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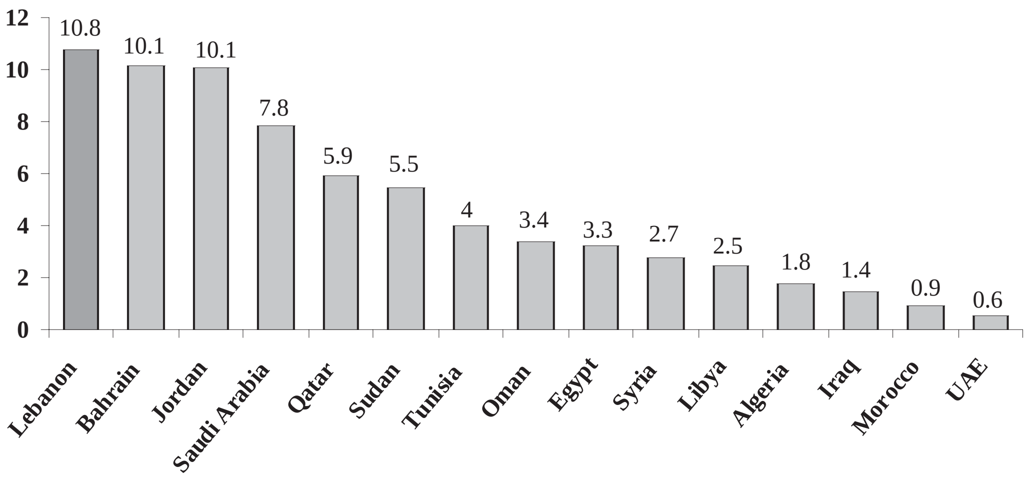
LEBANON THIS WEEK

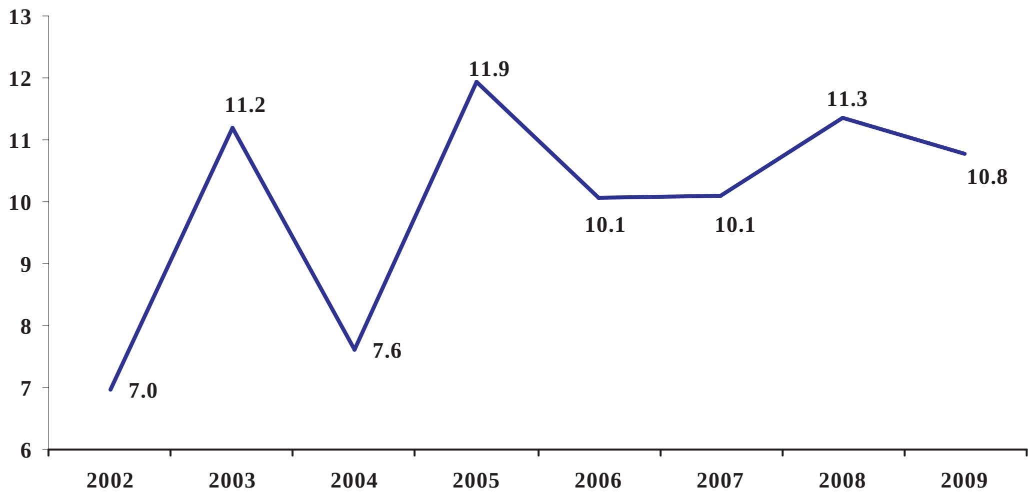
In This Issue

Charts of the Week

Net Foreign Direct Investment in Arab Countries in 2009 (% of GDP)



Net Foreign Direct Investment in Lebanon (% of GDP)



Source: UNCTAD, Byblos Research

Quote to Note

"Despite the recent tensions on the border and fragile domestic political situation, Lebanon's economy continues with its stellar performance."

The Royal Bank of Scotland, on the absence of an immediate material impact on economic activity from the rising tensions

Number of the Week

$27.4bn: Gross foreign currency reserves at the Central Bank of Lebanon at the end of June 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"	20.17	(2.18)	139,016	16.19%
Solidere "B"	20.14	(1.32)	45,500	10.51%
Byblos Common	1.80	(2.17)	77,668	5.19%
Byblos Priority	1.81	0.56	13,099	2.99%
Byblos Pref. 08	100.00	0.00	1,500	1.61%
BLOM GDR	92.50	0.11	5,350	5.49%
BLOM Listed	86.70	0.00	0.00	14.96%
Audi GDR	8.70	(0.91)	42,887	7.10%
Audi Listed	8.00	0.00	291,802	22.10%
HOLCIM	12.59	4.83	10,174	1.97%

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

Sovereign Eurobonds	Coupon %	Mid Price $	Mid Yield %
Nov. 2010	6.875	101.00	2.76
May 2011	7.875	104.13	2.55
Mar. 2012	7.500	106.63	3.22
Sep. 2012	7.750	108.75	3.33
June 2013	8.625	112.75	3.86
Apr. 2015	10.000	120.50	5.04
Jan. 2016	8.500	115.50	3.69
May 2016	11.625	129.50	5.55
Mar. 2017	9.000	118.13	5.67
Apr. 2021	8.250	113.37	6.49

Source: Byblos Capital Markets

	August 9-14,10	August 2-6,10	% Change	July 2010	July 2009	% Change
Total Shares Traded	788,426	1,341,888	(41.25)	9,412,692	6,492,987	44.97
Total Value Traded	$10,599,512	$13,306,517	(20.34)	$117,692,424	$153,033,909	(23.09)
Market Capitalization	$12.46bn	$12.53bn	(0.55)	$12.51bn	$11.56bn	8.22

Source: Beirut Stock Exchange (BSE)

Lebanon in the News

Rising political tensions to affect Diaspora confidence and economic outlook

Regional investment bank EFG Hermes maintained its economic growth forecast for Lebanon at 6.5% for 2010 and 5% in 2011, down from estimates of 9% in 2009. It said renewed tensions between Israel and Lebanon in early August are increasing risks about the country's economic outlook, which were already exacerbated by rising domestic political tensions in July related to the UN tribunal investigating the assassination of former Prime Minister Rafiq Hariri. It noted that market concerns were immediately reflected in lower trading volumes and prices on the Beirut stock exchange. It indicated that the tensions are having a limited impact on the economy at this stage, but added that they present considerable downside risks to the country's economic outlook. It noted that the economy enjoyed rapid economic growth since mid-2008, with real GDP growth accelerating to 9% over the past few years, as rapid capital inflows and high confidence fuelled a boom in real estate investment and tourism activity. It added that economic indicators, such as tourist arrivals and credit growth, point to continuing strong economic performance so far this year.

EFG Hermes warned, however, that the escalation of current tensions is likely to negatively affect the confidence of the Lebanese Diaspora, which has supported economic growth through increased remittances and demand for real estate. It added that the escalation will present significant downside risks to the tourism sector, which has been a major source of growth since mid-2008. It stressed that political stability remains the cornerstone of the country's economic development, as successive periods of political instability since 2005 resulted in a sharp deterioration in economic activity when the Arab economies were booming, while activity only started to pick up in mid-2008 after a truce was signed between Lebanon's political factions and the election of a new president. EFG Hermes projected the inflation rate to average 3.5% in 2010 and 4% in 2011. It forecast the annual growth of broad money at 9.7% in 2010 relative to 19.5% last year, while it projected private-sector lending to grow by 12% this year relative to 15% last year. Further, it projected the fiscal deficit to widen from 8.9% of GDP in 2009 to 10.2% of GDP in 2010 and 9.8% of GDP in 2011. It also forecast the external debt to decline from 64% of GDP at end-2009 to 58% of GDP by end-2010 and to 53.2% of GDP by end-2011, and for the domestic debt to regress from 89% of GDP in 2009 to 87% of GDP at the end of this year and to 85.4% of GDP by the end of 2011.

Lebanon suspends wheat exports

The Ministry of Agriculture and the Ministry of Economy & Trade jointly announced the suspension of wheat exports starting on August 13 until further notice. The Ministry of Agriculture attributed the decision to precautionary measures aimed at protecting the domestic wheat market in light of developments in the international wheat markets. It added that the export ban will ensure the provision of this essential commodity for all citizens and avoid the negative effects of price fluctuations in foreign markets. Lebanon imports 450,000 tons of wheat and exports 50,000 tons of wheat annually. The drought and unusual heat in Russia forced authorities to halt wheat exports following reports that 20% of this year's harvest has been destroyed, sending global prices to a two-year high last week, as Russia is the world's third largest wheat producer after the United States and Austalia. Russia's export restrictions will apply from August 15 until the end of 2010. Russia's announcement pushed world wheat prices up by 60% from $4.25 a bushel to $7.85 per bushel, the highest figure since September 2008. The drought is also affecting Ukraine and Kazakhstan and raised fears of a global food crisis like in 2007-08 when wheat prices surged to a record $13 a bushel. The recent hike in wheat prices on international markets has seen prices rise by 43% year-on-year, but wheat prices are trading at 22% on average below the last price peak of 2008. The rise in wheat prices and potential shortages in Lebanon could affect the price of bread and raise inflationary pressures in the country.

In parallel, the United States Department of Agriculture (USDA) considered that the global wheat balance is comfortably positive, adding that further sharp price increases are not supported by market fundamentals. In light of the global developments, the USDA reduced its world wheat production forecast by 2.3% to 645.73 million tons, adding that stocks still would be 40%, or 49.9 million ton, higher than in 2007-08. Also, the USDA cut Russia's crop to 45 million tons, down 15% from its previous estimate, and reduced Ukraine's crop by 15% to 17 million tons and Kazakhstan's crop by 18% to 11.5 million tons. It further reduced Russian wheat exports by 80% to a just 3 million tons, following Moscow's ban on such exports.

Transfers to the Council for the South and the Central Fund for the Displaced at $330m in past 5 years

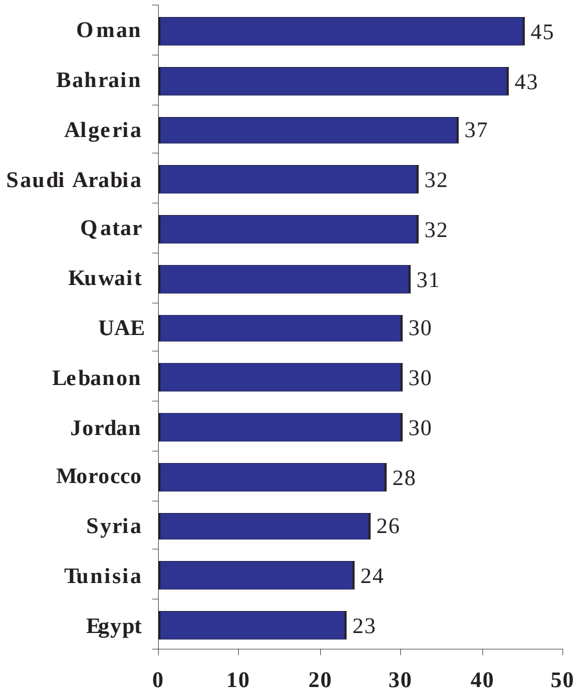
Figures issued by the Ministry of Finance indicate that funds transferred to the Council for the South (CoS) totaled LBP 222bn, or $147m, while those allocated the Central Fund for the Displaced (CFD) reached LBP 275bn, or $182.4m, during the 2005-09 period. The ministry said the CoS and the CFD are funded from budget allocations or Treasury advances covered by Law 362/2001, which allocated at the time the equivalent of $200m to the CoS and $300m the CFD to carry out their mandate. The CoS's mandate is to implement a wide range of projects in Southern Lebanon to meet the social, economic and safety needs of the residents. Transfers to the CoS averaged LBP 40bn annually and peaked at LBP 66bn in 2005. It received LBP 20bn in the first 5 months of 2010, up 100% from the same period last year. In parallel, the CFD's mandate is to provide financial and non-financial assistance to improve the socioeconomic conditions of the displaced and rehabilitate their houses that were damaged during the war. Transfers to the CFD averaged LBP 55bn annually and peaked at LBP 76bn in 2007. It received LBP 30bn in the first 5 months of 2010, down 33% from the same period last year. The CoS was established in 1970 and the CFD was founded in 1993 under the direct auspices of the Council of Ministers.

Lebanese businesses have tentative recruitment plans, banking sector attracts top talent

A survey conducted by regional job portal Bayt.com indicates that employers in Lebanon are likely to recruit staff in the coming three months as well as in the coming 12 months. The survey was conducted in June and July and interviewed about 2,763 persons, including 2,599 working professionals, residing in the MENA region and in Pakistan.

Results of the survey show that 22% of respondents in Lebanon plan to definitely hire in the next three months compared to 28% of respondents in the entire region. Lebanon ranked in 9th place among the 14 economies covered, tying with Tunisia, and coming ahead of only Egypt, Syria and Jordan. Further, 39% of respondents in Lebanon said they are likely to recruit in the next three months compared to 26% for the region. Lebanon ranked first in the region in this category, followed by Kuwait and Syria wehre 33% of respondents in each country plan to recruit over the covered period. However, 28% of respondents in Lebanon do not plan to recruit new employees in the coming three months, compared to 32% for the region. It ranked in 9th place in this category, with only Bahrain, Oman, Qatar, the UAE and Syria having a lower share of respondents who do not plan to recruit.

% of respondents who plan to recruit in the next 12 months



Source: Bayt.com, Byblos Research

In parallel, 30% of respondents in Lebanon plan to definitely hire in the next 12 months compared to 31% of respondents in the entire region. Lebanon ranked in 8th place among the 14 economies covered, tying with Jordan and the UAE and coming ahead of only Egypt, Morocco, Syria and Tunisia. Further, 41% of respondents in Lebanon said they are likely to recruit in the next 12 months compared to 36% for the region. Lebanon ranked second in the region in this category behind Kuwait where 43% of respondents intendd to recruit over the covered period. However, 22% of respondents in Lebanon do not plan to recruit new employees in the coming 12 months, compared to 26% for the region. It tied with the UAE in 8th place in this category, with only Kuwait, Oman, Qatar and Syria having a lower share of respondents who do not plan to recruit.

In parallel, results of the survey show that employers in Lebanon view business management as the most important educational and academic qualification when looking for suitable candidates, followed by administrative qualifications, engineering, computer science, as well as information & communication technology and commerce. In comparison, employers in the region view business management as the most important academic qualification when looking for suitable candidates, followed by commerce, engineering, administrative skills, and computer science qualifications. Further, employers in Lebanon look mostly for candidates with the ability to manage a team, followed by administrative experience, sales and marketing experience, mid-level experience of 3 to 7 years, and experience in computers. In comparison, employers in the region look mostly for candidates with the ability to manage a team, followed by people with computer expertise, sales and marketing experience, experience in administration, as well as mid-level experience of 3 to 7 years.

Further, employers in Lebanon considered that the most important requirement for a job candidate is being honest and trustworthy, followed by being a team player, having good communication skills in English and Arabic, and being able to work under pressure. In comparison, employers in the region view good communication in English and Arabic as the most important skill for a job candidate, followed by team play and flexibility, good leadership skills, honesty and trustworthiness, and the candidate's overall personality and demeanor.

The survey added that respondents in Lebanon think that the banking and finance sector is attracting the top talent in the country, followed by tourism & hospitality, advertising, construction, and information technology. In comparison, employers in the region think that banking and finance attract the most talent, followed by telecommunications, construction, information technology, and tourism & hospitality.

Lebanon in the News

Rise in tensions did not impact local markets

Central Bank Governor Riyad Salameh indicated that the monetary and financial markets in Lebanon were not affected by the tensions related to the Special International Tribunal for Lebanon or by the security deterioration in the South, as there was no extra demand for foreign currencies and the prices of Credit Default Swaps remained at 3% in the London market, while the balance of payments posted a surplus of about $1.4bn in the first half of the year, within expectations, and lending increased by 10% on an annual basis. He added that interest rates reached equilibrium at a level acceptable for the markets. He considered that the key to preserve these gains is to maintain monetary stability, which the Central Bank intends to continue; and for the government to implement structural reforms to reduce the fiscal deficit. In parallel, Governor Salameh noted that the international efforts towards a new agreement for capital adequacy ratios, or Basel III, are focusing on liquidity ratios and on the structure and quality of capital. He noted that Lebanese banks have a high level of liquidity and that the structure and quality of their capital is generally in line with the outlook of the Basel Committee. But he emphasized the need to evaluate each bank on an individual basis. Further, he noted that the stress test to be conducted by the Banking Control Commission aims at giving a clear picture about the state of each bank in case of a decline in liquidity in Lebanese pounds from a renewal of conversions to foreign currencies, as well as about a sudden change in the structure of interest rates or in the value of the sovereign portfolio, and about the need to allocate provisions for private sector loans in case of a slowdown in economic activity. He added that the ABL and the Central Bank requested from Parliament to place a ceiling on the fiscal deficit and for the government to abide by this ceiling, as well as for the Ministry of Finance to maintain a margin of flexibility due to the amount of public debt due in 2010 and 2011 in order to avoid a collapse in case of failure to renew any of the due bonds.

Fiscal deficit down 41% to $917m in first half of 2010

Figures released by the Finance Ministry show that the fiscal deficit reached $917m in the first half of 2010, down 41.2% from $1.6bn in the same period last year. The deficit was equivalent to 17.4% of total budget and Treasury expenditures compared to 26.8% in the first half of 2009. Overall government expenditures reached $5.26bn, down 9.6% year-on-year, while total revenues increased by 2% to $4.34bn in the covered period. Budgetary expenditures increased by 4.3% to $4.3bn and included $343m in outlays from previous years, while budget revenues rose by 2.2% to $4.1bn. Tax revenues improved by 16.2% year-on-year to $3.54bn, of which 29%, or $1bn, were in VAT receipts that posted a 13% annual rise. Tax revenues accounted for 86% of budgetary revenues and for 81.4% of total Treasury and budget receipts.

The distribution of other tax revenues shows that income & capital gains tax receipts grew by 12% to $921.8m, customs revenues rose 7.6% year-on-year to $912.5m, revenues from property taxes improved by 69.4% to $376m, and other tax receipts, mainly stamp fees, increased by 34.2% to $170m. Further, the distribution of income tax revenues shows that taxes on profits accounted for 54% of total income tax receipts, followed by the tax on interest deposits with 22.3%, taxes on wages & salaries with 14%, and capital gains tax with 9%. Receipts from taxes on profits increased by 10.7% year-on-year, income from capital gains tax grew by 24.3%, revenues from the tax on interest rose by 19.5%, and tax receipts on wages & salaries improved by 0.9%. Also, the distribution of property taxes shows that real estate registration fess rose by 86% to $282.3m, revenues from built property taxes increased by 44% to $67m and revenues from inheritance tax grew by 11.3% to $25.5m. In parallel, non-tax budgetary revenues contracted by 41% to $584.2m, with revenues from government properties dropping by 52.1% to $377.4m and administrative fees & charges increasing by 4.2% to $170.4m. Receipts from telecommunications services, which account for 58% of income from government properties and for 38% of non-tax revenues, dropped by 65% to $220m in the first half of the year.

Debt servicing increased by 3.4% year-on-year to $1.91bn, accounting for 36.3% of total expenditures and for 44.7% of budgetary spending. It absorbed 44% of overall revenues and 46.4% of budgetary receipts. Repayment of principal on foreign debt rose by 0.8% to $99m. Excluding debt servicing, the primary surplus reached $1.85bn, or 43.3% of budget expenditures compared to a surplus of $1.87bn, or 47% of budget spending a year earlier. The overall primary surplus reached $1.1bn, or 20.8% of total spending compared to a surplus of $389m, or 6.7% of total expenditures a year earlier.

Treasury transfers to Electricité du Liban down 44% year-on-year

Figures released by the Finance Ministry show that Treasury transfers to Electricité du Liban totaled $563.2m in the first half of 2010, constituting a decrease of 44% from $1bn in the same period last year. It said that reimbursements to the Kuwait Petroleum Corporation (KPC) and to Algerian energy conglomerate Sonatrach accounted for $535.5m, or 95% of transfers year-to-June, while EdL's debt servicing represented the remaining 5%. It attributed the decline to a drop of $426.5m, or 44.3%, in payments to KPC and Sonatrach during the covered period, and to a decrease in debt servicing by $12.6m or 32% year-on-year. It added that the size of reimbursement of KPC and Sonatrach implies that any fluctuations in international oil prices are bound to have an impact on Treasury transfers to EdL. It attributed the decline in payments to KPC and Sonatrach to a significant drop in the average oil price according to which the 2010 payments were made. It noted that the decline also reflects a 33% decline in the quantity of imported gas oil during the covered period. It attributed the drop to the import from Egypt of commercial quantities of natural gas, a substitute for KPC and Sonatrach's gasoil, to the Deir Ammar-Beddawi power plant in November 2009. It noted that EdL has yet to pay for the natural gas. It added that EdL contributed just 11% of repayments to the two oil suppliers in the first half of the year. EdL transfers constitute the third largest expenditures item after debt servicing and salaries & wages in overall fiscal spending. Transfers to EdL were equivalent to 4.3% of GDP in 2009 and to 5.4% of GDP in 2008.

Lebanon in the News

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 4.67% from 4.76% previously starting in September. 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 7.43% from 7.54% 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 7.10% and 8.47% respectively.

Net public debt at $44.1bn at end-June 2010

Lebanon's gross public debt reached $51bn at the end of June 2010, constituting a marginal decrease of 0.18% from end-2009, and an increase of 7.8% from end-June 2009. Domestic debt increased by 16.1% to $30.2bn, while external debt decreased by 2.4% annually to $20.8bn. Local currency debt accounted for 59.1% of gross public debt at end-June 2010 compared to 54.9% a year earlier, while foreign currency-denominated debt represented 40.9% of the total at the end of June relative to 45.1% a year earlier. The weighted interest rate on outstanding Treasury bills was 8.24%, while the weighted interest rate on Eurobonds was 7.34% at the end of June. Further, the weighted life on Eurobonds was 4.92 years, while that on Treasury bills was 552 days.

Commercial banks accounted for 60.3% of the local public debt at the end of June 2010 compared to 56.8% a year earlier. It was followed by the Central Bank with 23.3%, down from 26.9% at end-June 2009; while public agencies, financial institutions and the general public accounted for 16.4% of local debt relative to 16.3% a year earlier. Eurobond holders, foreign private sector loans and special T-bills in foreign currencies accounted for 87% of the external debt, followed by multilateral institutions with 7%, foreign governments with 4.5%, 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 2.7% to $44.1bn. 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.

Airport passengers up 15% in first 7 months of 2010

Figures released by the Hariri International Airport (HIA) show that the number of airport passengers (arrivals, departures, transit) totaled 3,112,944 in the first 7 months of 2010, up 14.9% year-on-year. The UAE accounted for 585,374 passengers, or 18.8% of total passenger activity. It was followed by Saudi Arabia with 327,939 passengers, or 10.5% of the total, France with 256,934 travelers (8.3%) and Kuwait with 210,718 travelers (6.8%). The total number of flights reached 37,040 in the first 7 months of 2010, up 19% year-on-year. Middle East Airlines registered 10,598 flights, accounting for 28.6% of the total. It was distantly followed by Royal Jordanian Airlines with 1,704 flights or 4.6% of the total, Etihad Airways with 1,088 flights, National Air Services (NAS) with 1,052 flights, Emirates Airlines with 1018 flights and Jazeera Airways with 857 flights. The UAE was the biggest source and destination of traffic to Lebanon, as aircraft movement to and from the UAE totaled 5,567 flights, accounting for 15% of the total. Also, the HIA processed 44,681 metric tons of cargo in the first seven months of 2010, of which 44,053 tons of freight and 629 tons of mail. MEA processed 12,144 tons of freight, of which 11,955 tons in regular freight and 189 tons in mail.

Number of tourists up 22% in first 7 months of 2010

The number of incoming tourists to Lebanon totaled 1,326,001 in the first 7 months of 2010, constituting an increase of 22.1% from 1,085,778 tourists in the same period of 2009. Arab tourists accounted for 42.3% of total visitors and were followed by visitors from Europe with 24.3%, Asia with 17.1%, America with 11.9%, Oceania with 2.7%, and Africa with 1.7%. The number of tourists reached 361,934 in July 2010, constituting an increase of 11.6% from 324,363 in July 2009. Arabs accounted for 48.5% of total visitors in July 2010, followed by Europeans with 23.8%, Asians with 12.3%, and Americans with 11.3%. 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.

Most tourists spending in Lebanon originates from Saudi Arabia and UAE in first 7 months of 2010

Figures issued by Global Blue, the VAT refund operator for international shoppers, show that visitors from Saudi Arabia spent the most in Lebanon in the first seven of 2010, accounting for 23% of total tourist spending, followed by visitors from the UAE (11%), Kuwait (10%), Egypt (8%) and Syria (8%). Spending by visitors from Syria rose by 50% in the first 7 months of the year, followed by visitors from Saudi Arabia with a 49% increase, Egypt (+47%), France (+34%), Jordan (+24%), the UAE (+16%), Kuwait (+10%) and Qatar (+8%). Beirut attracted 82% of total spending over the covered period, followed by the Metn area with 13%, the Keserwan region with 2% and Baabda with 1%. Fashion & clothing accounted for 67% of total spending, followed by watches with 11%, home & garden products, perfumes & cosmetics and department stores with 4% each, souvenirs & gifts with 3%, and consumer electronics & household appliances and electronics & IT with 2% each. Spending on electronics & IT increased by 56% in the first 7 months of the year, followed by spending on watches with a 39% rise, fashion & clothing (+31%), perfume & cosmetics (+26%), department stores (+24%), consumer electronics & household appliances (+22%), souvenirs & gifts (+13%) and home & garden products (+12%).

Corporate Highlights

Kafalat loan guarantees reach $101m in first 7 months of 2010

Figures released by the Kafalat Corporation show that loans extended to small- and medium-size companies under the guarantee of Kafalat reached $100.9m in the first 7 months of 2010, up 29.8% from $77.7m in the same period last year. The number of loan guarantees totaled 852 year-to-July compared to 588 in the same period last year. The average loan size reached $118,413 compared to $132,302 in the first 7 months of 2009. Mount Lebanon accounted for 42% of guarantees, followed by the Bekaa with 20.1%, the South & Nabatieh with 21%, the North with 12.3%, and Beirut with 4.6%. The agriculture sector accounted for 46.4% of total guarantees, followed by industry with 37.8%, tourism with 12.6%, handicraft with 1.8% and specialized technologies with 1.5%. Kafalat is a state-sponsored organization that provides financial guarantees for loans up to $400,000 earmarked for the set up and expansion of small and medium-size companies in productive sectors. It guarantees up to 75% of the loan amount and a similar percentage of the interest that accrues during the grace period.

Launch of local chapter of global network of Lebanese finance executives

The Lebanese International Finance Executive (LIFE), a networking organization based in London, officially launched its activities in Lebanon. LIFE said its objective is to channel the influence of Lebanese finance executives worldwide towards establishing stronger bonds, nurturing the next generation, and promoting Lebanon in local, regional and international venues. As such, it has formed a Board of Directors who will be providing the leadership and governance required to ensure that LIFE remains a sustainable and professional body. The Lebanon chapter follows the establishment of country committees, or chapters, in the United States, France, Switzerland and the UAE, in addition to the United Kingdom. It noted that membership will be targeted at Lebanese finance professionals based outside Lebanon.

Housing Bank's net profts up 2% to $9.4m in 2009

The Housing Bank sal declared net profits of $9.4m in 2009, constituting an increase of 2.2% from $9.2m in 2008. Net interest income reached $15.1m, up 14.3% from $13.2m in 2008, while net commission income decreased by 21% to $0.8m. Also, general & operating expenses rose by 13.6% to $4.9m, with wages & salries up 8.7% to $3.5m and general operating expenditures up 28% to $1.43m. Total assets reached $485.6m at the end of 2009, constituting a rise of 23% from $394.3m the end of 2008, while loans to customers increased by 28% to $289m and included doubtful loans of $2.1m at end-2009. Customers' deposits totaled $96.6m, up 16.4% from end-2008. It had $2.64m in provisions against general risks and $2.33m in reserves against various banking risks. The Housing Bank, whose capital is $33.3m, is owned by commercial banks, local insurance companies and the government, with the latter holding 20% of the bank's capital. It extends 20-year loans to build new residences or to buy exiting units as well as 10-year loans for housing repairs, with grace periods ranging from three months to two years.

Earlier this year, the bank increased the ceiling of its real estate loans from LBP 450m, or $300,000, to LBP 600m or $400,000. Such loans are used to build new homes or to buy existing residences. It also raised the ceiling on loans for housing repairs from LBP 150m ($100,000) to LBP 200m ($132,670). The increase in the loan ceilings came amid an unprecedented rise in real estate prices in the country during the previous three years. The bank, which extends loans to Lebanese residents and expatriates, increased the loan ratio extended to non-resident Lebanese from 50% to 60% of a housing unit's total value, and the ratio can increase to 80% in case of acceptable guarantees or collateral. Residents can borrow up to 80% of a house's value. The bank extended loans totaling LBP 125bn, or about $83m, in 2009 and is targeting to increase its portfolio by LBP 250bn this year. The bank also benefits from deductions in reserve requirements from commercial banks.

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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