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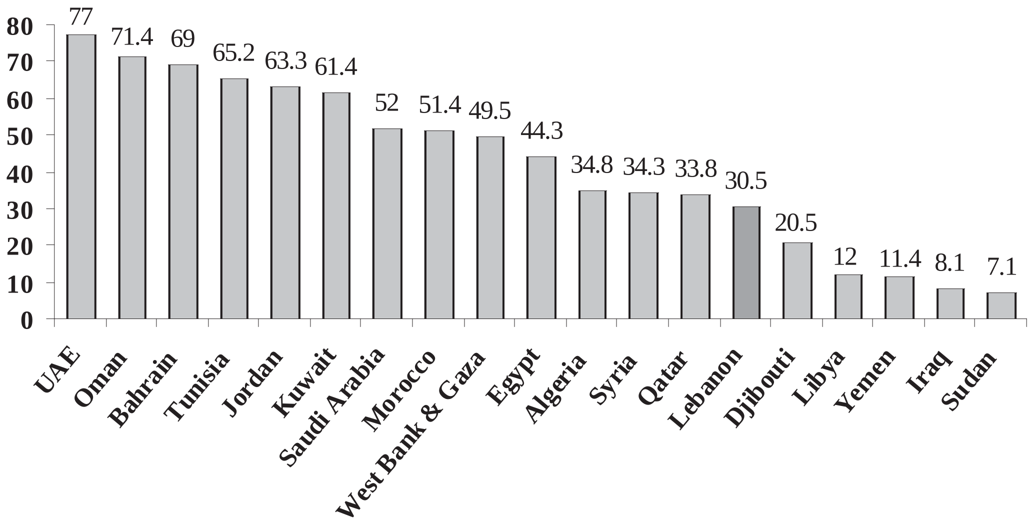
# LEBANON THIS WEEK

## In This Issue

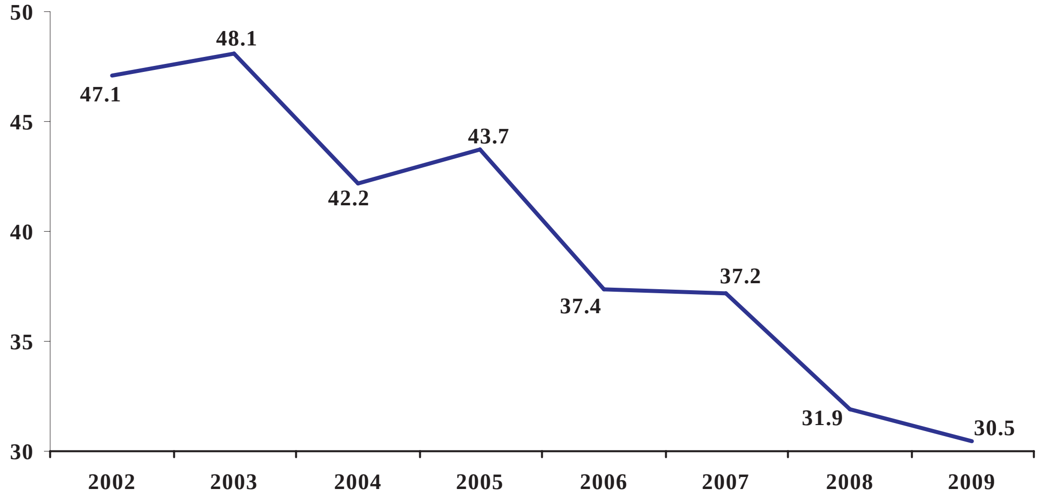


## Charts of the Week

Government Effectiveness Indicator of Arab Countries in 2009 in Percentile Rank




Government Effectiveness Indicator for Lebanon in Percentile Rank




*Source: World Bank Governance Indicators*

## Quote to Note

"Given the large fiscal deficits and the high debt burden, additional resources are required to finance the increase in government spending on infrastructure."

*The Institute of International Finance, on the need to reduce budget transfers to Electricité du Liban, privatizing the two mobile phone companies, and raising additional tax revenues*

## Number of the Week

**$28.5bn:** The Central Bank of Lebanon's gross foreign currency reserves at the end of September 2010, as estimated by the Association of Banks in Lebanon

## Economic Indicators

| $m (unless otherwise mentioned) | 2008 | Sep 09 | 2009 | July 10 | August 10 | Sep10 | % Change* |
|---|---|---|---|---|---|---|---|
| Exports | 3,478 | 298 | 3,486 | 385 | 312 | 290 | (2.68) |
| Imports | 16,133 | 1,250 | 16,241 | 1,449 | 1,449 | 1,310 | 4.80 |
| Trade Balance | (12,655) | (952) | (12,755) | ( 1,064) | (1,137) | (1,020) | 7.14 |
| Balance of Payments | 3,462 | 475 | 7,899 | 106 | 447 | 186 | (60.84) |
| Checks Cleared in LBP | 9,350 | 900 | 11,122 | 1,674 | 1,152 | 1,124 | 24.89 |
| Checks Cleared in FC | 43,174 | 3,882 | 45,270 | 4,609 | 4,470 | 4,037 | 3.99 |
| Total Checks Cleared | 52,524 | 4,782 | 56,392 | 6,283 | 5,622 | 5,161 | 7.93 |
| Budget Deficit/Surplus | (2,921) | (381) | (2,960) | (52) | (358) | 472 | (223.88) |
| Primary Balance | 597 | 47 | 1,078 | 279 | (69) | (13) | (127.66) |
| Airport Passengers | 4,085,334 | 463,919 | 4,986,544 | 497,647 | 578,452 | 550,421 | 18.65 |

| $bn (unless otherwise mentioned) | Dec 2008 | Sep 09 | May 10 | June 10 | August 10 | Sep 10 | % Change* |
|---|---|---|---|---|---|---|---|
| BdL FX Reserves | 17.06 | 23.21 | 27.32 | 27.42 | 28.24 | 28.46 | 22.62 |
| *In months of Imports* | *15.03* | *18.57* | *19.96* | *18.92* | *19.5* | *21.7* | *16.86* |
| Public Debt | 47.02 | 49.18 | 51.07 | 51.00 | 50.18 | 50.85 | 3.40 |
| Net Public Debt | 41.49 | 43.61 | 44.24 | 44.13 | 44.4 | 44.64 | 2.36 |
| Bank Assets | 94.25 | 109.90 | 120.69 | 121.68 | 124.63 | 126.74 | 15.32 |
| Bank Deposits (Private Sector) | 77.78 | 91.19 | 99.21 | 100.12 | 102.72 | 103.85 | 13.88 |
| Bank Loans to Private Sector | 25.04 | 27.89 | 31.44 | 31.71 | 33.24 | 33.82 | 21.26 |
| Money Supply M2 | 24.76 | 31.57 | 37.43 | 38.02 | 38.78 | 39.32 | 24.55 |
| Money Supply M3 | 68.66 | 78.73 | 86.04 | 86.74 | 88.9 | 90.06 | 14.39 |
| LBP Lending Rate (%) | 9.95 | 9.22 | 8.47 | 8.37 | 8.05 | 8.11 | (111b.p.) |
| LBP Deposit Rate (%) | 7.22 | 6.94 | 5.93 | 5.83 | 5.72 | 5.70 | (124b.p.) |
| USD Lending Rate (%) | 7.47 | 7.24 | 7.10 | 7.03 | 7.04 | 7.04 | (20b.p.) |
| USD Deposit Rate (%) | 3.33 | 3.16 | 2.84 | 2.75 | 2.78 | 2.78 | (38b.p.) |
| %* Change in CPI** | 6.36 | 1.99 | 6.51 | 7.42 | 4.74 | 7.15 | 516b.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" | 18.39 | (1.61) | 98,584 | 15.06% |
| Solidere "B" | 18.20 | (0.62) | 92,660 | 9.69% |
| Byblos Common | 1.72 | 0.00 | 178,080 | 5.06% |
| Byblos Priority | 1.73 | 1.17 | 26,500 | 2.92% |
| Byblos Pref. 08 | 101.50 | 0.00 | 2,598 | 1.66% |
| BLOM GDR | 9.43 | (0.11) | 4,327 | 5.71% |
| BLOM Listed | 8.80 | 0.00 | 2,536,440 | 15.49% |
| Audi GDR | 8.44 | 0.00 | 0 | 7.03% |
| Audi Listed | 7.99 | (0.12) | 8,032,631 | 22.52% |
| HOLCIM | 14.95 | 3.10 | 2,411 | 2.39% |

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

| Sovereign Eurobonds | Coupon % | Mid Price $ | Mid Yield % |
|---|---|---|---|
| Nov. 2010 | 6.875 | 100.01 | 5.57 |
| May 2011 | 7.875 | 103.10 | 1.73 |
| Mar. 2012 | 7.500 | 106.00 | 2.90 |
| Sep. 2012 | 7.750 | 108.50 | 2.88 |
| June 2013 | 8.625 | 112.50 | 3.53 |
| Apr. 2015 | 10.000 | 121.50 | 4.59 |
| Jan. 2016 | 8.500 | 116.25 | 4.90 |
| May 2016 | 11.625 | 130.75 | 5.12 |
| Mar. 2017 | 9.000 | 121.63 | 4.98 |
| Apr. 2021 | 8.250 | 117.75 | 5.94 |

*Source: Byblos Capital Markets*

| | November 8-12 | November 1-5 | % Change | October 2010 | October 2009 | % Change |
|---|---|---|---|---|---|---|
| **Total Shares Traded** | 10,974,231 | 614,388 | 1,686.21 | 5,788,714 | 4,968,991 | 16.5 |
| **Total Value Traded** | $90,657,905 | $8,255,689 | 998.13 | $55,744,061 | $103,486,832 | (46.1) |
| **Market Capitalization** | $12.21bn | $12.25bn | (0.33) | $12.21bn | $12.60bn | (3.1) |

*Source: Beirut Stock Exchange (BSE)*

## Lebanon in the News

### Lebanon's brand perception declines in third quarter

The Nation Brand Perception Index (NBPI) ranked Lebanon in 194th place among 200 countries and territories around the world and in 18th place among 20 countries in the Middle East and North Africa region in the third quarter of 2010. Lebanon also came in 41st place among 43 upper-middle income countries (UMICs) included in the survey. Lebanon ranked in 178th place globally and in 14th place regionally in the second quarter of 2010. The NBPI analyzes international perceptions of a country's brand. It covers the tone, whether positive or negative, and frequency of mentions in the international media. It said the number of times a country is mentioned reflects the strength of the brand, but not necessarily its quality. The index is based on a quarterly analysis of millions of mentions of countries in hundreds of thousands of news articles in 38 prominent global media sources. The index scores rely both on the overall quality of the media coverage and the prominence of the country, determined by the number of country references or mentions.

Globally, Lebanon ranked ahead of Russia, Iran and Pakistan and came behind Somalia, North Korea and Colombia. It also ranked ahead of Russia and Mexico, and behind Colombia and Poland among UMICs. Lebanon received a score of 26.9 points, well below the global and UMICs averages of 50.1 points and 49.1 points respectively, the MENA average of 44.5 points and the Arab average of 46 points. Lebanon's score decreased by 35.2% quarter-to-quarter and by 35.4% from the third quarter of 2009. Its score was 39.6 in the first quarter of 2010, 53.1 points in the fourth quarter of 2009, 41.6 points in the third quarter, 43 points in the second quarter and 36.4 points in the first quarter of last year.

**MENA Scores & Rankings in Q3-2010**

| | Score | MENA Rank | Global Rank |
|---|---|---|---|
| Qatar | 62.9 | 1 | 15 |
| Kuwait | 62.3 | 2 | 18 |
| Oman | 55.6 | 3 | 31 |
| Libya | 53.1 | 4 | 38 |
| Turkey | 52.3 | 5 | 48 |
| Morocco | 51.3 | 6 | 64 |
| Tunisia | 50.8 | 7 | 77 |
| Jordan | 50.5 | 8 | 88 |
| Saudi Arabia | 49.5 | 9 | 124 |
| Bahrain | 48.6 | 10 | 139 |
| Egypt | 48.0 | 11 | 147 |
| UAE | 47.4 | 12 | 152 |
| Syria | 46.8 | 13 | 157 |
| Algeria | 44.8 | 14 | 168 |
| Israel | 40.0 | 15 | 183 |
| Palestine | 39.4 | 16 | 186 |
| Yemen | 36.6 | 17 | 190 |
| **Lebanon** | **26.9** | **18** | **194** |
| Iran | 16.3 | 19 | 196 |
| Iraq | 7.8 | 20 | 198 |

*Source: East West Communications, Byblos Research*

In parallel, Lebanon was the 36th most mentioned country in the international media in the third quarter of 2010, the 7th most mentioned country from the MENA region and the 7th most mentioned among UMICs. Globally, Lebanon was mentioned more than Hong Kong, Sweden and Belgium, and less than Egypt, Greece and North Korea. It was also mentioned more than Poland and Cuba and less than Turkey and Malaysia among UMICs. It was the 55th most mentioned country in the previous quarter and the 63rd most mentioned in the first quarter of 2010. Lebanon was mentioned 13,521 times in the international media, below the global average mentions of 20,328 times, the MENA average mentions of 18,717 times, but above the Arab average mentions of 10,706 times and the UMICs' average mentions of 8,140 times. Lebanon's number of mentions in the third quarter of 2010 was higher than its 7,603 mentions in the preceding quarter and its 7,041 mentions in the first quarter of 2009. Singapore had the best nation brand perception in the world with a score of 112.4 points and Afghanistan the worst brand perception with a score of 6.6 points.

### New Eurobond issue oversubscribed

The Ministry of Finance declared that it has issued a $725m dual-tranche Eurobond and that proceeds will be used to refinance maturities in November. Lebanon has $830m in Eurobonds maturing this month that include $700m in principal and $130m in interest. The ministry said the issue was more than three times oversubscribed, with non-resident institutions accounting for 26% of subscriptions. It added that the issue carries an average coupon rate of 5.44% and an average time to maturity of 9.21 years, resulting in the lowest market yields ever issued by the Republic of Lebanon on fixed rate bonds. The first tranche consists of a $500m bond that has an 8-year maturity of November 2018 and carries a coupon rate of 5.15% paid semi-annually. Domestic subscribers, mainly commercial banks, accounted for 70% of subscriptions and were allocated amounts on a prorata basis, with the balance of 30% subscribed by non-resident institutions. The second tranche consists of a $225m bond that has a 12-year maturity of October 2022 and carries a coupon rate of 6.1% paid semi-annually. Domestic subscribers accounted for 84% of subscriptions, with the balance of 16% subscribed by non-resident institutions. Last February, the ministry issued $1.2bn in Eurobonds under the Republic of Lebanon's Global Medium Term Note Program to refinance $1.1bn in debt that matured in March. The Eurobond has a 10-year maturity and carries a coupon rate of 6.375%. In parallel, Central Bank Governor Riad Salameh indicated that Lebanon does not plan to issue sukuk, or Islamic bonds, as these require legislation by Parliament about pledging public assets to the bonds and that passing such a law is not possible at present.

Lebanon's gross public debt reached $50.8bn at the end of September 2010, constituting an increase of 0.5% from end-2009, and an increase of 3.4% from end-September 2009. Domestic debt increased by 4.9% to $29.2bn, while external debt decreased by 1.7% annually to $21bn. Local currency debt accounted for 58.7% of gross public debt at end-September 2010 compared to 56.6% a year earlier. Commercial banks account for about 59.2% of the total public debt; followed by the Central Bank with 18.1%; and public agencies, financial institutions and the general public with 11.2%. The public debt is forecast to reach 136% of GDP at the end of 2010, down from 150% of GDP at end-2009.

## Expatriates' remittances at $8.2bn in 2010, 13th highest globally and highest in MENA region

The World Bank estimated the inflow of expatriates' remittances to Lebanon at $8.2bn in 2010, constituting a rise of 8.2% from $7.6bn in 2009 and compared to $7.2bn in 2008 and $5.8bn in 2007. Further, the Bank revised upward its earlier estimate of $7bn for remittance inflows for 2009. However, the World Bank's definition of expatriates' remittances includes compensation of employees, which totaled $1.17bn in 2009 and $1.4bn in 2008 in the case of Lebanon. When excluding this figure, remittance inflows to Lebanon in their more accurate definition would decline to $6.4bn instead of $7.6bn in 2009 and to $5.8bn instead of $7.2bn in 2008. Globally, Lebanon was the 13th largest recipient of remittances, and the 8th largest recipient among developing economies in 2010. It ranked ahead of Egypt and Vietnam, and behind Pakistan and Nigeria. Lebanon was the largest recipient among 18 countries in the MENA region as well as among 15 Arab countries included in the survey. Further, Lebanon was the third largest recipient of remittances among 42 Upper Middle Income Countries (UMICs) covered by the survey. It ranked ahead of Russia, Serbia and Romania, and came behind Poland and Mexico among UMICs.

**Remittance Inflows to Arab Countries in 2010**

| Country | US$m | Global Rank | % of GDP* |
|---|---|---|---|
| **Lebanon** | **8,177** | **13** | **22.4%** |
| Egypt | 7,681 | 14 | 4.0% |
| Morocco | 6,447 | 18 | 6.6% |
| Jordan | 3,789 | 28 | 15.6% |
| Sudan | 3,178 | 36 | 5.6% |
| Algeria | 2,031 | 47 | 1.4% |
| Tunisia | 1,960 | 49 | 5.3% |
| Yemen | 1,471 | 60 | 5.2% |
| Syria | 1,407 | 61 | 2.4% |
| West Bank | 1,307 | 64 | n/a |
| Saudi Arabia | 233 | 103 | 0.1% |
| Oman | 40 | 136 | 0.1% |
| Djibouti | 28 | 140 | 2.7% |
| Libya | 16 | 147 | 0.0% |
| Mauritania | 2 | 163 | 0.1% |

**for 2009*

*Source: World Bank, Byblos Research*

Remittances inflows to Lebanon account for 1.6% of the global inflow of remittances in 2010, relative to 1.8% in 2009 and 1.9% in 2008; while they represent 2.5% of aggregate remittances to developing economies this year, almost unchanged from 2.46% in 2009 but up from 2.21% in 2008. They also account for 21.7% of remittance inflows to Arab countries and for 23% of total remittance flows to the MENA region in 2010; as well as for 9.5% of remittance inflows to UMICs in 2010 relative to 9% in 2009 and 7.3% in 2008. Also, the 8.2% projected rise of remittances to Lebanon for 2010 is higher than the 5% growth in inflows to the MENA region, the 6% increase for developing countries and the 2.5% rise for UMICs this year. In parallel, the World Bank estimated expatriates' remittances to Lebanon to be equivalent to 22.4% of GDP in 2009, the 6th highest such ratio in the world behind Nepal, Moldova, Lesotho, Tonga and Tajikistan, as well as the highest in the MENA region and among UMICs.

## Economic activity stagnates in September 2010

The Central Bank's Coincident Indicator, an index of economic activity in Lebanon, reached 229 points in September compared to 228.3 points in August 2010 and 211.1 points in September 2009. The Coincident Indicator, an average of 8 weighted economic indicators, was basically unchanged month-on-month, as it rose marginally by 0.3%, and increased by 8.5% year-on-year. The indicator averaged 245 points in the 12-months ending September 2010 compared to 243.5 points in the 12-months ending August 2010 and to 217.8 points in the 12-months ending September 2009. As a result, the average coincident indicator rose by 12.5% year-on-year. The indicator increased for the fifth time in nine months this year, but only for the second time in six months, after peaking in March at an all-time high of 264.5 points. Further, the month-to-month increase in September constituted the smallest month-to-month increase this year, and the smallest improvement ever for the indicator for the covered month. In parallel, the indicator improved 7 times, and regressed 11 times in the month of September since 1993. The indicator averaged 225.8 point in 2009 and 198.4 points in 2008.

## Balance of payments posts surplus of $2.94bn in first 9 months of 2010

Central Bank figures show that Lebanon's balance of payments posted a surplus of $2.94bn in the first 9 months of 2010 compared to a surplus of $4.84bn in the same period last year. The balance of payments posted a surplus of $186m in September compared to a surplus of $446.7m in August and a surplus of $475m in September 2009. The August 2010 surplus was caused by a surplus of $81m in the Central Bank's net foreign assets and a surplus of $105m in those of banks and financial institutions. The cumulative surplus over the first 9 months of 2010 was caused by a surplus of $3.07bn in the Central Bank's net foreign assets and a deficit of $128m in those of banks and financial institutions. The balance of payments posted a cumulative surplus of $7.9bn in 2009 and $3.5bn in 2008.

## Cleared checks up 26% to $51bn in first 9 months of 2010

The value of cleared checks increased by 26.4% to $50.9bn in the first 9 months of 2010 compared to the same period of 2009. The value of cleared checks in Lebanese pounds rose by 22.5% to the equivalent of $9.9bn, while the value of cleared checks in US dollars rose by 27.4% to $41bn. The dollarization rate of cleared checks increased from 79.9% to 80.5% year-on-year. Also, the value of returned checks in domestic and foreign currency amounted to $1.08bn in the first 9 months of 2010, up 35.6% from $793m in the period last year.

### Occupancy at Beirut hotels at 68%, room yields up 1.1% in first 9 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 68% in the first 9 months of 2010, decreasing from 71% in the same period last year. The occupancy rate at Beirut hotels was the 11th highest among 20 markets in the region, while it was the 7th highest in the first 9 months of 2009. The survey said the average rate per room at Beirut hotels was $262 in the first 9 months of 2010, ranking the capital's hotels as the third most expensive in the region behind Dubai-Beach, Doha and Makkah.

The average rate per room at Beirut hotels increased by 6% to $262 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 $194, which declined by 3.2% from $200 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, 43% in August and 53% in September 2010 compared to 85% in January, 76% in February, 74% in March, 81% in April, 68% in May, 69% in June, 87% in July, 75% in August and 62% in September 2009. Beirut hotels had an occupancy rate of 73% for all of 2009. The September decline is attributed in part to the rise in political tensions in the country.

**Hotel Performance in first 9 months of 2010**

| | Occupancy Rate (%) | RevPAR (US$) | RevPAR % change |
|---|---|---|---|
| Hurghada | 85 | 37 | 13.2 |
| Sharm El Sheikh | 85 | 52 | 18.5 |
| Dubai - Beach | 78 | 220 | (7.2) |
| Makkah | 75 | 208 | 35.5 |
| Dubai - Overall | 73 | 152 | (9.7) |
| Jeddah | 72 | 155 | 3.3 |
| Abu Dhabi | 71 | 158 | (30.8) |
| Dubai - City | 71 | 127 | (10.2) |
| Cairo - City | 70 | 81 | 5.2 |
| Cairo - Overall | 70 | 82 | 5.9 |
| **Beirut** | **68** | **179** | **1.1** |
| Al Ain | 68 | 108 | (1.6) |
| Madina | 67 | 115 | 28.3 |
| Muscat | 65 | 145 | (10.0) |
| Amman | 63 | 92 | 11.1 |
| Doha | 60 | 170 | (15.5) |
| Manama | 58 | 148 | (8.4) |
| Riaydh | 54 | 125 | 4.5 |
| Kuwait | 52 | 136 | (4.9) |

*Source: Ernst & Young, Byblos Research*

Further, revenues per available room (RevPAR) were $179 in Beirut in the first 9 months of 2010, up from $177 in the same period last year, ranking it in third place in the region after Dubai-Beach and Makkah. Beirut's RevPAR was up 1.1% year-on-year, posting the tenth highest rise in the Middle East, behind Cairo-City, Riyadh and Jeddah, and compared to an increase of 1.5% 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, $120 in August and $179 in September. Dubai-Beach posted the highest average room rate in the region at $220 and the highest RevPAR at $238, while Sharm El Shaikh along with Hurghada posted the highest occupancy rate at 85% each in the first 9 months of the year.

### Lebanon and France sign €1.1m tax cooperation program

The Ministry of Finance announced a €1.1m joint tax program with the French Finance Ministry to review the value-added tax law and other tax procedures in order to close some of the existing loopholes and improve the implementation of procedures. The initiative is financed by the European Union. Finance Minister Raya al-Hassan said that the modernization of the Lebanese tax system requires the overhaul of taxes on built properties and financial stamp fees, as well as of the inheritance tax. She noted that the new tax system aims to reduce complicated and lengthy tax procedures, improve tax collection, and raise the ministry's audit capacity. She added that the program also aims to transfer French expertise and technical know how to the staff of the Finance Ministry. The program intends to boost the capabilities of the public administration and revise some tax laws to levels comparable to modern European tax laws. The joint program is part of the European Neighborhood Policy which was approved by the Lebanese Cabinet in January 2007.

### Lebanon and Turkey sign trade cooperation agreement

The Chamber of Commerce, Industry & Agriculture of Beirut and Mount Lebanon signed a cooperation agreement with the Izmir Chamber of Commerce (IZTO) in order to strengthen bilateral ties between the two Lebanon and Turkey in the fields of economy, technology and human resources. The agreement aims to exchange information between the two chambers, to increase trade volumes and improve economic ties between companies and to facilitate bilateral commercial activities. The IZTO has more than 70,000 members and is the second biggest chamber of commerce in Turkey. The aggregate value of bilateral trade between Lebanon and Turkey totaled $791.3m in 2009. Lebanese imports from Turkey increase by 3.2% year-on-year to $686.4m, while Lebanese exports to Turkey decreased by 49% to $104.9m in 2009. As such, imports from Turkey account for 4.3% of total Lebanese imports and exports represent 3% of aggregate exports.

## Lebanon ranks 49th globally, 14th in the Middle East & Africa for its microfinance environment

The Economist Intelligence Unit's Global Microfinance Index ranked Lebanon in 49th place among 54 countries worldwide and in last place among 14 countries in the Middle East & Africa (ME&A) in terms of the environment for microfinance. Also, Lebanon came in 12th place among 14 Upper Middle Income Countries (UMICs) included in the survey. It ranked in 48th place worlwide, 15th regionally and 7th among UMICs in 2009. The index evaluates microfinance as a commercially viable and sustainable activity and compares countries across three broad categories that are the regulatory framework, the investment climate and institutional development for microfinance activity. It assigned a 40% weight to each of the regulatory framework and institutional development categories, and a 20% weight to the investment climate category.

Globally, Lebanon ranked ahead of Thailand and Jamaica, and came behind Turkey and Democratic Republic of Congo. Also, Lebanon ranked ahead of Jamaica and Venezuela, and behind Turkey and Uruguay among UMICs. Lebanon received a score of 26.3 points, below the global average of 43.95 points and below the ME&A and UMICs' averages of 41.79 points and 41 points, respectively. Lebanon, Morocco, and Yemen were the only three Arab countries included in the survey. Peru ranked first globally and Venezuela came in last place.

**Global Microfinance Index 2010**

| Country | Score | ME& A Rank | Global Rank |
|---|---|---|---|
| Ghana | 64.9 | 1 | 4 |
| Kenya | 55.0 | 2 | 10 |
| Uganda | 53.9 | 3 | 11 |
| Tanzania | 46.2 | 4 | 24 |
| Yemen | 44.4 | 5 | 27 |
| Nigeria | 44.2 | 6 | 28 |
| Rwanda | 42.4 | 7 | 29 |
| Madagascar | 41.3 | 8 | 31 |
| Mozambique | 38.6 | 9 | 34 |
| Cameroon | 37.3 | 10 | 36 |
| Senegal | 32.5 | 11 | 43 |
| Morocco | 30.3 | 12 | 45 |
| Dem. Rep. Congo | 27.8 | 13 | 47 |
| **Lebanon** | **26.3** | **14** | **49** |

*Source: Economist Intelligence Unit, Byblos Research*

Lebanon ranked in 42nd place globally and in last place among ME&A countries in terms of the regulatory framework for microfinance. Globally, it ranked ahead of Argentina and Uruguay and behind Azerbaijan and Senegal. Also, Lebanon ranked in 36th place globally and in 8th place among ME&A countries on the investment climate category. Globally, it ranked ahead of Indonesia and Paraguay, and behind Tajikistan and Nicaragua. Further, Lebanon ranked in last place globally on the institutional development category. Globally, it tied with the Democratic Republic of Congo, Jamaica, Morocco, Turkey and Vietnam.

## Lebanon completes installation of Megaports project

The United States transferred to Lebanese authorities the Lebanon Megaports project that was implemented at the Port of Beirut as part of the global Megaports Initiative. Lebanon becomes the first country in the Arab world to implement the entire Megports program. The worldwide program was launched by the U.S. Department of Energy and the National Nuclear Security Administration in order to develop detection aptitudes for radioactive materials in cargo transiting the global maritime shipping network. It seeks to deter, detect, and interdict illicitly trafficked nuclear and radiological materials by deploying fixed, mobile and handheld detection equipment. As such, the Megaports Initiative helps partner countries equip major seaports with radiation detection equipment and alarm communication systems. Megaports has partnered with Lebanese Customs to install six detection systems at the Port of Beirut. In addition, the National Nuclear Security Administration has agreed to maintain seven installations at the port that are funded by the European Union and deployed by the International Atomic Energy Agency. Megaports has already partnered with 40 ports worldwide.

## Energy Ministry announces $30m water project

The Ministry of Energy & Water announced water rehabilitation projects in the Northern, Bekaa and Southern regions of the country. The $30m projects include the installation of 42,700 water meters, the building of 273 kilometers of pipelines, the drilling of 25 wells, the enhancement of 8 water reservoirs as well as the construction and rehabilitation of 11 water pumping stations. The projects are expected to benefit more than 630,000 residents across the the three regions. The Bekaa Water Authority will receive $13m for the project's implementation, the North Water Authority $10m and the South Water Authority $7m. The Treasury has already released $15m to finance the related feasibility studies, and is expected to release the balance with the start of the projects' implementation in March 2011.

## Construction permits up 44% in first 9 months of 2010

Figures released by the Association of Engineers of Beirut & Tripoli show that construction permits reached 13.1 million square meters in the first 9 months of 2010, up 43.7% from 9.1 million square meters in the same period last year. Construction permits totaled 1.39 million square meters in September 2010, down 1.9% year-on-year from 1.42 million square meters in September 2009. In parallel, cement deliveries reached 3.8 million tons in the first 9 months of 2010, an increase of 5.3% from 3.7 million tons in the same period last year. Cement deliveries reached 340,000 tons in September 2010, up 2.7% from 331,000 tons in September 2009

## EFG Hermes finalizes acquisition of Crédit Libanais

Regional investment bank EFG Hermes Holding SAE announced that it has completed the acquisition of a 65% stake in Crédit Libanais sal for $542m after receiving the final approval of the Central Bank of Lebanon. It noted that Crédit Libanais disposed of a real estate unit as part of pre?closing conditions, and realized a capital gain of about $11m on the $36m sale. EFG Hermes has a call option for an additional 25% interest in the bank, and will have the right to exercise the call option over the next two years at its sole discretion and at the same terms, including pricing, as those applicable to the acquisition of the initial 65% stake. It said that the acquisition's price-to-book multiple would be considerably lower when taking into consideration the realized capital gain as well as other potential incremental adjustments related to the market value of real estate estimated at $30m and held-to-maturity portfolios of about $195m.

Last January, EFG Hermes sold its entire stake in Bank Audi sal after lengthy discussions with the bank regarding a combination of the two entities did not yield results. In January 2006, EFG Hermes acquired a 20% stake in Audi through a $450m capital increase by the latter, and then increased its stake gradually to 28.6% to become the bank's largest shareholder. EFG Hermes planned at first to acquire a majority stake in Bank Audi. Then it tried to fully merge with the bank two years ago, but it announced in November 2008 that merger negotiations have failed, even though they were ongoing for more than one year.

EFG Hermes said that the aquisition of Crédit Libanais transforms it from an investment company with an investment banking platform into a universal bank. It added that the deal helps diversify its earnings through the introduction of a sustainable commercial banking earnings stream, as well as leads to the diversification of its geographical presence with significant footprint in Lebanon and further expansion potential in the Levant area. Crédit Libanais sal, one of Lebanon's top 10 banks, posted net profits of $58.8m in the first 9 months of the year, up 42% from the same period last year. Its total assets reached $6.3bn and its customer deposits totaled $5.3bn at end-September 2010. It has 61 branches in Lebanon, one branch in each of Cyprus and Bahrain, and a representative office in Canada. It recently established a subsidiary bank in Senegal.

## ALICO ratings upgraded following acquisition by MetLife

Fitch Ratings upgraded the Insurer Financial Strength (IFS) rating of American Life Insurance Company (ALICO) to 'AA-' from 'A+', with a 'stable' outlook. It attributed the upgrade to ALICO's strong stand-alone credit profile and to the announcement that MetLife Inc., the largest life insurer in the United States, has completed the acquisition of ALICO from American International Group Inc. (AIG). Last March, AIG, the largest insurance group in the world, sold its insurance subsidiary ALICO for $15.5bn to MetLife as part of its plan to pay $182.5bn in debt to the U.S. government. The US-based AIG nearly collapsed in 2008 when the financial crisis forced it to make payments tied to Credit Default Swaps it previously sold to banks. ALICO, one of AIG's most profitable subsidiaries, sells life and health insurance, wealth management and retirement plans in more than 55 countries and regions, including Japan, Western, Central & Eastern Europe, the Middle East, South Asia, Latin America and the Caribbean. The agency noted that ALICO is among the top 5 insurers in 23 out of its 55 markets, and has a well established track record of success. It added that ALICO's biggest market is Japan and Poland, which accounted for about 70% and 17%, respectively, of the firm's pre-tax operating income in 2009.

The agency considered ALICO to be a core subsidiary of MetLife, and expected the company to play a key role in MetLife's international expansion strategy. It added that the acquisition of ALICO significantly strengthens and diversifies MetLife's international operations, and increases the share and mix of earnings generated from protection products. Fitch forecast MetLife's earnings from its international businesses to increase by about 40% to 45% compared to 20% in 2009. It noted, however, that MetLife's primary integration challenge is to stabilize ALICO's distribution channels, which have been negatively impacted by the AIG crisis. It said that concerns over the integration with MetLife's existing international operations are somewhat mitigated due to the limited overlap of the two businesses. Fitch noted that ALICO's sales, which have been negatively impacted in part due to AIG-related concerns, have rebounded somewhat and appear to have stabilized. ALICO is the largest provider of life insurance in Lebanon with $70m in premiums generated in 2009, accounting for 21.5% of the Lebanese life insurance market, down from 63% in 2000.

## Kafalat loan guarantees reach $153m in first 10 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 $153.4m in the first 10 months of 2010, up 24.2% from $113.9m in the same period last year. The number of loan guarantees totaled 1,189 year-to-October compared to 852 in the same period last year. The average loan size reached $118,957 compared to $133,638 in the first 10 months of 2009. Mount Lebanon accounted for 42.3% of guarantees, followed by the the South & Nabatieh with 21.9%, Bekaa with 18.7% the North with 12.2%, and Beirut with 4.5%. The agriculture sector accounted for 45.2% of total guarantees, followed by industry with 37.4%, tourism with 14.3%, handicraft with 1.7% and specialized technologies with 1.7%. 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.

## Ratio Highlights

| (in % unless specified) | 2007 | 2008 | 2009 | Change* |
|---|---|---|---|---|
| Nominal GDP*(1)* ($bn) | 25.0 | 29.9 | 34.5 | |
| External Debt / GDP | 84.9 | 70.7 | 61.6 | (910) |
| Local Debt / GDP | 83.2 | 86.5 | 86.5 | (6) |
| Total Debt / GDP | 168.1 | 157.3 | 148.1 | (920) |
| Total External Debt / GDP | 194 | 172 | 171 | (100) |
| Trade Balance / GDP | (36.0) | (42.3) | (37.0) | 530 |
| Exports / Imports | 23.8 | 21.6 | 21.5 | (10) |
| Budget Revenues / GDP | 23.2 | 21.7 | 23.1 | 140 |
| Budget Expenditures / GDP | 33.4 | 24.5 | 25.1 | 60 |
| Budget Balance / GDP | (10.2) | (2.7) | (1.9) | 80 |
| Primary Balance / GDP | 2.9 | 2.0 | 3.1 | 110 |
| BdL FX Reserves / M2 | 59.4 | 67.5 | 71.2 | 370 |
| M3 / GDP | 239.3 | 229.6 | 237.9 | 830 |
| Bank Assets / GDP | 329.0 | 315.2 | 334.1 | 1,890 |
| Bank Deposits / GDP | 269.1 | 260.1 | 277.6 | 1,750 |
| Private Sector Loans / GDP | 81.7 | 83.7 | 82.2 | (150) |
| 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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