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BYBLOS BANK SAL
Economic Research & Analysis Department

LEBANON THIS WEEK

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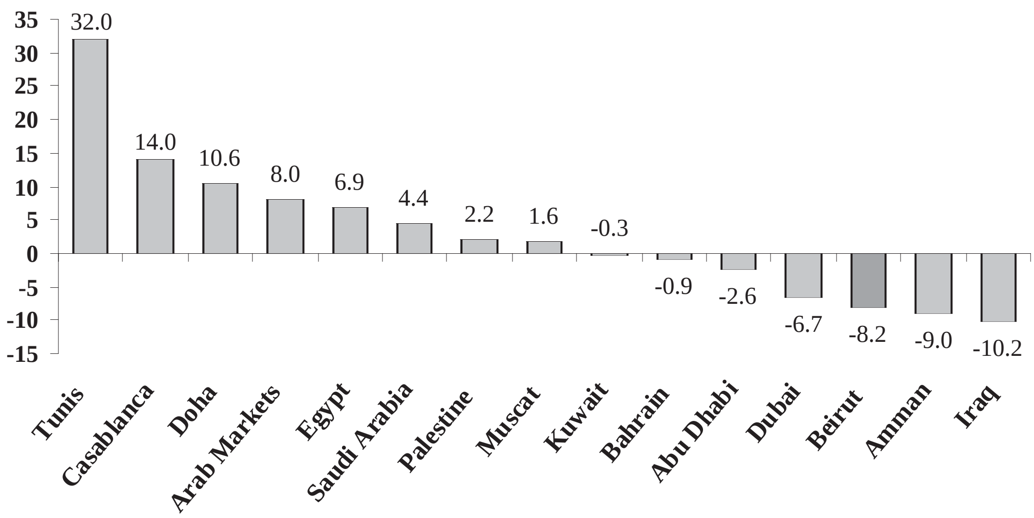
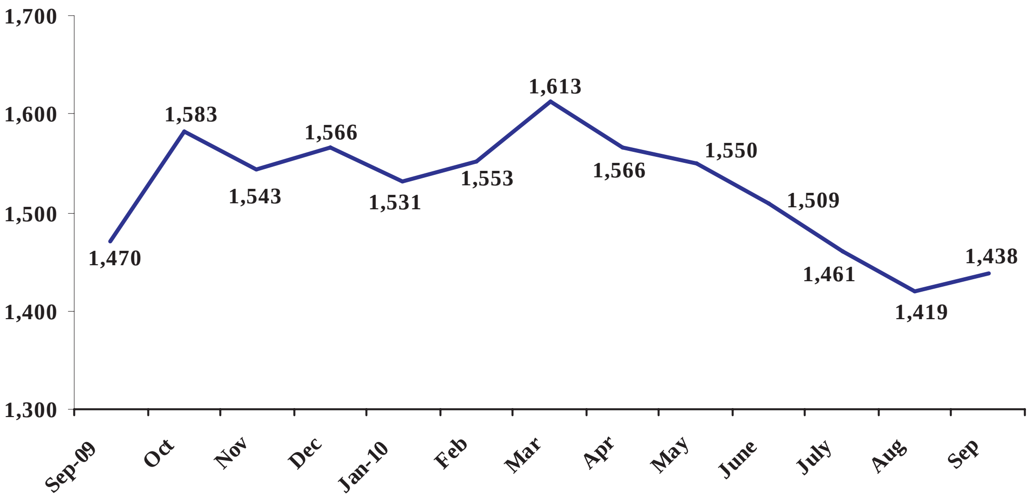
Charts of the Week

Performance of Arab Stock Markets in First Nine Months of 2010 (%)



Performance of Beirut Stock Market*



**BLOM Stock Index*
Source: Local Stock Markets

Quote to Note

"The main message to the Lebanese government today is action, action, action."

Eric Mottu, Resident Representative of the International Monetary Fund in Lebanon, on the need to implement the multitude of structural reform plans in the electricity, telecom, water and transportation sectors

Number of the Week

20: Lebanon's rank out of 139 countries in terms of the quality of management schools in the country, according to the World Economic Forum

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"	18.96	0.90	189,829	15.27%
Solidere "B"	18.83	0.00	39,338	9.86%
Byblos Common	1.78	1.71	123,093	5.15%
Byblos Priority	1.75	0.00	13,038	2.90%
Byblos Pref. 08	100.10	0.00	0.00	1.61%
BLOM GDR	94.80	(0.21)	4,628	5.64%
BLOM Listed	88.00	0.00	0.00	15.24%
Audi GDR	8.90	0.00	0.00	7.29%
Audi Listed	8.20	2.50	70,701	22.73%
HOLCIM	13.27	(0.52)	6,044	2.09%

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

Sovereign Eurobonds	Coupon %	Mid Price $	Mid Yield %
Nov. 2010	6.875	100.15	5.31
May 2011	7.875	104.25	1.02
Mar. 2012	7.500	106.25	3.05
Sep. 2012	7.750	108.50	3.14
June 2013	8.625	112.50	3.70
Apr. 2015	10.000	121.13	4.75
Jan. 2016	8.500	116.25	4.94
May 2016	11.625	130.00	5.32
Mar. 2017	9.000	120.00	5.14
Apr. 2021	8.250	117.00	6.05

Source: Byblos Capital Markets

	Sep. 20-Oct. 1, 10	Sep. 20-24, 10	% Change	September 2010	September 2009	% Change
Total Shares Traded	170,866	997,938	(82.53)	3,705,098	4,960,933	(25.31)
Total Value Traded	$1,645,086	$10,231,291	(83.92)	$49,787,087	$8,7945,925	(43.39)
Market Capitalization	$12.41bn	$12.32bn	0.78	$12.38bn	$11.64bn	6.33

Source: Beirut Stock Exchange (BSE)

Lebanon ranks 147th globally, 14th in the MENA region in Government Effectiveness

The World Bank's annual World Governance Indicators for 2009 show that Lebanon's rankings improved on four out of six governance indicators included in the survey and regressed in the two others; while its score improved in five indicators and regressed in just one. The results show marginal improvement year-on-year, but still reflect a weak level of governance in Lebanon. The indicators cover 213 countries and territories and are rated on a scale of -2.5 to +2.5, with higher values corresponding to better governance outcomes.

Lebanon ranked in 147th place worldwide and in 14th place in the MENA region in terms of Government Effectiveness. The indicator measures the competence of the bureaucracy and the quality of public service delivery. Globally, it came ahead of Zambia and Sao Tome & Principe and ranked behind Kenya and The Gambia, while it ranked ahead of Iran and the West Bank & Gaza and came behind Syria and Algeria in the region. Lebanon's rank regressed by 5 spots globally and by one spot regionally year-on-year. In parallel, 69.5% of countries and territories in the world had a better score than Lebanon on this dimension of governance.

Also, Lebanon ranked 194th worldwide and 15th in the MENA region in terms of Political Stability. The indicator measures the likelihood of instability, domestic violence and terrorism during the covered year. Globally, Lebanon ranked ahead of Iran and Côte d'Ivoire and came behind Israel and Zimbabwe, while it ranked ahead of Iran and the West Bank & Gaza behind Israel and Algeria in the MENA region. Lebanon's rank improved by two spots globally and by one spot regionally from the previous year. Further, 90% of countries and territories in the world had a better score than Lebanon on this dimension of governance.

Government Effectiveness Rankings & Scores 2009

Country	Score	MENA Rank	Global Rank
Qatar	1.13	1	35
Israel	1.09	2	38
UAE	0.93	3	49
Oman	0.65	4	61
Bahrain	0.62	5	66
Tunisia	0.41	6	74
Jordan	0.28	7	78
Kuwait	0.21	8	82
Saudi Arabia	-0.09	9	102
Morocco	-0.11	10	103
Egypt	-0.30	11	118
Algeria	-0.59	12	138
Syria	-0.61	13	139
Lebanon	**-0.67**	**14**	**147**
Iran	-0.74	15	156
West Bank/Gaza	-0.87	16	166
Libya	-1.12	17	186
Yemen	-1.12	18	187
Iraq	-1.26	18	194
Sudan	-1.32	20	196

Source: World Bank, Byblos Research

In addition, Lebanon ranked 137th globally and second in the MENA region on the Voice & Accountability indicator. This category measures a country's citizens' ability to participate in selecting their government as well as freedom of expression, freedom of association, and a free media. Globally, Lebanon came ahead of Bangladesh and Thailand and behind Niue and Cook Islands, while it ranked behind Israel and ahead of Kuwait in the region. Lebanon's rank regressed by one spot globally and was unchanged regionally year-on-year. Also, 64.5% of countries and territories worldwide had a better score than Lebanon on this dimension of governance.

Further, Lebanon ranked 105th globally and 11th in the MENA region in terms of Regulatory Quality, the measure of market-friendly policies and laws. Globally, it ranked ahead of Serbia and the West Bank & Gaza and came behind Guatemala and Bosnia Herzegovina, while it ranked ahead of West Bank & Gaza and behind Morocco in the region. Lebanon's rank improved by 8 spots worldwide and by one spot in the MENA region in 2009. The results show that 49.5% of countries and territories in the world had a better score than Lebanon on this dimension of governance.

Lebanon ranked 145th globally and 14th in the MENA region on the Rule of Law category, an indicator of the extent that citizens have confidence in and abide by the rules of society. Globally, it came ahead of Niger and Cuba and behind Swaziland and Guyana, while it ranked ahead of Algeria and came behind Syria regionally. Lebanon's s rank improved by 8 places worldwide and by one place in the MENA region. In parallel, 67.9% of countries and territories in the world had a better score than Lebanon on this dimension of governance. Finally, Lebanon ranked 163rd globally and 14th in the MENA region on the Control of Corruption indicator, the measure of a country's level of corruption. Globally, it came ahead of the Central African Republic and Iran and behind Belarus and Mongolia, while it ranked ahead of Iran and behind Algeria in the region. Lebanon's rank improved by 5 spots worldwide and by two places in the MENA region. Also, 77.1% of countries and territories in the world had a better score than Lebanon on this dimension of governance.

Lebanon’s Rankings and Scores on Governance Indicators for 2009

Indicator	Global Rank	MENA Rank	Lebanon Score	Change in Score	MENA Average Score
Voice & Accountability	137	2	-0.33	▲	-1.04
Political Stability	194	15	-1.51	▲	-0.66
Government Effectiveness	147	14	-0.67	▼	-0.17
Regulatory Quality	105	11	-0.07	▲	-0.17
Rule of Law	145	14	-0.64	▲	-0.18
Control of Corruption	163	14	-0.80	▲	-0.19

Source: World Bank, Byblos Research

Lebanon ranks 76th globally, 12th in MENA region in country risk

In its semi-annual survey of the country risk of 185 countries, *Euromoney* magazine ranked Lebanon in 76th place worldwide and in 12th place among 20 countries in the Middle East and North Africa region in September 2010. Also, Lebanon came in 20th place among 42 upper middle income countries (UMICs) included in the survey. Lebanon ranked in 82nd place globally and in 13th place regionally in the March 2010 survey, while it ranked 80th globally and 12th regionally in September 2009. The survey evaluates individual country risk by assigning a weighting to six categories that cover Political Risks, Economic Performance, Access to Bank Finance & Capital Markets, Debt Indicators, Credit Ratings, and Structural Assessment. Euromoney modified its survey weightings last year to increase the influence of the political risk and economic performance categories in calculating the final scores and rankings. As such, it raised the weight of each of the two categories from 25% to 30%. It also removed two categories and added a new one in the current survey. The new Structural Assessment category carries a weight of 10% and covers labor market and industrial relations, demographics, as well as soft and hard infrastructure.

Globally, Lebanon ranked ahead of Namibia, Ukraine and Paraguay, and came behind Vietnam, Costa Rica and Romania. It also ranked ahead of Namibia and behind Costa Rica among UMICs. Lebanon received a score of 51.66 points, up 16% from 44.53 points in the March survey and up 4.3% from 49.52 points in September 2009. Its score came above the global average of 46.3 points but lower than the MENA and Arab averages of 53.6 points each. It also scored above the average of 47 points for UMICs.

MENA Countries Rankings & Scores

	Score	MENA Rank	Global Rank
Qatar	80.11	1	21
Israel	74.30	2	31
UAE	74.30	2	34
Saudi Arabia	72.83	4	35
Bahrain	72.06	5	38
Kuwait	71.69	6	39
Oman	70.13	7	41
Morocco	58.61	8	62
Egypt	57.44	9	64
Jordan	56.18	10	67
Tunisia	54.22	11	69
Lebanon	**51.66**	**12**	**76**
Libya	49.83	13	81
Yemen	44.23	14	94
Algeria	41.27	15	101
Sudan	36.22	16	117
Iraq	33.38	17	125
Iran	32.97	18	127
Syria	32.82	19	128
Mauritania	7.06	20	180

Source: Euromoney, Byblos Research

Lebanon ranked ahead of Thailand and behind India on a global basis on the Political Risks category; while it came ahead of Egypt and behind Saudi Arabia regionally. Further, it tied with Ukraine and the Dominican Republic, ranked ahead of seven countries that include Bolivia and Turkmenistan, and came behind six countries that include Cambodia and Kenya on the Credit Ratings category. Regionally, it ranked ahead of Algeria, Syria, Yemen, Iraq, Iran, Sudan, and Mauritania and came behind Jordan.

In parallel, Lebanon tied with 20 countries that include Argentina, Liberia, and Venezuela in terms of Access to Bank Finance & Capital Markets. It ranked ahead of Brunei, Montenegro and Cambodia, while it came behind Serbia and Jordan among UMICs. It also came ahead of Libya, Sudan and Mauritania and behind Jordan, Algeria and Israel in the region.

Further, Lebanon ranked ahead of Iran and behind Ukraine worldwide in Economic Performance, and ahead of Namibia and Seychelles and behind Lithuania and Argentina among UMICs; while it came ahead of Iran and behind Algeria regionally. Also, Lebanon ranked ahead of Lithuania and behind Belize globally on the Debt Indicators category. It came ahead of Mauritania, Libya, Tunisia, Algeria, Iran, Iraq and Syria, and ranked behind Jordan regionally. Finally, it ranked ahead of the Czech Republic and came behind Mexico on the Structural Assessment category; while it ranked ahead of Saudi Arabia and behind Israel in the MENA region.

Country Risk Indicators for Lebanon September 2010

	Weighting (%)	Score	MENA Rank	Global Rank	MENA Avge Score	Global Avge Score
Political Risk	30	16.62	11	69	16.5	14.9
Economic Performance	30	14.92	14	95	18	16.5
Debt Indicators	10	8.22	13	116	6.3	6.1
Credit Rating	10	1.46	13	109	3.9	3.4
Access to Bank Finance&Capital Markets	10	4.00	13	95	4.8	5.2
Structurals Assessments	10	6.44	2	40	5.2	5.5

Source: Euromoney, Byblos Research

Occupancy at Beirut hotels at 70%, room yields up 3.5% in first 8 months of 2010

Ernst & Young's benchmark survey of the Middle East hotel sector indicated that the average occupancy rate at hotels in Beirut was 70% in the 8 months of 2010, decreasing from 72% 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 the 7th highest in the first 8 months of 2009. The survey said the average rate per room at Beirut hotels was $261 in the first 8 months of 2010, ranking the capital's hotels as the third most expensive in the region behind Dubai-Beach and Doha.

The average rate per room at Beirut hotels increased by 7.2% to $261 year-on-year and posted the fifth highest increase among all markets in the region. The average rate per room in Beirut came above the regional average of $192.2, which declined by 0.4% from $193 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, 77% in June, 80% in July and 43% in August 2010 compared to 85% in January, 76% in February, 74% in March, 81% in April, 68% in May, 69% in June, 87 in July and 75% in August 2009. Beirut hotels had an occupancy rate of 73% for all of 2009. The August decline is due to the advent of the month of Ramadan and the departure of most GCC and Arab nationals ahead of the fasting period.

Hotel Performance in first 8 months of 2010

	Occupancy Rate (%)	RevPAR (US$)	RevPAR % change
Sharm El Sheikh	85	52	19.1
Hurghada	84	37	14.4
Dubai - Beach	80	228	(7.8)
Makkah	77	183	43.9
Dubai - Overall	74	156	(10.7)
Jeddah	73	155	5.5
Abu Dhabi	72	162	(31.8)
Dubai - City	72	130	(11.5)
Cairo - City	71	82	3.8
Cairo - Overall	71	82	4.5
Beirut	**70**	**183**	**3.5**
Al Ain	68	109	(0.6)
Madina	68	108	32.9
Muscat	67	150	(10.4)
Amman	63	93	8.9
Doha	62	176	(17.4)
Manama	59	150	(11.0)
Riaydh	55	129	1.9
Kuwait	53	138	(7.8)

Source: Ernst & Young, Byblos Research

Further, revenues per available room (RevPAR) were $183 in Beirut in the first 8 months of 2010, up from $177 in the same period last year, ranking it in second place in the region after Dubai-Beach. Beirut's RevPAR was up 3.5% year-on-year, posting the ninth highest rise in the Middle East, behind Cairo-City, Cairo-Overall and Jeddah, and compared to an increase of 1.55% across the region. Beirut posted RevPARs of $160 in January, $209 in February, $155 in March, $208 in April, $158 in May, $188 in June, $270 in July 2010 and $120 in August. Dubai-Beach posted the highest average room rate in the region at $284 and the highest RevPAR at $228, while Sharm El Shaikh posted the highest occupancy rate at 85% in the first 8 months of the year.

Fiscal deficit down 16% to $1.5bn in first 5 months of 2010

Figures released by the Finance Ministry show that the fiscal deficit reached $1.54bn in the first 8 months of 2010, down 16% from $1.84bn in the same period last year. The deficit was equivalent to 21.4% of total budget and Treasury expenditures compared to 24.5% in the first 8 months of 2009. Overall government expenditures reached $7.2bn, down 4% year-on-year, while total revenues were falt, decreased by 0.2% to $5.7bn in the covered period. Budgetary expenditures increased by 0.3% to $6.6bn and included $348m in outlays from previous years, while budget revenues declined marginally by 0.6% to $5.4bn. Tax revenues improved by 14.4% year-on-year to $4.65bn, of which 31%, or $1.44bn, were in VAT receipts that posted an 11.6% annual rise. Tax revenues accounted for 87% of budgetary revenues and for 82% of total Treasury and budget receipts.

The distribution of other tax revenues shows that customs revenues rose 6.8% year-on-year to $1.25bn, income & capital gains tax receipts grew by 13% to $1.1bn, revenues from property taxes improved by 60% to $493m, and other tax receipts, mainly stamp fees, increased by 17.5% to $200.4m. Further, the distribution of income tax revenues shows that taxes on profits accounted for 46% of total income tax receipts, followed by the tax on interest deposits with 26%, taxes on wages & salaries with 17%, and capital gains tax with 10%. Receipts from taxes on profits increased by 9.8% year-on-year, income from capital gains tax grew by 25.7%, revenues from the tax on interest rose by 20.2%, and tax receipts on wages & salaries improved by 6.6%. Also, the distribution of property taxes shows that real estate registration fess rose by 70% to $378m, revenues from built property taxes increased by 52% to $78.8m and revenues from inheritance tax grew by 8.3% to $36m. In parallel, non-tax budgetary revenues contracted by 46.7% to $703m, with revenues from government properties dropping by 60% to $428m and administrative fees & charges increasing by 5.5% to $224.7m. Receipts from telecommunications services, which account for 51.3% of income from government properties and for 31% of non-tax revenues, dropped by 75% to $220m in the first 8 months of the year.

Debt servicing increased by 6.8% year-on-year to $2.53bn, accounting for 35% of total expenditures and for 47.3% of budgetary spending. It absorbed 44.7% of overall revenues and 47.3% of budgetary receipts. Repayment of principal on foreign debt rose by 13.3% to $131.3m. Excluding debt servicing, the primary surplus reached $1.44bn, or 21.8% of budget expenditures compared to a surplus of $1.3bn, or 20% of budget spending a year earlier. The overall primary surplus reached $1.1bn, or 15.5% of total spending compared to a surplus of $647m, or 8.6% of total expenditures a year earlier.

Treasury transfers to Electricité du Liban down 34% year-on-year

Figures released by the Finance Ministry show that Treasury transfers to Electricité du Liban totaled $747m in the first 8 months of 2010, constituting a decrease of 34% from $1.14bn in the same period last year. It said that reimbursements to the Kuwait Petroleum Corporation (KPC) and to Algerian energy conglomerate Sonatrach accounted for $704m, or 94.2% of transfers year-to-August, while EdL's debt servicing represented the remaining 5.8%. It attributed the decline to a drop of $362m, or 34%, in payments to KPC and Sonatrach during the covered period, and to a decrease in debt servicing by $28m or 39% 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 imported quantity and in the average oil price according to which the 2010 payments were made. It noted that the decline also reflects a 24% 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 8 months 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.

Trade deficit up 7% to $9bn in first 8 months of 2010

Total imports reached $11.88bn in the first 8 months of 2010, constituting an increase of 11% from the same period last year, while aggregate exports rose by 26% to $2.73bn in the same period, leading to a trade deficit of $9.15bn, up 6.6% year-on-year. Imports of oil and mineral fuels increased by 9.6% year-on-year to nearly $2.3bn, while non-hydrocarbon imports grew by 11% to $8.64bn. The rise of non-oil imports was mainly driven by higher imports of natural or cultured pearls, reactors, boilers, machinery & mechanical appliances, iron & steel and pharmaceutical products. The coverage ratio reached 23% year-to-August compared to 20% in the same period of 2009. The trade deficit was $1.14bn in August 2010, down 5.2% from the same month last year. Imports averaged $1.5bn and exports averaged $341m on a monthly basis year-to-August, resulting in an average monthly trade deficit of $1.14bn during the covered period.

In volume terms, imports reached 9.9 million tons in the first 8 months of 2010, constituting an increase of 1.7% from the same period last year, while exports rose by 5.4% to 2 million tons in the same period, leading to a trade deficit of 7.9 million tons up 0.8% year-on-year. Imports of oil and mineral fuels decreased by 15% year-on-year to nearly 3.8 million tons, while non-hydrocarbon imports rose by 15.7% annually to 6.1 million tons.

The United States was the main source of imports with $1.092bn or 9% of the total, followed by China with $1.090m (9%), Italy with $930m (8%), Germany with $848m (7%) and France with $780m (7%). Imports from China and Italy rose by 14% each and those from Germany grew by 3% year-on-year, wile imports from France dropped by 25% and those from the U.S. declined by 7% for the covered period. Switzerland was the main export destination with $375m or 14% of the total, followed by the UAE with $283m (10%), Iraq with $84m (7%), Saudi Arabia with $164m (6%) and Syria with $148m (5%). Exports to the UAE rose by 27% year-on-year and those to Iraq and Saudi Arabia grew by 1% and 2% respectively, while exports to Switzerland declined by 28%, and those Syria regressed by 1% each. Lebanon's main export was jewelry at $753m, or 28% of total exports, followed by machinery and mechanical appliances with $493m (18%), base metals with $307m (11%), prepared foodstuff with $219m (8%) and chemical products with $199m (7%). Re-exports totaled $94m in the first 8 months of 2010, down 6% from $100m in the same period last year.

Industrial exports up 35% to $2.32bn in first 8 months of 2010

Figures released by the Ministry of Industry show that industrial exports reached $2.32bn in the first 8 months of 2010, constituting an increase of 35.2% from $1.7bn in the same period last year. Industrial exports reached $262m in August 2010, up by 32.3% from August 2010 and up by 20.7% from September 2009. Machinery and mechanical appliances accounted for $493m, or 21% of total industrial exports in the first 8 months of 2010, followed by pearls & precious or semi-precious stone with $410m (20%) and base metals & articles of base metals with $449m (19.4%). In parallel, imports of industrial equipment and machinery reached $159m in the first 8 months of the year, up 14% from the same period in 2009. Italy was the main source of imports of industrial equipments, accounting for 30.1% of total, followed by China with 15.7% and Germany with 15.2%.

Italy approves €0.4m grant for Agriculture Ministry

The Italian Development Cooperation Office in Lebanon extended to the Ministry of Agriculture a grant of €400,000 to raise potato quality production through the application of good practices and proper varieties, as well as to improve food security. The project aims to increase the sustainable quantity and quality of potato production in Lebanon, in order to comply with European Union standards for exports. The project will be implemented by the Mediterranean Agronomic Institute of Bari (MAIB), which is a center for post-graduate training and applied scientific research, in full coordination with the Ministry of Agriculture.

Customs receipts up 7% to $1.3bn in first 8 months of 2010

Customs revenues reached $1.3bn in the first 8 months of 2010, up 6.8% from $1.2bn in the same period last year. Custom revenues totaled $168m in August 2010 compared to $181m in July 2010 and to $163m in August 2009. The Port of Beirut continues to be the main point of customs receipts, accounting for 88.8% of the total in first 8 months of 2010, and was followed by the Hariri International Airport with 5.4%, the Port of Tripoli with 3.4%, and the Masnaa crossing point with 2% of the total. Customs receipts from the value-added tax totaled $991.5m in the first 8 months of the year. The Port of Beirut accounted for 76% of such receipts, and was followed by the Hariri International Airport with 8.6%, the Port of Tripoli with 6.7%, and the Masnaa crossing point with 6% of the total. As such, overall custom receipts reached $2.3bn in the first 8 months of the year, with the Port of Beirut accounting for 82.7% of the total, and was followed by the Hariri International Airport with 6.7%, the Port of Tripoli with 4.8%, and the Masnaa crossing point with 3.7% of the total. In addition, other entry points accounted for the balance, with the port of Saida for 1.5%, the port of Tyr for 0.2%, and the crossing points of Abboudieh, Arida and Kaa for 0.4%. Overall customs receipts reached $295m in August 2010 when including revenues from the value-added tax that totaled $126.6m in the same period.

Term savings attract 87% of customer deposits

Figures issued by the Central Bank about the distribution of bank deposits showed that term savings in the private sector deposits was the preferred type of account for resident and non-resident bank clients in Lebanese pounds as well as in foreign currencies as at June 2010. Term saving deposits accounted for $39.3bn, or 81.4%, of resident deposits in foreign currency and were followed by checking and current accounts with $7.2bn (15%), sight saving accounts with $1.4bn (2.9%) and other creditor accounts with $369.3m (0.8%). Further, term saving accounts attracted $32.7bn, or 93.3%, of resident deposits in Lebanese pounds, followed by checking and current accounts with $1.8bn (5.3%) and sight saving accounts with $468.7m (1.3%). Non-residents also favored term saving accounts, which accounted for $12.3bn, or 86%, of their foreign currency deposits and for $2.4bn, or 97%, of their Lebanese pound deposits. Term saving deposits in all currencies totaled $86.7bn at the end of June 2010, accounting for 87% of deposits in Lebanese pounds and foreign currencies.

In parallel, Beirut and its suburbs accounted for 68.8% of private sector deposits and for 49.8% of depositors. It was followed by Mount Lebanon with 13% of deposits and 17% of beneficiaries; South Lebanon with 6.9% of deposits and 11.7% of beneficiaries; North Lebanon with 6.3% of deposits and 13.7% of depositors; and the Bekaa with 5.1% of deposits and 7.8% of beneficiaries.

Construction and public work activity up in second quarter of 2010

The Central Bank's quarterly business survey indicated that construction increased during the second quarter of 2010, with a balance of opinion standing at +20, compared to +16 during the same quarter of 2009. The business survey reflects the opinions of enterprise managers on the evolution of their businesses, in order to depict the evolution of a number of key economic variables. For public work, the balance of opinion stood at +5 in the second quarter of 2010 compared to +4 in the same quarter of 2009. The balance of opinion for the general activity slightly decreased from +15 during the second quarter of 2010, compared to +16 during the same quarter of 2009. The balance of opinion for construction costs increased from +28 to +41 in the same period. The balance of opinion is the difference between the proportion of managers out of total surveyed managers estimating that there has been an improvement in the said variable and the proportion of those who have reported a decline in the variable.

Construction and Public Work Activity: Year-on-year evolution of opinions

Aggregate results	Q2-07	Q2-08	Q2-09	Q2-10
General activity	-12	7	16	15
Construction	-13	17	16	20
Public work	-18	-12	4	5
Portfolio of projects	-17	5	12	16
Construction costs	49	69	28	41
Investments (% of yes)	33%	30%	46%	43%

Source: Central Bank Business Survey Q2-10

Most NSSF categories in deficit in 2009

Figures issued by the National Social Security Fund (NSSF) show a surplus of LBP12bn in the "Sickness & Maternity" category in 2009, the first such surplus in many years. Revenues totaled LBP628bn, representing an increase of 44.4% from 2008, while expenditures reached about LBP616bn, up 13.5% year-on-year. But the accumulated deficit until end-2009 amounted to LBP316.3bn, and the Fund had to withdraw LBP 600bn from the "End-of-Service" category to cover the large deficit at "Sickness & Maternity". Also, the "Family Benefits" category recorded a deficit of LBP343.3bn in 2009, while the accumulated deficit in this category till end-2009 reached LBP301.2bn. In parallel, the "End-of-Service" category posted a surplus of around LBP883.5bn in 2009, with revenues totaling close to LBP1,140bn and expenditures at LBP254bn. Also, the "Voluntary Subscriptions" category posted a surplus of LBP1.8bn last year and a cumulative suplus of LBP8.3bn as at end-2009. The Fund's management expenses, which include salaries and other benefits, totaled around LBP46bn in 2009. There are around 1.5 million Lebanese who are covered by the NSSF, which owes hospitals millions of dollars in outstanding bills.

The NSFF proposed a plan to revise the contribution rates and increase the ceiling of income subject to contributions in order to improve the accounts of the Fund and to cover its rising deficit. The NSSF proposed to raise the subscription fee to the Sickness & Maternity category from 9% to 12%, with a contribution of 9% from the employer and 3% from the employee. It also suggested to increase the income level subject to the contributions to LBP 2.5m per month. It also suggested increasing subscriptions to the Family Benefits category by 1.09 percentage points.

Number of mobile subscribers up by 19%, voice and data capacity to increase

The Ministry of Telecommunications indicated that the number of mobile phone subscribers in Lebanon increased by 19% from 2.29 million at end-October 2009 to 2.72 million currently. It added that the number of land-line subscribers rose by 4% from 796,000 to 824,000 users during the same period. It noted that Lebanon still lags behind most countries in the world in terms of quality of services and prices despite the slight decline in tariffs on pre-paid and fixed cellular cards,. The ministry recently reduced the rates of night mobile phone calls by up to 40% for holders of pre-paid cards. Further, it announced the introduction of third-generation cellular technology at the beginning of 2011, which is the third generation of standards for mobile phones and mobile telecommunications services that meet the specifications of the International Telecommunication Union. In parallel, the ministry said that international voice and data capacity has increased from 1.25 gigabytes at the start of 2010 to 2.5 gigabytes currently, and will increase further through linkages with the Cadmus line and the IMEWE cable. The first connection is expected to provide an additional capacity in 210 gigabytes, or an increase by 168 times; and the second will supply 120 additional gigabytes, constituting an increase of 100 times.

Corporate Highlights

Stock market activity at $1.7bn in first 9 months of 2010

Figures released by the Beirut Stock Exchange indicate that total trading volume reached 140 million shares in the first 9 months of 2010, constituting an increase of 56% from the same period last year, while aggregate turnover amounted to $1.66bn, up 113.7% from a turnover of $779m in the same period last year. Market capitalization increased by 6.3% to $12.4bn in the first 9 months of 2010, of which 72% was in banking stocks and 25% in real estate stocks. The bourse's activity was artificially inflated in January due to the sale of regional investment bank EFG Hermes of its entire stake in Bank Audi sal during the month. It was also boosted this year from the sale of Byblos Bank of 47.6 million common shares to the International Finance Corporation and of 13.6 million common shares to Société de Promotion et de Participation pour la Cooperation Economique S.A. (PROPARCO). The market liquidity ratio was 13.4% compared to 6.7% for the same period of 2009. Bank stocks accounted for 90.4% of aggregate trading volume in the first 9 months of the year, followed by real estate stocks with 9%. In terms of value of shares traded, banking stocks accounted for 81.8% of aggregate value, followed by real estate stocks with 18%. The average daily traded volume for the period was 758,154 shares for an average daily value of $9m. The figures reflect increases of 55% in volume and 112.6% in value year-on-year.

Launch of Danish-Lebanese Businessmen Association

The Danish-Lebanese Businessmen Association (DLBA) officially launched its operations in Lebanon. The association's objectives are to develop and expand trade and economic ties between Lebanon and Denmark, to promote and strengthen contacts between Danish and Lebanese trade and business associations, to identify business and commercial opportunities for both sides, to provide a networking platform for its members, and to organize related events. It also intends to facilitate the exchange of economic and trade information among Lebanese and Danish businessmen, and to familiarize Lebanese businesses with the Danish business community and help them find business partners. The DLBA urged Lebanese companies and businessmen to increase economic cooperation and expand trade links with Denmark. Trade activity between the two countries remains very low, as the aggregate value of bilateral trade totaled $92.1m in 2009. Lebanese imports from Denmark increased by 15.3% year-on-year to $88.2m, while Lebanese exports to Denmark increased by 13.5% to $3.88m in 2009. As such, imports from Denmark account for 0.5% of total Lebanese imports and exports represent 0.11% of aggregate exports. Demark is the 32nd largest importer in the world with imports exceeding $100bn last year.

Balance sheet of financial institutions posts 19% annual increase in June

Figures released by the Central Bank show that the consolidated balance sheet of financial institutions in Lebanon reached LBP 1,497bn, or $993m, at the end of June 2010, constituting an increase of 3.5% from end-2009 and 19.3% from end-June 2009. Liabilities to the private sector reached $206.6m, up 12.4% from end-2009 and by 50.1% year-on-year. Commitments to the financial sector reached $363m at the end of June, representing a decrease of 6.7% from end-2009 and of 0.68% year-on-year.

On the assets' side, financial institutions' operations with commercial banks reached $310.3m at end-June 2010, down 3.1% from end-2009 and up by 18.5% from end-June 2009. Lending to the private sector reached $504.3m, constituting an increase of 8.7% from end-2009 and an increase of 22.1% year-on-year. Investments in government securities totaled $110.9m at end-June 2010, down 19.6% from end-2009 and 13.3% from end-June 2009. Further, the aggregate capital account of financial institutions reached $286m at the end of June, up 10.3% from the end-2009 and up by 16% from $246.4m at the end of June 2009. There were 46 financial institutions operating in Lebanon at mid-2008.

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

Economic Research & Analysis Department
Byblos Bank Group
P.O. Box 11-5605
Beirut – Lebanon
Tel: (961) 1 338 100
Fax: (961) 1 217 774
E-mail: research@byblosbank.com.lb
www.byblosbank.com

BYBLOS BANK GROUP

LEBANON

Byblos Bank S.A.L
Achrafieh - Beirut
Elias Sarkis Avenue - Byblos Bank Tower
P.O.Box: 11-5605
Riad El Solh - Beirut 1107 2811 - Lebanon
Phone: (+ 961) 1 335200
Fax: (+ 961) 1 339436

SYRIA

Byblos Bank Syria S.A
Abu Roummaneh Head Office
Al Chaalan - Amine Loutfi Hafez Str.
P.O.Box: 5424 Damascus - Syria
Phone: (+ 963) 11 9292 - 3348240 / 1 / 2 / 3 / 4
Fax: (+ 963) 11 3348207
E-mail: byblosbanksyria@byblosbank.com

IRAQ

Erbil Branch, Kurdistan, Iraq
Street 60,
Near Sports Stadium
P.O.Box: 34 - 0383 Erbil - Iraq
Phone: (+ 964) 66 2233457 / 9
Fax: (+ 964) 66 2233458
E-mail: iraqbranch@byblosbank.com.lb

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

UNITED ARAB EMIRATES

Byblos Bank Abu Dhabi Representative Office
Intersection of Muroor and Electra Streets
P.O.Box: 73893 Abu Dhabi - UAE
Phone: (+ 971) 2 6336400
Fax: (+ 971) 2 6338400
E-mail: byblosbankuae@byblosbank.com

ARMENIA

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

CYPRUS

Limassol Branch
1, Arch. Kyprianou / St. Andrew Street
P.O.Box 50218
3602 Limassol - Cyprus
Phone: (+ 357) 25 341433 / 4 / 5
Fax: (+ 357) 25 367139
E-mail: bybloscyprus@byblosbank.com

BELGIUM

Byblos Bank Europe S.A
Bussels Head Office
10, Rue Montoyer
B-1000 Brussels - Belgium
Phone: (+ 32) 2 551 00 20
Fax: (+ 32) 2 513 05 26
E-mail: byblos.europe@byblosbankeur.com

ENGLAND

London Branch
Berkeley Square House - Suite 5
Berkeley Sq.
GB - London W1J 6BS - United Kingdom
Phone: (+ 44) 207 493 35 37
Fax: (+ 44) 207 493 12 33
E-mail: byblos.europe@byblosbankeur.com

FRANCE

Paris Branch
15 Rue Lord Byron
F- 75008 Paris - France
Phone: (+ 33) 1 45 63 10 01
Fax: (+ 33) 1 45 61 15 77
E-mail: byblos.europe@byblosbankeur.com

SUDAN

Byblos Bank Africa Ltd.
Khartoum - Sudan
El Amarat -Street 21
P.O.Box: 8121 El Amarat - Khartoum - Sudan
Phone: (+ 249) 183 566 444
Fax: (+ 249) 183 566 454
E-mail: byblosbankafrica@byblosbank.com

NIGERIA

Byblos Bank Nigeria Representative Office
10-14 Bourdillon Road
Ikoyi, Lagos - Nigeria
Phone: (+ 234) 1 6653633
(+ 234) 1 8990799
E-mail: nigeriarepresentativeoffice@byblosbank.com.lb

DEMOCRATIC REPUBLIC OF CONGO

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