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# LEBANON THIS WEEK

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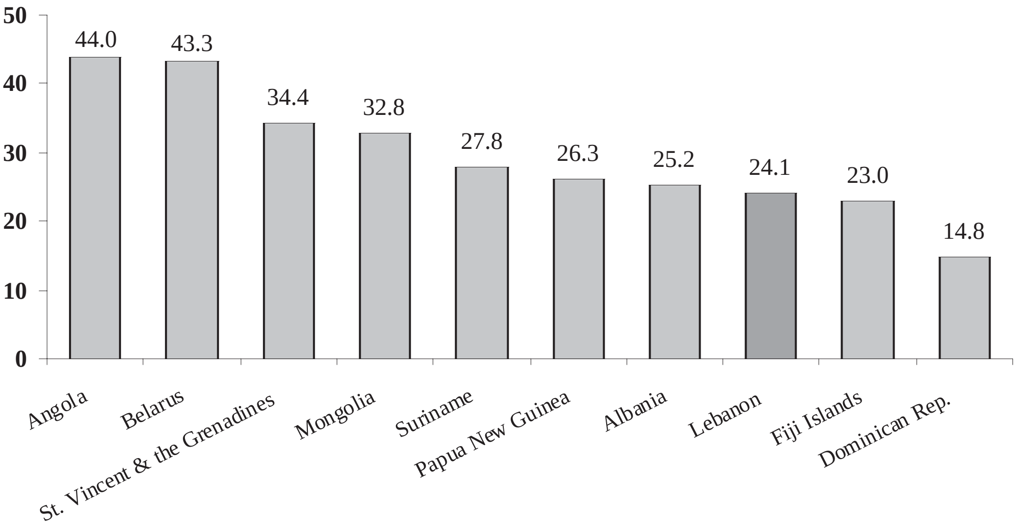
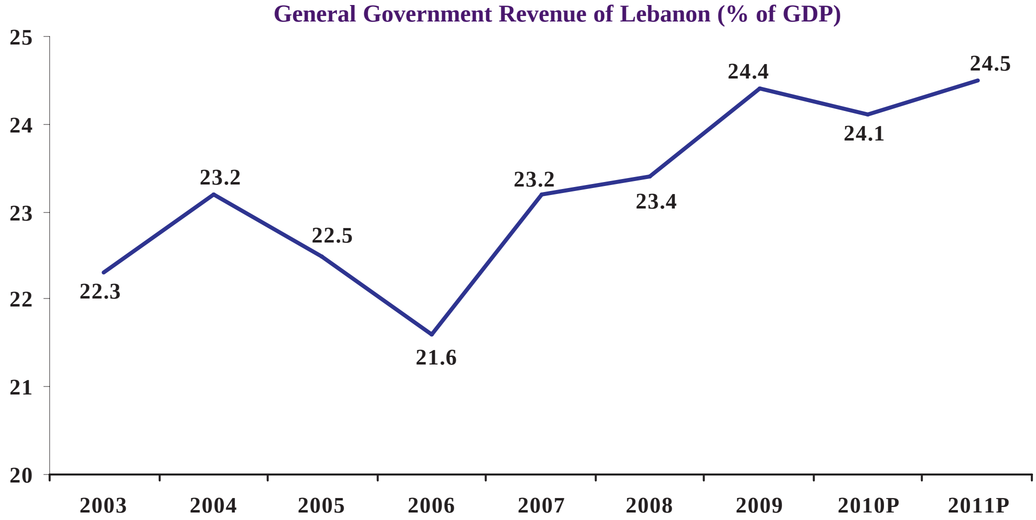
## Charts of the Week




*Source: Moodys Investors Service*

## Quote to Note

"Lebanon’s banks are very tightly supervised and are used to a volatile operating environment."

*Fitch Ratings, on the strengths of the Lebanese banking sector*

## Number of the Week

**2.1%:** Penetration rate of non-life insurance in Lebanon, in percent of GDP, at the end of 2009

## Economic Indicators

| **$m** *(unless otherwise mentioned)* | **2008** | **July 09** | **2009** | **May 10** | **June 10** | **July 10** | **% Change*** |
|---|---|---|---|---|---|---|---|
| Exports | 3,478 | 230 | 3,486 | 371 | 385 | 303 | 31.74 |
| Imports | 16,133 | 1,470 | 16,241 | 1,369 | 1,449 | 1,850 | 25.85 |
| Trade Balance | (12,655) | (1,240) | (12,755) | (998) | (1,064) | (1,547) | 24.76 |
| Balance of Payments | 3,462 | 1,246 | 7,899 | (195) | 106 | 994 | (20.22) |
| Checks Cleared in LBP | 9,350 | 1,028 | 11,122 | 1,068 | 1,674 | 1,783 | 73.44 |
| Checks Cleared in FC | 43,174 | 4,115 | 45,270 | 4,677 | 4,609 | 4,898 | 19.03 |
| Total Checks Cleared | 52,524 | 5,143 | 56,392 | 5,745 | 6,283 | 6,681 | 29.90 |
| Budget Deficit/Surplus | (2,921) | (157) | (2,960) | (183) | (52) | (272) | 73.25 |
| Primary Balance | 597 | 136 | 1,078 | 137 | 279 | 94 | (30.88) |
| Airport Passengers | 4,085,334 | 621,522 | 4,986,544 | 420,212 | 497,647 | 684,084 | 10.07 |

| **$bn** *(unless otherwise mentioned)* | **Dec 2008** | **July 09** | **Apr 10** | **May 10** | **June 10** | **July 10** | **% Change*** |
|---|---|---|---|---|---|---|---|
| BdL FX Reserves | 17.06 | 22.01 | 27.32 | 27.32 | 27.42 | 27.93 | 26.90 |
| *In months of Imports* | *15.03* | *14.97* | *19.84* | *19.96* | *18.92* | *15.1* | *0.87* |
| Public Debt | 47.02 | 47.92 | 51.49 | 51.07 | 51.00 | 50.77 | 5.95 |
| Net Public Debt | 41.49 | 43.05 | 44.34 | 44.24 | 44.13 | 44.3 | 2.90 |
| Bank Assets | 94.25 | 105.38 | 120.64 | 120.69 | 121.68 | 127.05 | 17.72 |
| Bank Deposits (Private Sector) | 77.78 | 87.69 | 99.13 | 99.21 | 100.12 | 101.93 | 16.24 |
| Bank Loans to Private Sector | 25.04 | 26.98 | 31.04 | 31.44 | 31.71 | 32.86 | 21.79 |
| Money Supply M2 | 24.76 | 30.11 | 36.72 | 37.43 | 38.02 | 38.24 | 27.33 |
| Money Supply M3 | 68.66 | 76.17 | 85.75 | 86.04 | 86.74 | 88.1 | 15.66 |
| LBP Lending Rate (%) | 9.95 | 9.43 | 8.48 | 8.47 | 8.37 | 8.09 | (134b.p.) |
| LBP Deposit Rate (%) | 7.22 | 7.02 | 6.00 | 5.93 | 5.83 | 5.79 | (123b.p.) |
| USD Lending Rate (%) | 7.47 | 7.24 | 7.10 | 7.10 | 7.03 | 7.05 | (19b.p.) |
| USD Deposit Rate (%) | 3.33 | 3.19 | 2.84 | 2.84 | 2.75 | 2.8 | (39b.p.) |
| %* Change in CPI** | 6.36 | 2.42 | 6.55 | 6.51 | 7.42 | 6.41 | 399b.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" | 18.79 | (2.14) | 186,285 | 15.25% |
| Solidere "B" | 18.83 | (3.68) | 31,953 | 9.94% |
| Byblos Common | 1.75 | (1.69) | 422,080 | 5.11% |
| Byblos Priority | 1.75 | (278) | 239,537 | 2.93% |
| Byblos Pref. 08 | 100.10 | 0.00 | 0.00 | 1.63% |
| BLOM GDR | 95.00 | 0.26 | 18,159 | 5.70% |
| BLOM Listed | 88.00 | (2.39) | 28,149 | 14.92% |
| Audi GDR | 8.90 | 0.00 | 0.00 | 7.31% |
| Audi Listed | 8.00 | (0.12) | 38,060 | 22.35% |
| HOLCIM | 13.34 | 0.38 | 8,115 | 2.11% |

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

| Sovereign Eurobonds | Coupon % | Mid Price $ | Mid Yield % |
|---|---|---|---|
| Nov. 2010 | 6.875 | 100.75 | 4.67 |
| May 2011 | 7.875 | 103.88 | 1.77 |
| Mar. 2012 | 7.500 | 104.50 | 2.08 |
| Sep. 2012 | 7.750 | 108.75 | 3.07 |
| June 2013 | 8.625 | 112.50 | 3.75 |
| Apr. 2015 | 10.000 | 121.13 | 4.80 |
| Jan. 2016 | 8.500 | 116.00 | 5.02 |
| May 2016 | 11.625 | 130.00 | 5.37 |
| Mar. 2017 | 9.000 | 120.00 | 5.15 |
| Apr. 2021 | 8.250 | 117.00 | 6.04 |

*Source: Byblos Capital Markets*

| | Sep. 20-24, 10 | Sep. 13-17, 10 | % Change | August 2010 | August 2009 | % Change |
|---|---|---|---|---|---|---|
| **Total Shares Traded** | 997,938 | 1,558,781 | (37.26) | 2,924,222 | 3,835,239 | (23.75) |
| **Total Value Traded** | $10,231,291 | $20,454,706 | (49.98) | $35,867,053 | $61,835,814 | (42.00) |
| **Market Capitalization** | $12.32bn | $12.38bn | (0.52) | $12.19bn | $11.04bn | 10.37 |

*Source: Beirut Stock Exchange (BSE)*

## Beirut has 30th most expensive retail rent in the world

The 2010 survey of the world's most expensive retail rental locations in 59 cities around the world by property consultants Cushman & Wakefield ranked Beirut as the 30th most expensive city worldwide, the most expensive among 12 cities in the Middle East & Africa region, and the most expensive among 10 Arab cities included in the rankings. Beirut was the 33rd most expensive city worldwide, the second most expensive city in the Middle East & Africa region, and the most expensive Arab city in the 2009 survey. It ranked as the 43rd most expensive city globally and the third most expensive in the Middle East & Africa in 2008. The study evaluates retail rent prices in 269 streets in 59 countries around the world. On a global basis, the rent of retail space in Beirut was less costly than in Brussels, Oslo and Prague and more expensive than in Stockholm, Helsinki, and Luxembourg. The most expensive rental retail location in Beirut was the Beirut Central District at €1,470 per square meter in 2010, or $1,800 per sqm, which is lower than the global average of €1,808 per sqm and higher than the Middle East & Africa average of €779 per sqm. According to Cushman & Wakefield, Beirut's retail market performed strongly in all of Beirut's established shopping areas in the 12 months to June 2010. It said that the Souks shopping center in the Beirut Central District have been the only new addition to the market in the covered period. It added that rental levels are being supported by the lack of other new additions to the market and by improvements to existing facilities. It noted that the prime locations remain the ABC Center in Achrafieh, Verdun Street and Kaslik Street, all of which are showing rental values of around €1,100 per sqm, or about $1,400 per sqm per year.

Lebanon accounted for four of the top 10 rental locations in the Middle East & Africa, with the Beirut Central District ranking in first place in the region and among 16 Arab locations included in the survey. It was followed in third place by the ABC Center in Achrafieh at €1,225 per sqm ($1,500 per sqm), Verdun Street in fourth place at €1,061 per sqm ($1,300 per sqm), and Kaslik Street in seventh place at €1,017 per sqm ($1,240 per sqm). In parallel, two locations in Lebanon ranked among the four locations in the region that posted rental growth. Kaslik Street posted the third fastest growth in the region with an 8.3% rise in rent in the 12 months ending June 2009 and the ABC Center in Acharfieh posted the fourth highest rental growth at 7.1%; while rents in the Beirut Central District, Hamra Street and Verdun Street were unchanged year-on-year. The survey noted that the Middle East & Africa region has not been immune from the global slowdown, as retail rents in several countries declined during the covered period, while other markets were either stable or recorded modest growth. Retail rents grew by an average of 0.3% in the Middle East & Africa year-on-year, as rents increased in four locations, declined in four other locations, and were unchanged in 15 locations. Rent at Cairo's City Stars posted a 33.3% rise annually, the fastest growth rate in the region. New York's Fifth Avenue is the world's most expensive retail location at €16,257 per sqm a year.

**Top 10 Rental Locations in the Middle East & Africa**

| City | Location | Rent (€/sqm) |
|---|---|---|
| Beirut | Beirut Central District | 1,470 |
| Tel Aviv | Ramat Aviv | 1,346 |
| Beirut | ABC Center | 1,225 |
| Beirut | Verdun Street | 1,061 |
| Kuwait City | Raya Mall | 1,061 |
| Kaslik | Kaslik Street | 1,017 |
| Damascus | Cham Center | 980 |
| Tel Aviv | Ayalon Shopping Center | 967 |
| Dubai | Mall of the Emirates | 957 |
| Manama | Bahrain City Center | 816 |

*Source: Cushman & Wakefield 2010*

## Barclays maintains Lebanon's external debt at 'Neutral'

Barclays Capital maintained its recommendation on Lebanon's external debt at 'Neutral' in its emerging markets credit portfolio in September 2010. Lebanon has an allocation of 3.1% in the portfolio. Lebanon's external debt rating of 'Neutral' placed Lebanon in the same category as Ukraine, the Philippines, Indonesia, Vietnam, Sri Lanka, Bulgaria, Serbia & Montenegro, Abu Dhabi and Colombia. Lebanon's 'Neutral' recommendation is not favorable relative to the 'Over Weight' recommendation on the Europe, the Middle East & Africa (EMEA) region. Lebanon is represented in the portfolio by the March 2017 Eurobond. Lebanon accounted for 7% of the allocations in the EMEA region and was the 10th highest among 28 sovereigns in the portfolio and the third highest among 13 credits in the EMEA region.

In parallel, Lebanon's external debt posted the 7th highest return at 6.8% among 13 markets in the EMEA region in the first 8 months of 2010, as well as the 21st best return among the 28 emerging markets included in Barclays Capital's portfolio. Lebanon outperformed the EMEA returns of 6% and underperformed the overall emerging market returns of 10% in the covered period. Further, Lebanon's external debt posted the 4th highest returns among 6 countries in the Middle East & Africa region during the covered period, as it came ahead of South Africa with 6.1% and Tunisia with 5.3%, but behind Qatar with 12.3%, Egypt with 11.2% and Abu Dhabi with 9.8%.

## Lebanon ranks 66th globally, 10th among Arab countries in real estate transparency

Jones Lang LaSalle's Global Real Estate Transparency Index for 2010 ranked Lebanon in 66th place among 81 countries and markets worldwide. Lebanon came in 14th place among 23 upper-middle income economies and in 10th place among 15 Arab countries and markets included in the survey. Jones Lang LaSalle, a global real estate management, consulting and investment firm, included Lebanon for the first time in the survey. The index, which is issued every two years, measures national real estate transparency across the globe and is used to compare and contrast transparency conditions across markets. It highlights the important differences in transacting, owning and operating in real estate markets. It also aims to provide governments and industry organizations with a point of reference to measure and improve transparency in their markets. The index is a composite of five categories that cover performance measurement, market fundamentals, listed investment vehicles, regulatory and legal issues, and the transaction process. It is compiled from the weighted scores of 20 major questions posed to sector professionals and business leaders in each of the covered markets, with each question carrying a maximum 5% weight. The survey also uses a global benchmarking process to ensure that the questions are being interpreted consistently by all participants. The index scores range on a scale from 1.00 to 5.00 points. A country or market with a perfect 1.00 score is considered to have full real estate transparency, while a country or market with a 5.00 score has total real estate opacity. Countries and markets are then assigned to one of five transparency levels.

**Real Estate Transparancy Index 2010**

| | Overall Score | Arab Rank | Global Rank |
|---|---|---|---|
| UAE - Dubai | 2.93 | 1 | 37 |
| Bahrain | 3.28 | 2 | 50 |
| UAE- Abu Dhabi | 3.45 | 3 | 56 |
| Jordan | 3.46 | 4 | 58 |
| Oman | 3.50 | 5 | 59 |
| Morocco | 3.58 | 6 | 60 |
| Egypt | 3.62 | 7 | 62 |
| Saudi Arabia | 3.66 | 8 | 63 |
| Qatar | 3.70 | 9 | 64 |
| **Lebanon** | **3.78** | **10** | **66** |
| Kuwait | 3.90 | 11 | 68 |
| Tunisia | 4.24 | 12 | 75 |
| Syria | 4.65 | 13 | 79 |
| Sudan | 4.68 | 14 | 80 |
| Algeria | 4.74 | 15 | 81 |

*Source: Jones Lang LaSalle, Byblos Research*

Globally, Lebanon ranked ahead of Panama, Kuwait and Uruguay and came behind China's Tier 3 Cities, Qatar and Saudi Arabia. It also ranked ahead of Panama, Uruguay and Kazakhstan and came behind Costa Rica, Argentina and Mexico among upper-middle income economies. Lebanon received a score of 3.78 points, worse than the global average of 2.77 points and the upper-middle income economies' average of 3.35 points, but slightly better than the Arab average of 3.81 points. Lebanon came in the "Low-Transparency" category, along with Oman, Morocco, Egypt, Saudi Arabia, Qatar, Kuwait and Tunisia. The survey classified four Arab countries or markets in the "Semi-Transparent" category, and three countries in the "Opaque" category. The rankings of two Arab countries improved, one was unchanged, and 9 regressed from the 2008 survey; while the scores of four markets improved, one was unchanged and 7 declined.

Jones Lang LaSalle indicated that the 2010 index reveals a notable slowdown in the progress of real estate transparency over the past two years. It said that the recent turmoil in global financial, economic and real estate markets has impacted market behavior, with real estate players focusing on survival rather than on market advancement. It noted that 27 out of 81 markets, or one third of the real estate markets covered, recorded either deterioration or no improvement in transparency between 2008 and 2010. Australia replaced Canada as the world's most transparent real estate market, while Turkey improved the most during the covered period.

## Overdrafts account for 31% of bank credits, share of trade & services at 37% of utilized credits

Figures issued by the Central Bank about the distribution of bank credits by type show that overdrafts accounted for $10.8bn, or 30.7% of total private sector credits at the end of June 2010. They were followed by advances against real estate with $8.5bn (24.2%), advances against personal guarantees $6.2bn (17.5%), advances against cash collateral or bank guarantees $5.3bn (15%), advances against other real guarantees $2.6bn (7.4%), and advances against financial values $1.8bn (5%). In parallel, utilized credits by the private sector totaled $35.3bn at the end of June 2010, with the trade & services sector accounting for $13bn, or 36.8% of such credits. It was followed by personal credits with $8.1bn (23%), construction with $5.5bn (15.6%), industry with $4bn (11.4%), financial intermediaries with $3.2bn (9.1%) and agriculture with $318m (1%), while other sectors accounted for the remaining $1.2bn (3.4%). Also, wholesale trade represented 43.4% of trade & services credits, followed by real estate services with 19.5%, retail with 15.3%, transport & storage with 12.2%, hotels & restaurants with 6.6% and educational services with 3%.

Personal credits accounted for 76.3% of loan beneficiaries, followed by trade & services with 13% of beneficiaries, industry with 3.5%, construction with 1.7%, financial intermediaries with 0.9%, agriculture with 0.8%, while other sectors accounted for 3.9%. Further, the aggregate number of loan beneficiaries grew by 22.6% year-on-year to 310,930, while 85% of beneficiaries had loans ranging from LBP5m to LBP100m by end-June 2010. Beirut and its suburbs accounted for 80.7% of bank credits and for 57.3% of beneficiaries. It was followed by Mount Lebanon with 8.2% of credits and 15.4% of beneficiaries; South Lebanon with 4% of credits and 8.3% of beneficiaries; North Lebanon with 3.9% of credits and 12.6% of beneficiaries; and the Bekaa with 3.1% of deposits and 6.4% of beneficiaries.

## Lebanon is 36th deepest market in deposit accounts penetration, 17th deepest in loan accounts

Figures issued by the World Bank show that Lebanon has 1,372 deposit accounts per 1,000 adults at the end of 2009, ranking it in 36th place among 142 countries globally, in 12th place among 36 upper-middle income countries (UMICs), and in second place in the Arab world in terms of bank deposit penetration. Also, Lebanon has 520 loan accounts per 1,000 adults at commercial banks, ranking it in 17th place globally, in 8th place among UMICs and in first place among 9 Arab countries in loan account penetration.

| Financial Access Rankings (Number of accounts per 1,000 adults) | | |
|---|---|---|
| | Deposits | Loans |
| UAE | 1 | n/a |
| **Lebanon** | **2** | **1** |
| Oman | 3 | 2 |
| Jordan | 4 | 3 |
| Algeria | 5 | n/a |
| Tunisia | 6 | 4 |
| Morocco | 7 | n/a |
| Syria | 8 | 5 |
| Yemen | 9 | 6 |

*Source: World Bank, Byblos Research*

Globally, Lebanon ranked ahead of Albania, Puerto Rico and Costa Rica and came behind Slovenia, Croatia and Thailand in the penetration of deposit accounts. It also ranked ahead of Venezuela, Colombia and Costa Rica and came behind Dominica, Poland and Turkey among UMICs; while it came ahead of Algeria, Jordan and Oman and came second behind the UAE among Arab countries. Lebanon's deposits' penetration rate is higher than the global average of 1,216.5 accounts per 1,000 adults and the Arab average of 778 accounts, but lower than the UMICs' average of 1,511.2 accounts per 1,000 adults. Also, the average value of deposit accounts was equivalent to 333% of income per capita in Lebanon, ranking it in 12th place globally and in third place regionally.

Further, Lebanon ranked globally ahead of Macedonia, Colombia and Mauritius and came behind Argentina, Brazil and Antigua and Barbuda in loan accounts per 1,000 adults. It also ranked ahead of Macedonia, Colombia and Mauritius and came behind Argentina, Brazil and Costa Rica among UMICs; while it ranked first among Arab countries. Lebanon's loan penetration rate is higher than the global average of 324.7 accounts and the Arab average of 234.7, but less than the UMICs' average of 427.6 accounts per 1,000 adults. Also, the average value of lona accounts was equivalent to 242% of income per capita in Lebanon, ranking it in 36th place globally and in fifth place in the Arab world.

In parallel, Lebanon has 39.32 ATMs per 100,000 adults, ranking it in 56th place among 92 countries, in 20th place among UMICs, and fourth in the Arab World in terms of ATMs penetration. Globally, Lebanon ranked ahead of Finland, Cape Verde and Mauritius and came behind the Czech Republic, Puerto Rico and Panama on the number of ATMs per 100,000 adults. It also ranked ahead of Dominica, Argentina and Mauritius and came behind Panama, Turkey and Mexico among UMICs; while it came ahead of Tunisia, Morocco and Jordan and behind Oman, Kuwait and UAE among Arab countries. The level of ATM penetration in Lebanon is lower than the global average of 49.17 ATMs per 100,000 adults and the UMICs' average of 48.34 ATMs, but higher than the Arab average of 28.49 ATMs per 100,000 adults.

Also, Lebanon has 1,382.8 points-of-sale (POS) terminals per 100,000 adults, rankig it in 27th place globally, in 7th place among UMICs and in first place regionally in POS penetration. Globally, Lebanon ranked ahead of Latvia, Estonia and Lithuania and came behind Macedonia, Puerto Rico and Costa Rica; while it came ahead of Malaysia, Latvia and Lithuania and behind Macedonia, Costa Rica and Brazil among UMICs; and ranked first among Arab countries. The level of POS terminals penetration in Lebanon is lower than the global average of 2000.3 terminals per 100,000 adults and the UMICs' average of 3766.13 terminals, but higher than the Arab average of 380 POS terminals.

**Financial Access Indicators**

| Category | Lebanon | Global Average | UMIC Average | Arab Average | Global Rank | UMIC Rank | Arab Rank |
|---|---|---|---|---|---|---|---|
| Average deposit account value (% of income per capita) | 332.7 | 163.5 | 78.4 | 261.6 | 12 | 1 | 3 |
| Average loan account value (% of income per capita) | 242.2 | 825.2 | 203.7 | 729.2 | 24 | 8 | 1 |
| Branches per 100,000 adults | | | | | | | |
| Total | 28.8 | 19.0 | 21.0 | 14.0 | 29 | 8 | 1 |
| Urban | 15.7 | 11.5 | 14.2 | 12.2 | 88 | 7 | 2 |
| Rural | 13.2 | 5.5 | 5.9 | 3.7 | 6 | 2 | 1 |
| ATM’s per 1,000 sq.km | 118.0 | 73.6 | 36.3 | 23.6 | 15 | 3 | 1 |
| POS terminals per 1,000 sq.km | 4,149.1 | 2,661.0 | 1,673.0 | 783.1 | 7 | 2 | 1 |

*Source: World Bank, Byblos Research*

## Consumer Price Index up 3.4% annually in August 2010

The Central Administration of Statistics' Consumer Price Index indicates that inflation increased by 3.4% in August 2010 from August 2009. Prices of clothing and footwear increased by 24%, followed by prices of education (9.6%), restaurants & hotels (+4.9%), water, electricity, gas & other fuels (+4.5%), food & non-alcoholic beverages (+4.1%), recreation & entertainment (+3%), miscellaneous goods & services (+2.2%), alcoholic beverages & tobacco (+1.7%) and transportation (+0.6%). In parallel, prices of health care regressed by 4.4%, followed by furniture & household equipment (-0.9%) and communication (-0.2%); while housing prices remained unchanged year-on-year. 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 increased by 0.8% in August 2010 from July 2010. Prices of clothing and footwear increased by 6.8%, followed by food & non-alcoholic beverages 2.6%, restaurants & hotels 0.6%, and miscellaneous goods & services 0.3%. In parallel, prices of furniture & household equipment regressed by 2.2%, followed by transportation (-0.7%), recreation & entertainment (-0.2%) and water, electricity, gas & other fuels (-0.1%). Housing prices remained unchanged month-to-month, along with those of health care, communication, education and alcoholic beverages & tobacco.

## Most tourists spending in Lebanon originates from Saudi Arabia, UAE and Kuwait in first 8 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 8 months of 2010, accounting for 23% of total tourist spending. They were followed by visitors from the UAE and Kuwait with 11% each, Syria (8%) and Egypt (7%). Spending by visitors from Syria rose by 44% in the first 8 months of the year, followed by visitors from Egypt with a 42% increase, France (+34%), Saudi Arabia (+31%), Jordan (+18%), the UAE (+7%) and Kuwait (+4%), while visitors from Qatar decreased by 4%. 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 48% in the first 8 months of the year, followed by spending on watches with a 31% rise, perfume & cosmetics (+26%), fashion & clothing (+23%), consumer electronics & household appliances (+20%), department stores (+12%), souvenirs & gifts (+4%) and home & garden products (+3%).

## Commercial activity sows down in second quarter of 2010

The Central Bank's quarterly business survey of opinions indicated that the volume of commercial sales decreased during the second quarter of 2010, with the balance of opinion standing at +24, compared to +30 during the same quarter of 2009. The business survey reflects the opinions of enterprise managers on the evolution of their businesses in order to depict the evolution of a number of key economic variables. The balance of opinion for inventory levels in all commercial sub-sectors declined to +12 in the second quarter of the year from +21 in the same quarter last year. The balance of opinion is the difference between the proportions of managers out of those surveyed who estimate that there has been an improvement in a particular variable and the proportion of those who reported a decline in the variable.

**Commercial Activity: year-on-year evolution of opinions**

| **Aggregate results** | **Q2-07** | **Q2-08** | **Q2-09** | **Q2-10** |
|---|---|---|---|---|
| Sales volume | -24 | 10 | 30 | 24 |
| Inventories of finished goods | 2 | 12 | 21 | 12 |
| **Q2-10 Regional results** | **Beirut / Mount Lebanon** | **North** | **South** | **Bekaa** |
| Sales volume | 41 | 9 | -7 | 4 |
| Inventories of finished goods | 17 | 7 | 2 | 12 |

*Source: Central Bank Business Survey Q2-10*

## Tourism cooperation agreement between Lebanon and Tunisia

Lebanon and Tunisia signed a tourism cooperation agreement that aims at increasing bilateral tourism through the organization of packaged tours, easing of Tunisian and Lebanese tourists' travel, and improving air accessibility between both countries. The two countries also agreed to explore new cooperation avenues, notably in professional training and participation at international events and fairs. The two sides set up a joint committee to implement the various clauses of the agreement.

### Subsidized interest loans reach $3.2bn at end-June 2010

Figures released by the Central Bank show that the cumulative amount of subsidized interest loans to productive sectors in Lebanon reached $3.22bn at the end of June 2010. The industrial sector accounted for $1.9bn, or (59%) of the total, followed by tourism with $946.6m (29.4%), agriculture with $302m (9.4%), specialized technology with $74.5m (2.3%) and handicrafts with $1.2m (0.04%). Subsidized interest loans extended in 2009 totaled $542.6m relative to $465.5m in 2008 and $245.4m in 2007.

Subsidized medium & long-term loans reached $2.18bn, equivalent to 67.6% of the total at end-June 2010. Industry accounted for 59.5% of the total, followed by tourism with 34.6%, agriculture with 4.3% and specialized technologies with 1.7%. The program was established in the first quarter of 1997 and consists of a 5% to 7% subsidy on the interest for loans extended in foreign currencies to productive sectors. Also, subsidized interest loans guaranteed by the Kafalat Corporation totaled $730.7m, or 22.7% of the total. Industry accounted for 53.1% of Kafalat-backed subsidies, followed by agriculture with 27.5%, tourism with 16.3%, special technologies with 3% and handicrafts with 0.2%. Kafalat provides financial guarantees for loans of up to $400,000 for small and medium-sized enterprises in productive sectors.

Further, interest subsidized under the protocol signed with the European Investment Bank totaled $142.8m, or 4.4% of the total, with industry accounting for 52% of the total, followed by tourism with 35.3%, specialized technologies with 11%, and agriculture with 1.5%. In addition, subsidized interest loans granted by leasing companies totaled $92.3m at the end-June 2010, or 2.9% of the total, with industry accounting for 97.5% and tourism with 2.4% of such subsidies. Finally, subsidized interest loans granted by the International Finance Corporation totaled $63.6m, or 2% of the total, with industry accounting for 73%, tourism for 18% and agriculture for 9%; while subsidized interest loans to finance working capital totaled $10.3m, or 0.3% of the total with tourism accounting for 100% of the total.

### Slow progress in complying with WTO requirements

The World Trade Organization Unit at the Ministry of Economy & Trade indicated that Lebanon has not made progress on WTO accession procedures since the seventh round of talks that were held in November 2009. It attributed the delay mainly to the non-implementation of required procedures from the concerned ministries and from procrastination in ratifying related laws in Parliament. It said that the last round of negotiations between Lebanon and the WTO discussed and revised the accession draft report, noted some progress in bilateral negotiations with Japan, Canada, Australia and Taiwan, and recommended further bilateral discussions with the United States and the European Union on customs duties and the liberalization of some services. It added the eighth round will only convene once the Lebanese government fulfills its obligations. It noted that Parliament did not vote into law any legislation related to Lebanon's accession to the WTO, despite the insistence if the Ministry of Economy & Trade to put the draft laws on the agenda of the legislative body. It added that the delays give the impression of a lack of commitment from the Lebanese government to access the global trade body. It noted that Lebanese negotiators have reached tangible results with several countries and can sign bilateral agreements with Japan, Canada, Australia, Taiwan and Cuba; while further negotiations are still needed with the United States, the European Union, Ukraine and Turkey. It stressed that Lebanon can finalize the negotiations, but this would require a political decision to ask the concerned ministries to speed up the required procedures, especially those related to agriculture, industry and customs. It emphasized that Lebanon is not expected to compromise on customs duties and liberalization of some services, since more than 70% of its services are already liberalized.The WTO has 29 governments currently negotiating to join, including Iran, Iraq, Lebanon, Algeria, Libya and Syria from the MENA region. Egypt, Jordan, Oman, Bahrain, Qatar, Tunisia, Saudi Arabia, the UAE are already WTO members.

### EU grants €15m to promote sustainable energy investments

The European Union extended a €15m grant to the Central Bank and to the Kafalat Corporation in order to promote investments in energy efficiency and renewable energy technologies by Lebanese small and medium-sized enterprises (SMEs). The program will provide investment facilities that would complement incentives already offered by the Lebanese government. The subsidy is divided into a grant of €12.2m to the Central Bank, which will be used to offer subsidized loans for renewable energy investments through commercial banks; and a grant of €2.5m to Kafalat that will allow it to attract more environmentally-friendly investments through its loan guarantee schemes. The facility will help Kafalat guarantee loans of up to $800,000 for up to 15 years. The grant also includes technical assistance to ensure a technical analysis of the investment projects and to facilitate their implementation. The EU noted the large potential for energy efficiency in Lebanon, particularly in manufacturing and at hospitals.

# Corporate Highlights

## Car sales up 3% year-on-year in first 8 months of 2010

Figures released by the Association of Automobile Importers in Lebanon indicate that a total of 22,545 new passenger cars were sold in the first 8 months of 2010, constituting an increase of 3% from the 21,880 cars sold in the same period last year. Japanese cars accounted for 38.3% of total sales, followed by Korean cars with a 31% share, European automobiles with 23.7%, American vehicles with 6.2%, and Chinese vehicles with 0.9%. Korean cars posted the only growth in sales with an 80.8% rise year-on-year. In parallel, Japanese cars posted a 19% drop in sales year-on-year, followed by American cars with a 9.3% decline, European cars with a 5% decrease and Chinese cars with a 3.1% drop. Kia is the leading brand in the Lebanese market with 4,224 cars sold in the first 8 months of 2010, followed by Nissan with 3,609, Hyundai with 2,719 cars sold, Toyota with 2,052, Mitsubishi with 979, Chevrolet with 947, and Renault with 817 cars.

## First National Bank's profits up 45% to $8.22m in first half of 2010

First National Bank sal announced consolidated net profits of $8.22m in the first half of 2010, up 45% from the same period last year. Total assets reached $2.36bn at end-June 2010, constituting a 9% rise from $2.16bn at end-2009, while loans & advances to customers increased by 28% in the first half of 2010 to $573m. Customer deposits totaled $1.8bn at end-June 2010, constituting an increase of 9% from $1.65bn at end-2009 and a growth of 22.5% from a year earlier. Earlier this year, FNB fully acquired the Capital Finance Company (CFC) and the Middle East Capital Group (MECG), two financial services firms in which it already held majority stakes. CFC is a consumer finance company that extends credit facilities at retail outlets to customers buying cars, computers, and home appliances. It was established at the end of 1999 and currently has assets of about $80.4m, loans of $70.4m and capital of $23.5m at end-2009. MECG was established in 1996 and engaged in investment banking activities.

## Launch of first phase of broadband expansion

The Telecommunications Ministry awarded French company Alcatel-Lucent and the local firm Consolidated Engineering & Trading Co. (CET) a $40m contract to connect local telephone centers with a fiber-optic network over the coming 16 months. The project covers the first phase of the country's broadband expansion plan, with the ministry planning to gradually roll out the subsequent phases. Last July, the ministry unveiled a plan to install fiber optics and advanced broadband across the country within an 18- month period. It emphasized the government's commitment to expanding broadband services, 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. 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. A World Bank study suggests that a 10% increase in broadband capacity and availability can add 1.35% to GDP growth annually. It said broadband services are currently available in Lebanon at low data rates, high prices and low penetration levels relative to peer countries. It added that these factors are negatively impacting the ability of the Lebanese private sector to compete regionally and internationally, especially in the services sectors, and are leading to the loss of jobs to overseas locations with better quality and less expensive communications costs.

## Agreement to help regulate distribution of cable television

Local cable TV operator Cable Vision signed an agreement with the pan-Arab subscription television company Orbit Showtime Network (OSN) that allows Cable Vision to broadcast OSN channels in Lebanon while preserving the television company's copyrights. The Information Ministry indicated that the agreement is essential to regulate the distribution of cable television channels and reduce piracy in the country. It stressed the need to regulate the sector by issuing new laws, and added that the ministry is drafting a new and global information law that differs from the scattered laws that currently exist. Cable and pay TV piracy has been widespread in Lebanon, but the issue is being addressed by authorities. The Office of the United States Trade Representative (USTR) indicated that Lebanon made significant progress over the past two years on the long-standing problem of cable piracy through the efforts of several ministries and law enforcement agencies cooperating with the private sector, resulting in at least 80% of the 600 to 800 pirate cable operators signing licenses to become legitimate cable providers. However, in its annual Special 301 review of the state of intellectual property rights protection and enforcement around the world, the USTR maintained Lebanon on its Watch List for intellectual property violations. Piracy-related losses incurred in Lebanon by copyright-based industries totaled $29m in 2009 compared to $31m in 2008, $26.8m in 2007. The figures are partial estimates as they do not cover several categories of pirated materials.

## Balance sheet of investment banks posts 12% growth year-to-June

Figures released by the Central Bank show that the consolidated balance sheet of investment banks in Lebanon reached LBP 8,680bn or $5.76bn, at the end of June 2010, constituting an increase of 12.2% from end-2009 and a rise of 26% from end-June 2009. Liabilities to the private sector reached $3.8bn, up 17% from end-2009 and up by 38.4% year-on-year. Commitments to the financial sector reached $642.4m at the end of June, representing a decrease of 13.8% from end-2009 and a decrease of 12.4% year-on-year.

On the assets' side, investment banks' operations with commercial banks reached $3.09bn at end-June 2010, up 12.6% from end-2009 and up by 34.8% from end-June 2009. Lending to the private sector reached $1.06bn, constituting an increase of 5.7% from end-2009 and up by 19.7% year-on-year. Investments in government securities totaled $1.33bn at end-June 2010, up by 20.2% from end-2009 and up 15.8% from end-June 2009. Further, the aggregate capital account of investment banks reached $676.9m at the end of June, up 7.8% from the end-2009 and up by 8.4% from $624.2m a year earlier.

# Corporate Highlights

## MEA, Brussels Airlines sign agreement to serve 12 African destinations

National flag carrier Middle East Airlines (MEA) signed an agreement with Brussels Airlines to serve passengers traveling to 12 African destinations via connections through Brussels. This deal is expected to facilitate the travel plans of the large Lebanese expatriate community in Africa. The destinations served by the new deal are Luanda in Angola, Cotonou in Benin, Ouagadougou in Burkina Faso, Douala in Cameroon, Kinhasa in the Democratic Republic of Congo, Banjul in The Gambia, Accra in Ghana, Conakry in Guinea, Monrovia in Liberia, Dakar in Senegal, Freetown in Sierra Leone, and Lomé in Togo. Last June, MEA started three flights a week from Beirut to Brussels. The decision came after the Brussels-based Belgian-Lebanese Business Council submitted a report to MEA's management last year showing demand for such direct flights between Lebanon and Belgium. The flights were intended to be seasonal and operational only during the summer months until September 15, similar to other direct flights to Nice, Copenhagen and Berlin. But the increase in demand led to the extension of the Beirut-Brussels route for the coming winter season. MEA currently serves 30 destinations and is scheduled receive two new Airbus planes in 2010 and an additional one in 2011, expanding its fleet to 16 aircraft. The Central Bank owns a 99% stake in the carrier, which was planning to raise $250m through an initial public offering of 25% of its capital later this year. But the partial IPO was indefinitely postponed earlier this month.

## 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** | **June 2009** | **May 2010** | **June 2010** | **Change*** | **Risk Level** |
|---|---|---|---|---|---|
| Political Risk Rating | 57.0 | 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 | 57.5 | 61.0 | 61.0 | ▲ | Moderate |

| **Regional Average** | **June 2009** | **May 2010** | **June 2010** | **Change*** | **Risk Level** |
|---|---|---|---|---|---|
| Political Risk Rating | 65.1 | 64.8 | 64.8 | ▼ | Moderate |
| Financial Risk Rating | 41.5 | 41.7 | 41.7 | ▲ | Very Low |
| Economic Risk Rating | 34.6 | 38.3 | 38.4 | ▲ | Low |
| Composite Risk Rating | 70.6 | 72.4 | 72.4 | ▲ | 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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