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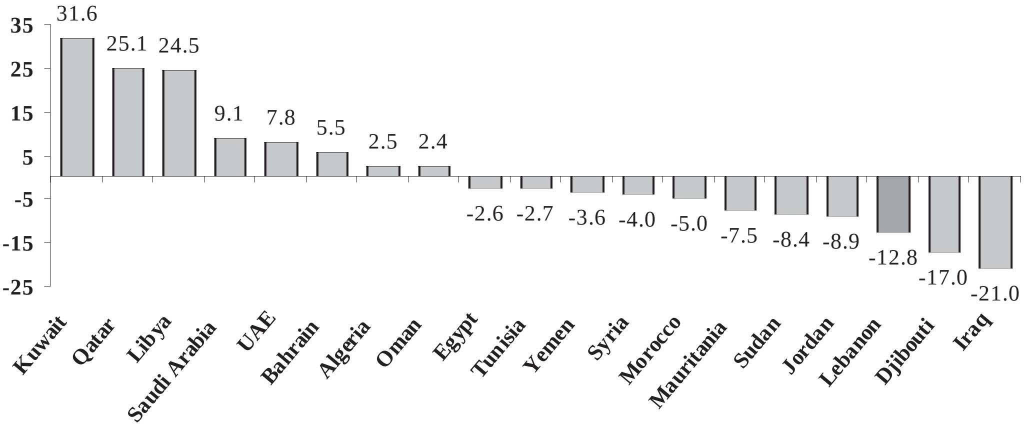
LEBANON THIS WEEK

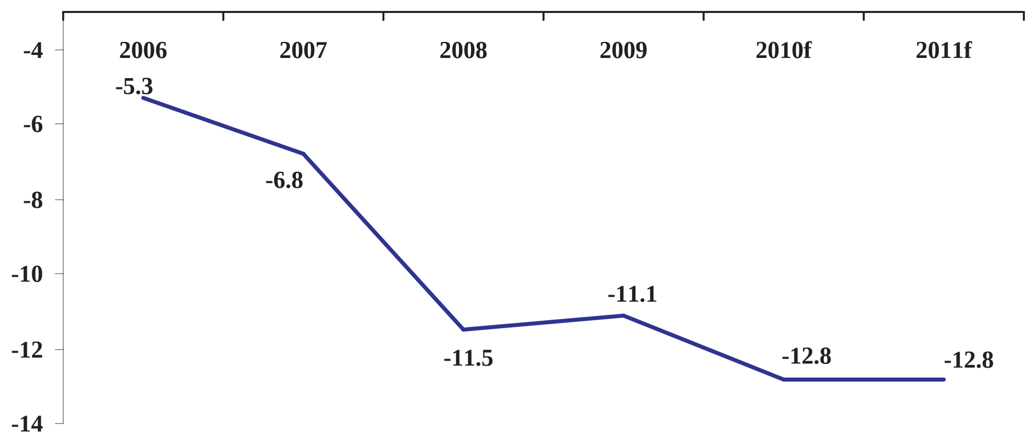
In This Issue

Charts of the Week

Projected Current Account Balance of Arab Countries in 2010 (% of GDP)



Current Account Balance in Lebanon (% of GDP)



Source: International Monetary Fund

Quote to Note

"Avoiding complacency and building consensus on reforms, combined with a continued stable political environment, could sustain a growth rate of about 5% beyond 2010."

The Institute of International Finance, on the requirements for sustainable growth rates in Lebanon

Number of the Week

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

Economic Indicators

$m (unless otherwise mentioned)	2008	May 09	2009	Mar 10	Apr 10	May 10	% Change*
Exports	3,478	292	3,486	374	328	371	27.06
Imports	16,133	1,242	16,241	1,934	1,377	1,369	10.23
Trade Balance	(12,655)	(950)	(12,755)	(,560)	(1,049)	(998)	5.05
Balance of Payments	3,462	521	7,899	264	424	(195)	(137.43)
Checks Cleared in LBP	9,350	928	11,122	1,187	1,058	1,068	15.09
Checks Cleared in FC	43,174	3,497	45,270	5,302	4,615	4,677	33.74
Total Checks Cleared	52,524	4,425	56,392	6,489	5,673	5,745	29.83
Budget Deficit/Surplus	(2,921)	(198)	(2,960)	(377)	(110)	(183)	(7.58)
Primary Balance	597	64	1,078	62	291	137	114.06
Airport Passengers	4,085,334	345,278	4,986,544	363,742	438,328	420,212	21.70

$bn (unless otherwise mentioned)	Dec 2008	May 09	Feb 10	Mar 10	Apr 10	May 10	% Change*
BdL FX Reserves	17.06	20.22	26.88	27.17	27.32	27.32	35.11
In months of Imports	*15.03*	*16.28*	*22.29*	*14.04*	*19.84*	*19.96*	*22.60*
Public Debt	47.02	47.73	51.98	51.46	51.49	51.07	7.00
Net Public Debt	41.49	42.77	44.20	44.40	44.34	44.24	3.44
Bank Assets	94.25	101.65	118.27	119.91	120.64	120.69	18.73
Bank Deposits (Private Sector)	77.78	84.35	97.07	98.14	99.13	99.21	17.62
Bank Loans to Private Sector	25.04	26.07	29.87	30.71	31.04	31.44	20.60
Money Supply M2	24.76	28.15	35.42	36.23	36.72	37.43	32.97
Money Supply M3	68.66	73.58	83.75	84.96	85.75	86.04	16.93
LBP Lending Rate (%)	9.95	9.79	8.83	8.69	8.48	8.47	(132b.p.)
LBP Deposit Rate (%)	7.22	7.06	6.42	6.11	6.00	5.93	(113b.p.)
USD Lending Rate (%)	7.47	7.28	7.26	7.01	7.10	7.10	(18b.p.)
USD Deposit Rate (%)	3.33	3.22	2.99	2.86	2.84	2.84	(38b.p.)
%* Change in CPI**	6.36	2.15	9.04	8.73	6.55	6.51	436b.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"	20.68	(4.26)	156,639	16.58%
Solidere "B"	20.49	(2.52)	52,176	10.68%
Byblos Common	1.79	0.00	71,980	5.16%
Byblos Priority	1.80	0.00	0	2.97%
Byblos Pref. 08	100.00	0.00	0	1.60%
BLOM GDR	90.00	(1.26)	16,871	5.33%
BLOM Listed	86.90	(0.11)	3,000	14.98%
Audi GDR	8.19	(2.15)	20,322	6.68%
Audi Listed	8.00	0.00	625,000	22.08%
HOLCIM	13.07	(3.90)	577	2.05%

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

Sovereign Eurobonds	Coupon %	Mid Price $	Mid Yield %
Nov. 2010	6.875	101.00	3.38
May 2011	7.875	104.38	2.41
Mar. 2012	7.500	106.50	3.41
Sep. 2012	7.750	108.50	3.53
June 2013	8.625	112.75	3.92
Apr. 2015	10.000	120.50	5.08
Jan. 2016	8.500	115.50	5.21
May 2016	11.625	128.75	5.72
Mar. 2017	9.000	117.88	5.73
Apr. 2021	8.250	113.50	6.48

Source: Byblos Capital Markets

	July 19-23,10	July 12-16,10	% Change	June 2010	June 2009	% Change
Total Shares Traded	960,096	1,059,989	(9.42)	5,167,659	8,778,166	(41.13)
Total Value Traded	$12,467,256	$11,977,516	4.09	$47,678,154	$174,823,842	(72.73)
Market Capitalization	$12.47bn	$12.68bn	(1.64)	$12.50bn	$11.31bn	10.51

Source: Beirut Stock Exchange (BSE)

Lebanon ranks 140th globally, 102nd among developing economies for its economic growth environment

Global investment bank Goldman Sachs ranked Lebanon in 140th place among 179 countries globally on its Growth Environment Scores index (GES) for 2009, up from 147th place in 2008 but down from 85th place in 1997. It also ranked Lebanon in 102nd place among developing countries, up from 109th place in the previous survey but down from 49th place in 1997. Lebanon also ranked in 18th place among 21 countries in the Middle East & North Africa region, up from 19th place in the previous year and down from 9th place in 1997. Additionally, Lebanon came in last place among 43 Upper Middle Income Countries (UMICs) included in the survey, unchanged from 2008, but down from 24th place in 1997.

The GES is a composite measure of economic growth conditions in 179 countries that summarizes the overall growth environment and that ranks countries according to their ability to achieve their growth potential. The GES consists of 13 indicators grouped in five broad categories of growth criteria that are equally weighted. The categories are Macroeconomic Stability that covers inflation, government deficit and external debt as a percentage of GDP; Macroeconomic Conditions such as investment rates and openness of the economy; Human Capital, including life expectancy and the level of education; Technological Capabilities such as penetration of personal computers, phones and the Internet; and Political Conditions as reflected by political stability, the rule of law and corruption.

Globally, Lebanon ranked ahead of Tanzania, Bangladesh and Gambia and came behind Swaziland, Zambia and Papua New Guinea. It also ranked behind Gabon, Venezuela and Cuba among UMICs. Lebanon received a score of 3.7 points, up from 3.5 points in the previous year but down from 3.9 points in 1997. Lebanon's score was lower than the global average score of 5.1 points, the UMICs' average of 5.3 points, developing economies' average of 4.6 points, the MENA average score of 5.1 points and the Arab average score of 5.04 points. The scores of 10 countries in the region improved year-on-year, 7 declined and 4 remained unchanged, while the ranks of 12 countries improved, 8 declined and one was unchanged. Singapore posted the highest score in the world and Bermuda had the best score across developing economies.

Growth Environment Scores 2009

Country	Score	MENA Rank	Global Rank
UAE	7.2	1	23
Qatar	7	2	29
Bahrain	6.9	3	32
Kuwait	6.4	4	43
Israel	5.9	5	52
Oman	5.9	6	51
Saudi Arabia	5.9	7	50
Algeria	5.4	8	63
Jordan	5.3	9	73
Tunisia	5.3	10	68
Morocco	5.2	11	77
Iran	4.9	12	93
Libya	4.9	13	97
Egypt	4.5	14	112
Syria	4.5	15	114
Djibouti	4.1	16	121
Mauritania	3.9	17	134
Lebanon	**3.7**	**18**	**140**
West Bank Gaza	3.6	19	147
Yemen	3.1	20	167
Sudan	2.9	21	170

Source: Goldman Sachs, Byblos Research

Lebanon and Syria sign 17 bilateral agreements

Lebanon and Syria signed 17 bilateral agreements in the fields of investment protection, taxation, shipping, tourism, pharmaceuticals, the environment, agriculture, health, public works, as well as consumer protection, justice, education and culture. The two sides also agreed to develop mechanisms to facilitate the flow of goods, with the aim of establishing a common market between the two countries. Syria is Lebanon's 18th largest import market and accounted for 1.6%, or $71.3m, of total Lebanese imports in the first quarter of this year, while it is the sixth largest export destination of Lebanese exports and accounted for 5.9%, or $60.5m, of total Lebanese expors during the same quarter.

Telecom ministry announces broadband expansion plan

The Telecommunication Ministry unveiled a plan to install fiber optics and advanced broadband across the country within the next 18 months. The ministry emphasized the government's commitment to expanding the broadband service, liberalizing the market, and expanding the integration of the Internet and other services throughout the country. The project is forecast to cost $60m, and will involve the installation of 710 kilometers of phone wires, in addition to 2,750 kilometers of fiber optics. A World Bank study suggests that a 10% increase in broadband capacity and availability can add 1.35% to GDP growth annually. The ministry added that 75% of Internet users in Lebanon will have access to 15MB high speed internet within the next 12 to 18 months.

Number of tourists up 26.6% in first half of 2010

The number of incoming tourists to Lebanon totaled 964,067 in the first half of 2010, constituting an increase of 26.6% from 761,415 tourists in the same period of 2009. Arab tourists accounted for 39.9% of total visitors and were followed by visitors from Europe with 24.4%, Asia with 18.9%, America with 12.1%, Oceania with 2.7%, and Africa with 1.9%. The number of tourists reached 231,212 in June 2010, constituting an increase of 20.6% from 191,691 in June 2009. Arabs accounted for 35.1% of total visitors in June 2010, followed by Europeans with 24%, Americans with 18.8%, Asians with 17%. 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.

Banking, trade, and telecoms sectors are drivers of economic growth in 1998-2008

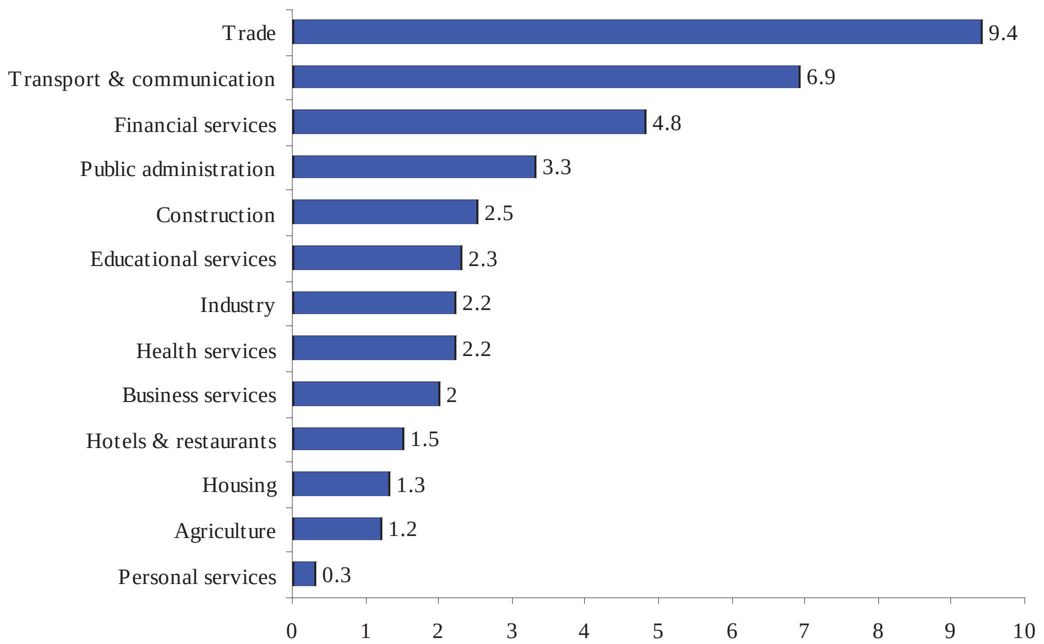
The International Monetary Fund indicated that the banking, retail & wholesale trade, and telecommunications sectors were the main drivers of economic growth in Lebanon during the 1997-2008 period. It noted that the private sector was the main engine of growth during the covered period. It added that retail & wholesale trade and construction drove growth in 2007-08, reflecting the expansion in consumption, tourism and real estate activity.

The IMF stated that real GDP grew by a cumulative 41% rate during the 1997-2008 period, with services contributing 30.6% of this growth, followed distantly by the public administration with 3.3%, construction with 2.5%, industry with 2.2%, and agriculture with 1.2%, while the energy & water sector had a negative contribution of -2.6% to GDP. More specifically, the contribution of services to growth shows that trade grew by 9.4% over the covered period, followed transport & communication with 6.9%, financial services with 4.8%, educational services with 2.3%, health services with 2.2%, business services with 2%, housing with 1.3%, hotels & restaurants with 1.5%, and personal services with 0.3%. It noted, however, that the drivers of growth changed somewhat during the 2007-08 period, as retail & wholesale trade contributed 4.5% of GDP in 2008 and continued to be the main source of growth, but construction became the second largest growth driver with a share of 1.9%, followed by transport & communication with 0.8%, financial services with 0.7%, and agriculture with 0.6%. It noted that growth during the two-year period was mainly related to the development of shopping areas, the boom in residential and commercial construction activity, and the rise in the number of visitors from abroad and tourism activity.

In parallel, The Fund added that consumption grew by a cumulative 33.7% during the 1997-2008 period, constituting the largest contributor to growth on the demand side, and was followed by investments with a growth of 11.8%, while net exports posted negative growth of -4.6% during the covered period. It said private consumption drove overall consumption trends with growth of 28.5% compared to just 5.1% for public consumption. It added that private investment grew by 14.8%, in contrast to a negative contribution of -3% in public investment. It noted that private consumption continued to be strong, along with a high level of private investment, in 2007-08; while net exports had a negative contribution to growth and public investment continued to have no contribution. It considered that the negative public investment was due to the significant lack of public sector investment in infrastructure over the 11-year period, while the negative net exports reflect the persistently strong external imbalance, slow export growth, and the high level of imports.

The IMF noted that only two sectors saw a significant rise of their share in total GDP, with the share of telecommunications increasing from 4.4% in 1997 to 8.2% in 2008 and that of the banking sector expanding from 5.6% in 1997 to 7.6% in 2008. It added that the share of other sectors either declined or stayed constant, including industry and agriculture. It considered that these trends reflect the structural transformation of the economy, particularly the development of a relatively large telecom sector and the rise of the banking sector. It noted that during the past two years most of the changes in relative shares concerned trade and construction, reflecting the strong growth of these two sectors.

Contribution to GDP Growth in 1998-2008 (%)



Source: National Accounts

Lebanon in the News

Water sector faces challenges of poor quality, low supply, limited infrastructure and tariffs structure

The World Bank considered that the main challenge facing the water sector in Lebanon is to gain the trust of consumers, as the sector suffers from inadequate supply and low quality service, despite having water resources equivalent to 1,110 cubic meters per capita, one the highest levels in the Middle East & North Africa region. It noted the need for major investments in infrastructure and management, while improving the performance of human resources, as consumers have little faith in the system and want to see concrete results on credible action.

It said water supply is constrained in every region by limited infrastructure capacity, population density and demand, and the sector experiences high commercial and technical losses. It noted that Beirut receives the lowest water supply per household in Lebanon. It identified quality concerns as the key issue in the formal and informal water sector, as quality constitutes a public health issue that leads to serious additional socioeconomic consequences. It added that a key problem in the water sector is a disconnect between supply and demand. Further, it said the absence of a metering system means households pay a fixed fee for a fixed amount of water supply, or allotment. It noted that there is an informal understanding between water companies and households, as many households don't receive their water allotment, while the water companies often don't pressure households to pay their bills. However, given that water supply is inadequate in terms of both quantity and quality, connected households tend to purchase from alternative sources.

First, it recommended investments to improve water quality. It said the burden on poor households in Lebanon comes from poor quality and low water supply, rather than high expenditures. It noted that water expenditures by low-income households are in in line with World Bank recommendations of 3% to 5% of household budget, but could be reduced if households relied less on alternative sources. It added, however, that reducing expenditures for consumers is not the top priority compared to other problems in water provision, as the costs for consumers from the poor quality of service, such as poor reliability and potential health risks, are more significant. It said that improving quality and reducing losses, if accompanied by a public awareness campaign, would have a direct positive impact on the welfare of citizens.

Second, it recommended expanding metering, as the current flat fee system is not serving providers or consumers well. It said water companies cannot charge the marginal cost of production, and consumers do not get what they pay for. It added that pilot programs show that metering can be introduced, but noted that the benefits of metering will be limited unless metering is either region-wide or metered households are able to pay by volume.

Third, it recommended increasing revenues. It said regional water authorities (RWAs) can increase revenues through improved bill collection and tariff increases. It added that, in either case, RWAs will need to revise the informal and formal contractual agreements with households, raising tariffs and installing meters to link supply with demand, while also investing in improvements in quality. Further, RWAs will need to strengthen collection enforcement mechanisms. It noted that the new contractual arrangement will have to spread the benefits and costs between consumers and water companies in a manner acceptable to both, in order for it to be successful.

Consumer Price Index up 3.5% annually in June 2010

The Central Administration of Statistics' Consumer Price Index indicates that inflation increased by 3.5% in June 2010 from June 2009. Prices of education increased by 9.6%, followed by prices of water, electricity, gas & other fuels (+7.6%), housing (+6.1%), restaurants & hotels (+4.7%) transportation (+3.4%), recreation & entertainment (+3.4%), alcoholic beverages & tobacco (+2.6%), food & non-alcoholic beverages (+1.9%), miscellaneous goods & services (+1.7%), clothing and footwear (+1.3%), and furniture & household equipment (+1.2%). Prices of health care regressed by 3.4%, followed by communication with -0.3%. 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 0.8% in June 2010 from May 2010. Prices of restaurants & hotels increased by 0.7%, followed by alcoholic beverages & tobacco (+0.2%), miscellaneous goods & services (+0.2%), and furniture & household equipment (0.1%). Prices of transportation regressed by 2.8% month-on-month as well as water, electricity, gas & other fuels (-2.3%), health care (-1.5%), clothing and footwear (-0.7%), food & non-alcoholic beverages (-0.4%), and recreation & entertainment (-0.1%). Housing prices remained unchanged month-to-month, along with those of communication and education.

Cleared checks up 37.2% to $28.3bn in first five months of 2010

The value of cleared checks increased by 37.2% to $28.3bn in the first five months of 2010 compared to the same period of 2009. The value of cleared checks in Lebanese pounds rose by 22.7% to the equivalent of $5.4bn, while the value of cleared checks in US dollars rose by 41% to $23bn. The dollarization rate of cleared checks increased from 78.8% to 81.1% year-on-year.

Net public debt at $44.2bn at end-May 2010

Lebanon's gross public debt reached $51.1bn at the end of May 2010, constituting a marginal decrease of 0.05% from end-2009, and an increase of 7% from end-May 2009. Domestic debt increased by 14.4% to $30.1bn, while external debt decreased by 2.2% annually to $21bn. Local currency debt accounted for 59% of gross public debt at end-May 2010 compared to 55.1% a year earlier, while foreign currency-denominated debt represented 41% of the total at the end of May relative to 44.9% a year earlier. The weighted interest rate on outstanding Treasury bills was 8.28%, while the weighted interest rate on Eurobonds was 7.31% at the end of May. Further, the weighted life on Eurobonds was 4.97 years, while that on Treasury bills was 561 days.

Commercial banks accounted for 60.1% of the local public debt at the end of May 2010 compared to 57.8% a year earlier. It was followed by the Central Bank with 23.1%, down from 26.4% at end-May 2009; while public agencies, financial institutions and the general public accounted for 16.8% of local debt relative to 15.8% a year earlier. Eurobond holders, foreign private sector loans and special T-bills in foreign currencies accounted for 87.1% of the external debt, followed by multilateral institutions with 7%, foreign governments with 4.4%, and Paris II loans with 1.5%. 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 3.4% to $44.2bn. 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.

Construction permits up 59% in first five months of 2010

Figures released by the Association of Engineers of Beirut & Tripoli show that construction permits reached 6.8 million square meters in the first five months of 2010, up 59% from 4.3 million square meters in the same period last year. Construction permits totaled 1.7 million square meters in May 2010, up 65% year-on-year from one million square meters in May 2009. In parallel, cement deliveries reached 2.1 million tons in the first five months of 2010, an increase of 10% from 1.9 million tons in the same period last year. Cement deliveries reached 481,000 tons in May 2010, down 4.4% from 503,000 tons in May 2009.

Corporate Highlights

Solidere announces dividiends of $1.15 per share for 2009

Solidere, the Lebanese Company for the Development and Reconstruction of the Beirut Central District and Lebanon's largest firm in terms of market capitalization, announced the distribution of pre-tax dividends of $1.15 per share for 2009 for Class A and Class B shares. The dividends were approved at the firm's Ordinary General Assembly held on July 19th. The dividends toaled $175.6m, constituting a payout ratio of 96.4% of 2009 earnings and 92.8% of aggregate earnings when including the profits of Solidere International. Solidere posted net profits of $182.2m in 2009, down 0.8% from $183.6m in 2008. When including the profits of its Dubai-based affiliate Solidere International (SI), Solidere's consolidated net income becomes $189.2m, up 3.6% from $182.7m in 2008. Solidere owns 38.2% of SI, which is developing several projects in Saudi Arabia, the UAE and Egypt. Net consolidated revenues from land and real estate sales rose by 17.7% to $241.6m in 2009 while net revenues from rental properties increased by 25.3% to $27.2m, resulting in total net operating revenues of $234m for the year, up 14.7% year-on-year. Gross consolidated revenues from land and real estate sales totaled $305.1m while those from real estate rentals totaled $27.3m.

Banque BEMO announces dividends for 2009

Banque BEMO sal announced that its Ordinary General Assembly held on May 31, 2010 approved the distribution of $3.93m in dividends for 2009, including $1.6m for holders preferred shares and $2.33m for holders of common shares, for a total dividend payout ratio of 49%. The dividends are equivalent to LBP 225, or $0.15 per commons share. The assembly also elected a new board of directors. Banque BEMO posted net profits of $8m in 2009, constituting an increase of 9% from the previous year. Total assets reached $1.2bn, up 31% from end-2008 and customer loans & advances rose by 9.3% to $0.4bn. Customer deposits grew by 31.7% year-on-year to $0.93bn at end-2009.

Occupancy at Beirut hotels at 72%, room yields up 21.6% in first half 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 half of 2010, increasing from 69% in the same period last year. The occupancy rate at Beirut hotels was the 11th highest among 19 markets in the region, while it was 12th highest in the first half of 2009. The survey said the average rate per room at Beirut hotels was $246 in the first half of 2010, ranking the capital's hotels as the fifth most expensive in the region behind Dubai-Beach, Doha, Manama, and Kuwait City.

The average rate per room at Beirut hotels increased by 15.9% 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 $193, which declined by 4.7% from $202 in the same period of 2009. Occupancy rates at Beirut hotels were 64% in January, 76% in February, 68% in March, 79% in April, 71% in May, and 77% in June 2010, compared to 85% in January, 76% in February, 74% in March, 81% in April, 68% in May, and 69% in June 2009. Beirut hotels had an occupancy rate of 73% for all of 2009.

Hotel Performance in first half of 2010

	Occupancy Rate (%)	RevPAR (US$)	RevPAR % change
Sharm El Sheikh	85	51	22.7
Hurghada	84	36	16.2
Dubai - Beach	82	263	(3.9)
Dubai - Overall	78	176	(7.7)
Dubai-City	76	146	(9.4)
Makkah	76	138	10.7
Cairo - Overall	75	85	6.9
Cairo - City	75	85	6.5
Abu Dhabi	74	183	(31.8)
Jeddah	73	153	6.7
Beirut	**72**	**179**	**21.6**
Muscat	72	163	(12.0)
Al Ain	70	117	1.3
Doha	69	205	(15.7)
Madina	66	88	9.0
Amman	64	95	12.5
Manama	62	165	(9.1)
Riaydh	60	145	3.9
Kuwait	57	151	(7.6)

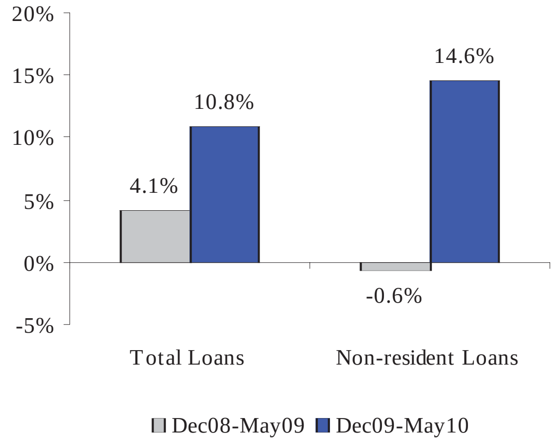
Source: Ernst & Young, Byblos Research

Further, revenues per available room (RevPAR) were $179 in Beirut in the first half of 2010, up from $147 in the same period last year, ranking it in fourth place in the region after Dubai-Beach, Doha, and Abu Dhabi. Beirut's RevPAR was up 21.6% year-on-year, posting the second highest rise in the Middle East, after Sharm el Shaikh with 22.7%, and compared to an increase of 1.1% across the region. Beirut posted RevPARs of $160 in January, $209 in February, $155 in March, $208 in April, $158 in May, and $188 in June 2010. Dubai-Beach posted the highest average room rate in the region at $317 and the highest RevPAR at $263, while Sharm El Shaikh posted the highest occupancy rate at 85% in the first half of the year.

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

The consolidated balance sheet of commercial banks operating in Lebanon shows that total assets reached $120.7bn at the end of May 2010, up 4.7% from end-2009 and up 18.7% from end-May 2009. Private sector deposits totaled $99.2bn, up 3.6% from end-2009 and up 17.6% from end-May 2009. Deposits in Lebanese pounds reached $37bn, up 8.7% from end-2009 and up 34.5% year-on-year, while deposits in foreign currencies reached $62.2bn, up 0.8% from the end of last year and up 9.5% from end-May 2009. Non-resident foreign currency deposits reached $14bn at end-May 2010, decreasing by 1.2% from end-2009 and increasing by 18.4% year-on-year. In parallel, deposits of non-resident banks reached $5.4bn, up 16.7% from end-2009 and up 26.5% from end-May 2009. The dollarization rate of deposits reached 62.7% at end-May 2010, down from 64.5% at end-2009 and from 67.4% a year earlier. Further, the average deposit rate in Lebanese pounds reached 5.93% compared to 7.06% a year earlier, while the same rate in US dollars was 2.84%, down from 3.22% in May 2009.

Growth in Private Sector Loans (%)



Source: Association of Banks in Lebanon

Loans to the private sector amounted to $31.4bn, up 10.8% from end-2009 and up 20.6% year-on-year. The dollarization rate in private sector lending reached 82.5% compared to 84% at end-2009 and 85.8% a year earlier. The average lending rate in Lebanese pounds was 8.47% in May 2010 compared to 9.79% a year earlier, while the same average in US dollars was 7.1% compared to 7.28% in May 2009. Claims on the public sector stood at $29bn, up 13.6% year-on-year and down 0.3% from end-2009, and accounted for 48% of the banking sector's total loans. The ratio of private sector loans to deposits in foreign currencies stood at 41.7%, well below the Central Bank's limit of 70%, and above the ratio of 39.3% a year earlier. In parallel, the same ratio in Lebanese pounds was 14.9%, up from 13.5% a year earlier. The ratio of total private sector loans to deposits stood at 31.7%, compared to 30.9% a year earlier. The banks' aggregate capital base stood at $8.56bn, up 7.7% from end-2009 and up 16.6% from $7.34bn in May 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	**Apr 2009**	**Mar 2010**	**Apr 2010**	**Change***	**Risk Level**
Political Risk Rating	57.5	58.5	58.5	↑	High
Financial Risk Rating	28.0	28.0	28.0	↔	High
Economic Risk Rating	30.0	35.5	35.5	↑	Low
Composite Risk Rating	57.7	61.0	61.0	↑	Moderate

Regional Average	**Apr 2009**	**Mar 2010**	**Apr 2010**	**Change***	**Risk Level**
Political Risk Rating	65.4	64.9	64.8	↓	Moderate
Financial Risk Rating	41.4	42.2	42.0	↑	Very Low
Economic Risk Rating	37.0	36.8	37.1	↑	Low
Composite Risk Rating	71.9	71.9	71.9	↔	Low

**year-on-year*
Source: The PRS Group, Byblos Research
Note: Political & Composite Risk Ratings range from 0 to 100 (where 100 indicates the lowest risk)
Financial & Economic Risk ratings range from 0 to 50 (where 50 indicates the lowest risk)

Ratings & Outlook

Sovereign Ratings	**Foreign Currency**			**Local Currency**		
	LT	**ST**	**Outlook**	**LT**	**ST**	**Outlook**
Moody's	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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