 31% to \$136m, and income from taxes on goods & services rose by 15% to \$100m. Also, revenues from built property taxes increased by 32.4% to \$55m and revenues from inheritance tax grew by 31% to \$21.3m. Further, the distribution of income tax revenues shows that taxes on profits accounted for 44% of total income tax receipts, followed by the tax on interest deposits with 26%, taxes on wages & salaries with 19%, and capital gains tax with 10%. Receipts from taxes on profits increased by 104% year-on-year, income from capital gains tax grew by 43%, revenues from the tax on interest rose by 19%, and tax receipts on wages & salaries improved by 1.3%. In parallel, non-tax budgetary revenues contracted by 42.4% to \$540.7m, with revenues from government properties dropping by 52.5% to \$368m and administrative fees & charges increasing by 3.3% to \$143m. Receipts from telecommunications services, which account for 60% of income from government properties and for 41% of non-tax revenues, dropped by 65% to \$220m in the first five months of the year.

Debt servicing increased by 2% year-on-year to \$1.63bn, accounting for 36.8% of total expenditures and for 46.2% of budgetary spending. It absorbed 45.7% of overall revenues and 48% of budgetary receipts. Repayment of principal on foreign debt rose by 28% to \$45.4m. Excluding debt servicing, the primary surplus reached \$1.54bn, or 43.5% of budget expenditures compared to a surplus of \$1.6bn, or 47% a year earlier. The overall primary surplus reached \$814.3m, or 18.4% of total spending compared to a surplus of \$228.2m, or 4.7% of total expenditures a year earlier.

Telecom Ministry to ban commercial use of Voice-over-Internet

The Posts & Telecommunications Ministry plans to ban all use of voice-over-Internet (VoIP) from personal computers to land-line telephones, claiming it is illegal and is depriving the Treasury of much-needed revenues. VoIP is a technology that allows people to communicate with each other via Internet connections rather than through telephone lines. The ministry noted that only VoIP used for commercial purposes will be banned, as the government is only party authorized to sell such services. It added that it will continue to allow computer-to-computer VoIP connection for non-commercial purposes, but will block PC to telephone communications. It added that the government generates \$150m annually from international calls, a source of revenue that has been severely affected by the commercial use of VoIP. The cost per minute of communicating through VoIP is \$0.02 compared to \$0.40 through the ministry's landlines.

Lebanon to adopt digital tax-free shopping technology

The Ministry of Finance announced plans to introduce a new digital tax-free shopping technology in Lebanon. It noted that the technology will create a more efficient administrative process and bring Lebanon into the digital age. Global Blue, a global services firm that specializes in retail transactions, will roll out the technology in the country. It said that Lebanon will be one of the first countries in the world to implement this technology, which will position it ahead of its peers in terms of the capabilities of retailers and will ease tax-free shopping for tourists. It added that the technology provides retailers and customs officials access to digitalized data that can be used to improve their marketing and decision-making. The technology has only been standardized in Finland, and will be implemented in Lebanon in August. Global Blue already processes tax refunds for tourists in Lebanon.

Lebanon ranks 64th globally, 5th in Arab world in insurance premiums

Swiss Re's annual survey of the global insurance market indicates that Lebanon ranked in 64th place among 88 markets in terms of nominal premiums generated in 2009. It also came in 5th place among 12 Arab markets included in the survey. Lebanon ranked in 71st globally and in 7th place regionally in the 2008 survey. Lebanon generated \$952m in total premiums last year, accounting for 0.02% of global premiums, for 0.2% of premiums generated in emerging markets and for 3.3% of premiums generated in the Middle East & Central Asia region. Globally, Lebanon ranked ahead of Ecuador and Nigeria and behind Pakistan and Cyprus, while it came ahead of Algeria and behind Egypt regionally.

Lebanon generated \$232m in life premiums in 2009, ranking in 67th place globally and 5th in the Arab world. It ranked in 62nd place globally and 4th in the Arab world in 2008. Globally, Lebanon ranked ahead of Jamaica and Iran and behind Panama and Sri Lanka, while it came behind Saudi Arabia and ahead of Bahrain regionally. Life premiums accounted for 0.01% of global life premiums, for 0.1% of such premiums generated in emerging markets and for 3.4%

of life premiums generated in the Middle East & Central Asia region. Further, Lebanon generated \$720m in non-life premiums last year, ranking in 64th place globally and 7th place among Arab countries. It came in 69th place globally and in 9th place regionally in 2008. Globally, Lebanon ranked ahead of Kazakhstan and Serbia, and came behind Vietnam and Algeria, while it came ahead of Tunisia and behind Algeria in the region. Non-life premiums accounted for 0.04% of global life premiums, for 0.3% of such premiums generated in emerging markets and for 3.3% of non-life premiums generated in the Middle East & Central Asia region.

In parallel, Swiss Re said that Lebanon's insurance density, or premiums per capita, reached \$225.5 in 2009, ranking in 51st place globally and in 4th place in the Arab world. Lebanon ranked in 54th place globally and in 5th place in the Arab world in terms of insurance density in 2008. Globally, it ranked ahead of Oman and Argentina and behind Brazil and Panama, while regionally it came ahead of Oman and behind Qatar. Further, insurance penetration in Lebanon, or premiums relative to the size of the economy, reached 3.1% of GDP last year, ranking it in 48th place globally and in first place in the Arab world. Globally, Lebanon came ahead of Croatia and Morocco, and behind Slovakia and Brazil. Lebanon ranked in 39th place globally and in first place in the Arab world in terms of insurance penetration in 2008.

Stock market activity at \$1.5bn in first half of 2010

Figures released by the Beirut Stock Exchange indicate that total trading volume reached 124 million shares in the first half of 2010, an increase of 66% from the same period last year, while aggregate turnover amounted to \$1.5bn, up 207% from a turnover of \$476m in the same period last year. Market capitalization increased by 11% to \$12.5bn in the first half of 2010, of which 66.7% was in banking stocks and 29.7% in real estate stocks. The bourse's activity was artificially inflated in January due to the sale of regional investment bank EFG-Hermes of its entire stake in Bank Audi sal during the month. It was also boosted this year due the sale of Byblos Bank of 47.6 million common shares to the International Finance Corporation and of 13.6 million common shares to Société de Promotion et de Participation pour la Cooperation Economique S.A. (PROPARCO). The market liquidity ratio was 11.7% compared to 4.2% for the same period of 2009. Bank stocks accounted for 91.2% of aggregate trading volume in the first half of the year, followed by real estate stocks with 8.5%. In terms of value of shares traded, banking stocks accounted for 83.1% of aggregate value, followed by real estate stocks with 16.6%. The average daily traded volume for the period was 1,026,583 shares for an average daily value of \$12.1m. The figures reflect increases of 64% in volume and 202% in value year-on-year.

Insurance Density in MENA region in 2009 (Premiums per Capita in US\$)

	Life	Non-Life	Total	Rank
Israel	686.6	676.7	1363.5	29
UAE	159.2	952.7	1111.8	31
Bahrain	173.6	451.1	624.8	36
Qatar	0	548.6	548.6	38
Lebanon	55	170.5	225.5	51
Oman	35.9	184.5	220.4	52
Kuwait	29.6	123.5	153	60
Jordan	7.8	72	80.7	60
Saudi Arabia	10.4	141.1	151.5	61
Morocco	25.8	55	80.7	68
Tunisia	9.7	64	73.8	70
Iran	3	55.1	58.2	74
Algeria	1.8	21	22.9	82
Egypt	8.5	10.4	18.9	84

Source: Swiss Re, Byblos Research

Occupancy at Beirut hotels at 72%, room yields up 19.4% in first five months of 2010

Ernst & Young's benchmark survey of the Middle East hotel sector indicated that the average occupancy rate at hotels in Beirut was 72% in the first five months of 2010, increasing from 71% in the same period last year. The occupancy rate at Beirut hotels was the 12th highest among 19 markets in the region, while it was 8th highest in the first five months of 2009. The survey said the average rate per room at Beirut hotels was \$246 in the first five months of 2010, ranking the capital's hotels as the sixth most expensive in the region behind Dubai-Beach, Doha, Manama, Kuwait City, and Abu Dhabi.

The average rate per room at Beirut hotels increased by 19.1% to \$246 year-on-year and posted the highest increase among all markets in the region. The average rate per room in Beirut came above the regional average of \$198, which declined by 2.5% from \$203 in the same period of 2009. Occupancy rates at Beirut hotels were 64% in January, 76% in February, 68% in March, 79% in April, and 71% in May 2010, compared to 85% in January, 76% in February, 74% in March, 81% in April, and 68% in May 2009. Beirut hotels had an occupancy rate of 73% for all of 2009.

Further, revenues per available room (RevPAR) were \$177 in Beirut in the first five months of 2010, up from \$149 in the same period last year, ranking it in fifth place in the region after Dubai-Beach, Doha, Abu Dhabi and Dubai Overall. Beirut's RevPAR was up 19.4% year-on-year, posting the second highest rise in the Middle East, after Sharm el Shaikh with 22.1%, and compared to an increase of 0.3% across the region. Beirut posted RevPARs of \$160 in January, \$209 in February, \$155 in March, \$208 in April, and \$158 in May 2010. Dubai-Beach posted the highest average room rate in the region at \$340 and the highest REvPAR at \$290, while Sharm El Shaikh posted the highest occupancy rate at 87% in the first five months of the year.

Ciment de Sibline announces dividends

Ciment de Sibline sal, Lebanon's third largest cement producer, announced the distribution of pre-tax dividends of LBP 233, or \$0.15, per share for 2009. The dividends were approved at the firm's Ordinary General Assembly held on May 20th. Ciment de Sibline 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. 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. Shareholders' equity reached \$115.6m at the end of 2009.

Hotel Performance in first five months of 2010			
	Occupancy Rate (%)	RevPAR (US\$)	RevPAR % change
Sharm El Sheikh	87	54	22.1
Hurghada	86	38	15.4
Dubai - Beach	85	290	(2.8)
Dubai - Overall	80	191	(7.3)
Dubai-City	78	156	(9.6)
Makkah	77	142	9.9
Cairo - Overall	77	88	8.6
Cairo - City	77	88	8.5
Abu Dhabi	75	193	(30.4)
Jeddah	73	152	7.1
Muscat	73	168	(32)
Beirut	72	177	19.4
Doha	72	217	(15.2)
Al Ain	71	121	1.6
Madina	66	91	9.5
Amman	64	96	15.7
Manama	63	169	(9.1)
Riaydh	61	148	5.2
Kuwait	57	153	(10.2)

Source: Ernst & Young, Byblos 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

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

Baghdad Branch, Iraq
Karada - Salman Faeq Street
Facing Al Sheruk Building
P.O.Box: 3085 Al Elweyah - Iraq
Phone: (+ 964) 1 7177493
(+ 964) 1 7177294
E-mail: aabdelkader@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

ARMENIA

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

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

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

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

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

DEMOCRATIC REPUBLIC OF CONGO

Byblos Bank RDC
4, Avenue du Marche
C/Gombe, Kinshasa, Democratic Republic of Congo
Phone: (+ 243) 817 070701
(+ 243) 991 009001
E-mail: melamm@byblosbank.com.lb