



## LEBANON THIS WEEK

### In This Issue

**Economic Indicators.....1**

**Lebanon in the News.....2**

Absence of reforms to keep the economy vulnerable to external shocks and change in investor sentiment

Energy Ministry unveils \$350m gas pipeline project

Lebanon receives €2m to support Paris III reforms

Lebanon represented in list of top 50 Arab billionaires

AFAC moves headquarters to Lebanon

Consumer Price Index up 4.3% annually in November 2010

Trade deficit up 8% to \$12.7bn, non-oil imports rise by 10% in first 11 months of 2010

Customs receipts up 6% to \$1.8bn in first 11 months of 2010

Airport passengers up 12.5% in first 11 months of 2010

Most tourism spending in Lebanon originates from Saudi Arabia, the UAE and Kuwait in first 11 months of 2010

Industrial activity up in third quarter

Cleared checks up 25% to \$57bn in first 10 months of 2010

Construction permits up 41% in first 10 months of 2010

**Corporate Highlights .....6**

Car sales up 6.3% year-on-year in first 11 months of 2010

Berytech Fund invests \$1.2m in technology firm ElementN

Lebanon & Gulf Bank raises \$30m in preferred shares

Crédit Libanais issues \$75m in subordinated bonds

Public Corporation for Housing raises mortgage ceiling to \$179,000

Holcim's net profits at \$18m in first half of 2010

Ciments Blancs' net income at \$2.5m in first half of 2010

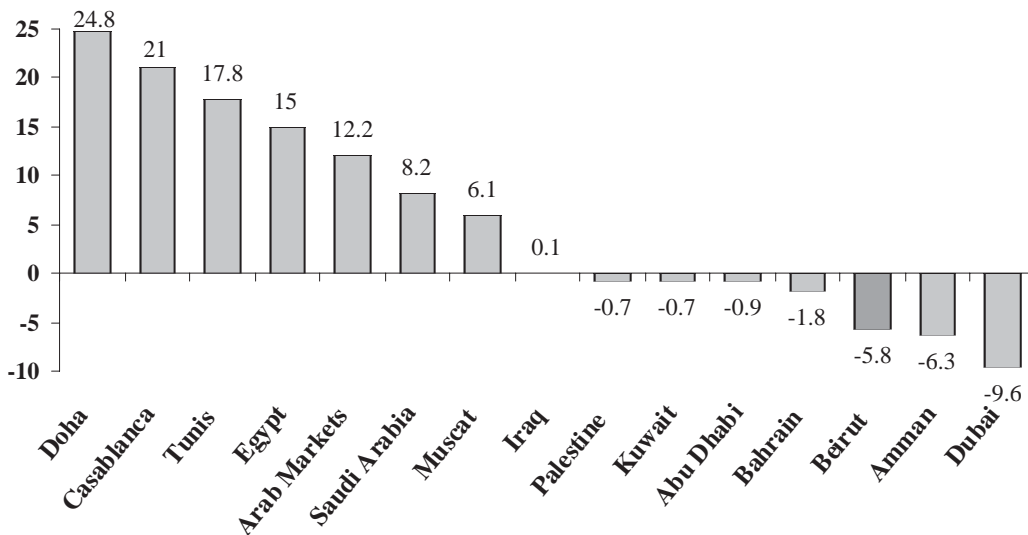
Monoprix supermarkets to reopen in Lebanon

Banque Bemo's ratings placed on review

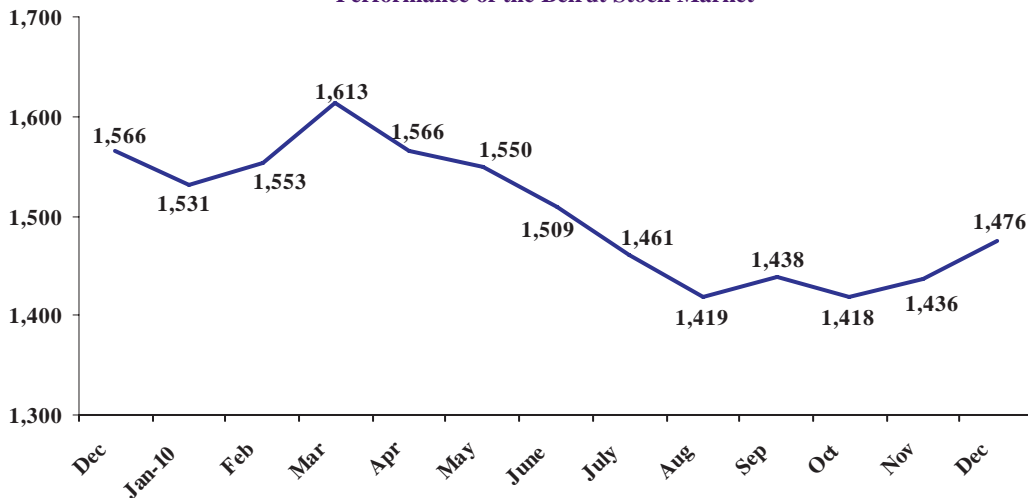
Launch of first ferry line between Lebanon and Turkey

### Charts of the Week

Performance of Arab Stock Markets in 2010 (%)



Performance of the Beirut Stock Market\*



\*BLOM Stock Index

Source: Local Stock Markets

### Quote to Note

"While Lebanon will continue to be influenced by political developments in the country and the region, the risks to the stability of the exchange rate and the banking system remain contained."

*The Institute of International Finance, on the elements of stability in the country*

### Number of the Week

**\$28.2bn:** The Central Bank of Lebanon's gross foreign currency reserves at the end of October 2010, as estimated by the Association of Banks in Lebanon

## Economic Indicators

<b>\$m (unless otherwise mentioned)</b>	<b>2008</b>	<b>Oct 09</b>	<b>2009</b>	<b>August 10</b>	<b>Sep10</b>	<b>Oct 10</b>	<b>% Change*</b>
Exports	3,478	327	3,486	312	290	435	33.03
Imports	16,133	1,291	16,241	1,449	1,310	1,486	15.10
Trade Balance	(12,655)	(964)	(12,755)	(1,137)	(1,020)	(1,051)	9.02
Balance of Payments	3,462	1,167	7,899	447	186	(185)	(115.85)
Checks Cleared in LBP	9,350	1,102	11,122	1,152	1,124	1,849	67.79
Checks Cleared in FC	43,174	4,600	45,270	4,470	4,037	4,526	(1.61)
Total Checks Cleared	52,524	5,702	56,392	5,622	5,161	6,375	11.80
Budget Deficit/Surplus	(2,921)	(190)	(2,960)	(358)	(472)	(460)	142.11
Primary Balance	597	210	1,078	(69)	(44)	(118)	(156.19)
Airport Passengers	4,085,334	388,771	4,986,544	578,452	550,421	417,378	7.36

<b>\$bn (unless otherwise mentioned)</b>	<b>Dec 2008</b>	<b>Oct 09</b>	<b>July 10</b>	<b>August 10</b>	<b>Sep 10</b>	<b>Oct 10</b>	<b>% Change*</b>
BdL FX Reserves	17.06	24.12	27.42	28.24	28.46	28.20	16.92
<i>In months of Imports</i>	<i>15.03</i>	<i>18.68</i>	<i>18.92</i>	<i>19.5</i>	<i>21.7</i>	<i>18.9</i>	<i>1.18</i>
Public Debt	47.02	49.90	51.00	50.18	50.85	51.13	2.46
Net Public Debt	41.49	43.74	44.13	44.4	44.64	44.93	2.72
Bank Assets	94.25	111.57	121.68	124.63	126.74	126.65	13.52
Bank Deposits (Private Sector)	77.78	92.44	100.12	102.72	103.85	104.18	12.70
Bank Loans to Private Sector	25.04	28.09	31.71	33.24	33.82	34.39	22.43
Money Supply M2	24.76	32.36	38.02	38.78	39.32	39.31	21.48
Money Supply M3	68.66	79.71	86.74	88.9	90.06	90.57	13.62
LBP Lending Rate (%)	9.95	9.32	8.37	8.05	8.11	8.15	(117b.p.)
LBP Deposit Rate (%)	7.22	6.86	5.83	5.72	5.70	5.72	(114b.p.)
USD Lending Rate (%)	7.47	7.28	7.03	7.04	7.24	7.08	(20b.p.)
USD Deposit Rate (%)	3.33	3.18	2.75	2.78	2.78	2.81	(37b.p.)
%* Change in CPI**	6.36	1.66	7.42	4.74	7.15	8.69	703b.p.

\* Year-on-Year; \*\* Consumer Price Index

Note: b.p. i.e. basis point

Sources: ABL, BdL

## Capital Markets

<b>Most Traded Stocks on BSE</b>	<b>Last Price (\$)</b>	<b>% Change*</b>	<b>Total Volume</b>	<b>Weight in Market Capitalization</b>
Solidere "A"	18.53	(0.64)	70,981	14.62%
Solidere "B"	18.63	0.27	27,900	9.55%
Byblos Common	1.83	2.81	33,500	5.19%
Byblos Priority	1.83	2.81	103,633	2.97%
Byblos Pref. 08	102.50	0.00	0	1.62%
BLOM GDR	10.35	0.68	57,856	6.03%
BLOM Listed	9.40	0.00	0	15.94%
Audi GDR	9.00	2.16	561,080	7.22%
Audi Listed	8.29	3.62	612,539	22.79%
HOLCIM	17.00	(2.58)	1,150	2.62%

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

<b>Sovereign Eurobonds</b>	<b>Coupon %</b>	<b>Mid Price \$</b>	<b>Mid Yield %</b>
May 2011	7.875	101.75	2.56
Mar. 2012	7.500	104.75	3.09
Sep. 2012	7.750	107.00	3.30
June 2013	8.625	111.25	3.48
Apr. 2015	10.000	120.25	4.76
Jan. 2016	8.500	115.00	4.92
May 2016	11.625	127.50	5.30
Mar. 2017	9.000	119.50	5.14
Nov. 2018	5.150	98.75	5.23
Apr. 2021	8.250	114.50	6.11

Source: Byblos Capital Markets

	<b>December 27-30</b>	<b>December 20-24</b>	<b>% Change</b>	<b>November 2010</b>	<b>November 2009</b>	<b>% Change</b>
<b>Total Shares Traded</b>	1,469,760	826,430	77.84	15,207,803	4,512,808	237
<b>Total Value Traded</b>	\$12,734,873	\$7,032,119	81.10	\$55,744,061	\$106,395,792	9.00
<b>Market Capitalization</b>	\$12.68bn	\$12.62bn	0.46	\$12.54bn	\$12.55bn	898

Source: Beirut Stock Exchange (BSE)



### **Absence of reforms to keep the economy vulnerable to external shocks and change in investor sentiment**

Standard & Poor's estimated Lebanon's real GDP growth at 8.9% in 2010 and projected it to decline to an annual average rate of 5.8% between 2011 and 2013, adding that political stability holds the key to continued economic growth in the short term. It expected that the robust performance of the financial services sector and tourism to continue to support economic activity over the medium term, but added that ongoing political instability may affect consumer and investor confidence. It noted that the prospect of only modest progress on structural reforms, along with large fiscal and current account imbalances, will remain a constraint on economic growth over the next few years. It stressed that, in the absence of structural reforms, the Lebanese economy remains vulnerable to external shocks and adverse swings in investor sentiment. Further, the government's borrowing needs, although lower than in recent years, will continue to limit prospects for sustained private investment growth; while disbursement of Paris-III donor funding may halt without further reforms over the medium term. It warned that foreign investment inflows will remain sensitive to political tensions and uncertainty.

The agency forecast a fiscal deficit of 7% of GDP in 2010, well below the official deficit target of 11% of GDP for the year, due to strong tax receipts and the delay in the approval of the 2010 budget that led to a deferment of capital expenditures until 2011. It noted that meeting official fiscal deficit targets in recent years cannot be attributed to fiscal adjustment, as the political deadlock has paralyzed structural reforms. It said higher capital spending, assuming the 2010 budget gets approved early in 2011, will lead to a widening of the deficit, but continued strong revenue growth should contain it to 7.5% of GDP in 2011. It noted that high spending demands will continue to threaten primary surpluses over the next few years, as debt servicing cost, civil service wage payments and other current spending remain heavy burdens. It warned that higher tax revenues and customs receipts can only partially offset the fiscal gap. It added that implementing structural reforms is critical to improving fiscal flexibility by 2013, but stressed that this will depend on greater political resolve on the part of the government. It considered that structural adjustment and political stability are vital to support sustained improvement in the fiscal deficit and to maintain confidence in the banking system over the medium- to long-term.

S&P indicated that despite continued heavy public spending, lower-than-expected Paris-III disbursements and the absence of privatization, primary fiscal surpluses generated by stronger revenues are likely to result in a fourth successive yearly decline in the level of the public debt from 148% of GDP in 2009 to 133% of GDP at end-2010. However, the agency considered that Lebanon would need to generate large primary surpluses and push ahead with privatization to reduce its debt stock.

It urged the rapid privatization of the electricity sector but said that a political consensus on how to proceed is not apparent. It added that the divestiture of the state's telecom assets has been discussed for some time but without concrete results, and is likely to remain on hold at least until 2012. It pointed out the government's high dependency on the domestic banking sector to finance its deficits, adding that this dependence reduces the rollover risk associated with debt instruments. It stressed, however, that the banks' willingness to roll over public debt maturities should not be taken for granted.

<b>Comparative Indicators for 2010</b>		
	<b>Lebanon</b>	<b>Median of 'B' rated countries</b>
GDP per capita (\$)	\$9,290	\$2,724
Real GDP (% change)	8.9%	4.4%
Real GDP per capita (% change)	8.0%	2.6%
Fiscal Balance (% of GDP)	(7.0%)	(4.3%)
Public Debt (% of GDP)	133.4%	41.6%
Net Public Debt (% of GDP)	117.5%	32.6%
Debt Servicing (% of revenues)	39.7%	5.1%
Current Account Balance (% of GDP)	(20.6%)	(7.1%)

*Source: Standard & Poor's*

### **Energy Ministry unveils \$350m gas pipeline project**

Energy & Water Minister Gebran Bassil unveiled a draft project to build a \$350m gas pipeline along the Lebanese coast that would help reduce Lebanon's energy bill by \$740m annually. He stated that the project involves the construction of a 174-kilometer long gas pipeline that would stretch from the Deir Ammar power station in Northern Lebanon to the Southern city of Tyre. He noted that 19 companies have already qualified to build the pipeline, adding that five of the firms have expressed interest in financing the project. He said the project still needs the Cabinet's approval and that the pipeline construction requires 28 months to be completed. The ministry offered tenders in November for the construction of the pipeline and is also planning separate tenders for supplies of LNG and to build a terminal to receive gas imports. Consulting firms Associated Consulting Engineers Lebanon and IMEG carried out the project's research and feasibility studies. The project is part of a five-year plan endorsed by the Lebanese Cabinet last July to reform the electricity sector. The plan consists of 10 inter-related initiatives that cover infrastructure, demand and the regulatory framework. The plan aims to raise power production to 4,000 megawatts by 2014 and 5,000 megawatts starting in 2015, with round-the-clock electricity supply by 2014.

### Lebanon receives €2m to support Paris III reforms

Lebanon received from the European Union €2m in grants to support the implementation of reforms pledged by Lebanese authorities at the Paris III donor conference that was held in January 2007. A grant of €8m will assist the government to simplify and automate its customs procedures as well as to modernize the fiscal administration and train staff. Further, a grant of €13.7m, complemented by a €0.3m contribution from the Lebanese government, will be earmarked to fund a two-part reform program covering public finance management and education over the next four years. The public finance management component is expected to improve the budget drafting process and implementation, as well as to reorganize the budget, finance and national accounting departments at the Finance Ministry. The educational component aims to develop the Education Ministry's reforms planning and implementation capacity.

### Lebanon represented in list of top 50 Arab billionaires

*Arabian Business* magazine's annual survey of the Arab world's top 50 billionaires for 2010 included five persons from Lebanon on its list. The survey ranked Prime Minister Saad Hariri in 27th place, down from 18th place last year, with an estimated fortune of \$3.7bn relative to \$4.3bn in 2009. It said he is the head of Saudi Oger, the family's \$9bn construction company and has stakes in the company as well investments in banking, real estate, tourism, telecommunications and media. It added that it revised the value of his construction portfolio following the global economic downturn. Mr. Bahaa Hariri ranked in 39th place, down five places from the previous survey, with an estimated fortune of \$3bn, up from \$2.3bn in 2009. It said he derives the bulk of his fortune from investment management, and is also involved in real estate development and logistics. He is followed by Mr. Robert Mouawad in 43rd place with \$2.5bn, a newcomer to the list. The magazine said Mr. Mouawad is involved in luxury watch-making, fine jewelry and real estate, adding that he has collected and designed some of the finest diamonds in the world. It noted that he has a stellar real estate portfolio that includes prime properties in France and Lebanon. Mr. Ayman Hariri came in 44th place, down from 36th place in 2009, with \$2.41bn, and is involved in technology, construction and industry. It noted that he is the deputy general manager and a board member of Saudi Oger and is handling the construction and facilities management for some of Saudi Arabia's most important projects. *Arabian Business* ranked former Deputy Prime Minister Issam Fares as the 45th wealthiest person in the region compared to 37th place in the previous year, with an estimated fortune of \$2.4bn, up from \$2.3bn in 2009. The magazine said Mr. Fares established companies in engineering, aviation, oil and gas, real estate development, investment and finance, among others, adding that he has a wide network of contacts with world leaders. It said his Houston-based investment firm, Wedge Group, has major interests in oil and gas field services, real estate, financial services and warehousing, concerns that have been very profitable over the past few decades and netted Mr. Fares billions of dollars.

The aggregate fortunes of the five Lebanese on the list reached \$14bn, accounting for 5.7% of the total net worth of the top 50. Saudi Prince Al-Waleed bin Talal topped the list with \$20.4bn, up \$2.4bn from 2009. The survey estimated the aggregate wealth of the 50 wealthiest Arab families or individuals at \$245bn in 2009, up nearly 18% from the previous year.

### AFAC moves headquarters to Lebanon

The Arab Fund for Arts & Culture (AFAC) announced that it has relocated its headquarters to Beirut from Amman. It attributed the move to the Fund's strategy of expanding its funding base and raising its visibility among its stakeholders as well as in the local and international media. It added that Beirut is a prosperous cultural center that offers energy and innovation, as well as an engaged and critical public. AFAC funded 12 Lebanese projects in 2010 in cinema, visual arts, literature, performing arts, music & research, and training & regional events. AFAC extended a total of \$850,000 in 2010 to 54 new grantees that include 38 individuals and 16 institutions from 12 Arab countries. It has awarded a total of \$3.3m to 217 grantees in 19 Arab countries since its establishment in 2007.

### Consumer Price Index up 4.3% annually in November 2010

The Central Administration of Statistics' Consumer Price Index indicates that inflation increased by 4.3% in November 2010 from November 2009. Prices of clothing and footwear increased by 19.2%, followed by food & non-alcoholic beverages and education (+6.7%), restaurants & hotels (+6.6%), water, electricity, gas & other fuels (+6.5%), transportation (+3.6%), miscellaneous goods & services (+2%), recreation & entertainment (+1.9%) and alcoholic beverages & tobacco (+1.1%). In parallel, prices of health care regressed by 1.5% followed by 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 0.4% in November 2010 from November 2010. Prices of transportation increased by 5%, followed by furniture & household equipment (+3.2%), water, electricity, gas & other fuels (+2.4%), restaurants & hotels (+1.3%), Health care (+1%), recreation & entertainment (+0.3%) and miscellaneous goods & services and education (+0.1%). In parallel, prices of clothing and footwear regressed by 9.1%, followed by food & non-alcoholic beverages (-0.3%) and alcoholic beverages & tobacco and communication (-0.1%), while housing prices remained unchanged month-to-month.

### **Trade deficit up 8% to \$12.7bn, non-oil imports rise by 10% in first 11 months of 2010**

Total imports reached \$16.5bn in the first 11 months of 2010, constituting an increase of 11% from the same period last year, while aggregate exports rose by 21% to \$3.8bn in the same period, leading to a trade deficit of \$12.7bn, up 8% year-on-year. Imports of oil and mineral fuels increased by 13% year-on-year to nearly \$3.43bn, while non-hydrocarbon imports grew by 10.4% to \$13.1bn. The rise of non-oil imports was mainly driven by higher imports of unwrought and semi-manufactured gold, diamonds, precious stones, metals, aircraft engines, diesel engines, boilers, machinery and mechanical appliances, iron and steel. The coverage ratio reached 22.8% year-to-November compared to 21% in the same period of 2009. The trade deficit was \$1.5bn in November 2010, up 20% from the same month last year. Imports averaged \$1.5bn and exports averaged \$343m on a monthly basis year-to-November, resulting in an average monthly trade deficit of \$1.16bn during the covered period.

In volume terms, imports reached 14 million tons in the first 11 months of 2010, constituting an increase of 3% from the same period last year, while exports rose by 5% to 2.8 million tons in the same period, leading to a trade deficit of 11.1 million tons, up 2 year-on-year. Imports of oil and mineral fuels decreased by 9% year-on-year to nearly 5.6 million tons, while non-hydrocarbon imports rose by 12.7% annually to 8.35 million tons.

The United States was the main source of imports with \$1.8bn or 11% of the total, followed by China with \$1.5bn (9%), Italy with \$1.25bn (8%), Germany with \$1.15bn (7%) and France with \$1.05bn (6%). Imports from China rose by 14% year-on-year, from the U.S. by 13%, from Italy by 12% and from Germany by 2% year-on-year, while imports from France dropped by 27% for the covered period. Switzerland was the main export destination with \$480m or 13% of the total, followed by the UAE with \$392m (10%), Iraq with \$242m (6%), Saudi Arabia with \$219m (6%) and Turkey with \$210m (6%). Exports to Turkey rose by 118% and to the UAE by 29% year-on-year, while exports to Switzerland declined by 28%, Syria by 3%, Saudi Arabia by 2% and Iraq by 3%. Lebanon's main export was jewelry at \$1,025bn or 27% of total exports, followed by machinery and mechanical appliances with \$685m (18%), base metals with \$415m (11%), prepared foodstuff with \$296m (8%) and chemical products with \$275m (7%). Re-exports totaled \$136m in the first 11 months of 2010, up 0.7% from \$135m in the same period last year.

### **Customs receipts up 6% to \$1.8bn in first 11 months of 2010**

Customs revenues reached \$1.78bn in the first 11 months of 2010, up 6% from \$1.67bn in the same period last year. Custom revenues totaled \$153.6m in November 2010 compared to \$161.7m in October 2010 and to \$1143m in November 2009. The Port of Beirut continues to be the main point of customs receipts, accounting for 88% of the total in the first 11 months of 2010, and was followed by the Hariri International Airport with 5.4%, the Port of Tripoli with 3.3%, and the Masnaa crossing point with 2% of the total. Customs receipts from the value-added tax totaled \$1.37bn in the first 11 months of the year. The Port of Beirut accounted for 75.7% of such receipts, and was followed by the Hariri International Airport with 8.7%, the Port of Tripoli with 6.8%, and the Masnaa crossing point with 6% of the total. As such, overall custom receipts reached \$3.15bn in the first 11 months of the year, with the Port of Beirut accounting for 82.6% of the total, and was followed by the Hariri International Airport with 6.8%, the Port of Tripoli with 4.8%, and the Masnaa crossing point with 3.8% 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 the rest. Overall customs receipts reached \$277.8m in November 2010 when including revenues from the value-added tax that totaled \$124m in the same period. Total customs receipts declined by 4.3% month-on-month.

### **Airport passengers up 12.5% in first 11 months of 2010**

Figures released by the Hariri International Airport (HIA) show that the number of airport passengers (arrivals, departures, transit) totaled 5,126,325 in the first 11 months of 2010, up 12.5% year-on-year. The UAE accounted for 921,773 passengers, or 18% of total passenger activity. It was followed by Saudi Arabia with 638,700 passengers, or 12.46% of the total, France with 501,035 travelers (9.77%) and Kuwait with 359,510 travelers (7%). The total number of flights reached 60,571 in the first 11 months of 2010, up 16% year-on-year. Middle East Airlines registered 17832 flights, accounting for 29.4% of the total. It was distantly followed by Royal Jordanian Airlines with 2658 flights or 4.4% of the total, Etihad Airways with 1710 flights, National Air Services with 1622 flights, Emirates Airlines with 1577 flights, and Turkish Airlines with 1420 flights. The UAE was the biggest source and destination of traffic to Lebanon, as aircraft movement to and from the UAE totaled 8,696 flights, accounting for 14.36% of the total. Also, the HIA processed 71,597 metric tons of cargo in the first 11 months of 2010, of which 70,607 tons of freight and 990,350 tons of mail. MEA processed 19,077 tons of freight, of which 18,772 tons in regular freight and 304,938 tons in mail.

### **Most tourism spending in Lebanon originates from Saudi Arabia, the UAE and Kuwait in first 11 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 11 months of 2010, accounting for 23% of total tourist spending. They were followed by visitors from the UAE and Kuwait with 10% each, Syria with 8% and Egypt for 7%. Spending by visitors from Syria rose by 45% in the first 11 months of the year, followed by visitors from Saudi Arabia with 34%, Egypt (+32%), France (+29%), Jordan (+18%), the UAE (+14%), Qatar (5%) and Kuwait (1%). Beirut attracted 83% 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 68% of total spending, followed by watches with 11%, home & garden products, perfumes & cosmetics and department stores with 4% each, souvenirs & gifts with 3%, and electronics & IT products with 2% each. Spending on electronics & IT products increased by 39% in the first 11 months of the year, followed by spending on perfume & cosmetics with a 31% rise, fashion & clothing (+26%), watches (21%), department stores (+18%), and souvenirs & gifts and home & garden products (+6%).

### **Industrial activity up in third quarter of 2010**

The Central Bank's quarterly business survey indicated that industrial production grew in the third quarter of 2010, with a balance of opinion standing at +27, from +25 in the third 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 overall demand for industrial goods, the balance of opinion stood at +22 in the third quarter of 2010 compared to +23 in the same quarter of 2009. The balance of opinion for foreign demand remained unchanged in the third quarter of 2010, with a balance of opinion standing at +6. 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.

<b>Industrial Activity: Year-on-year evolution of opinions</b>				
<b>Aggregate results</b>	<b>Q3-07</b>	<b>Q3-08</b>	<b>Q3-09</b>	<b>Q3-10</b>
Production	11	29	25	27
Total demand	7	23	23	22
Foreign demand	9	20	6	6
Volume of investments	15	24	11	24
Inventories of finished goods	-3	6	4	8
Inventories of raw material	-2	8	0	6
Registered orders	-14	-3	1	5

*Source: Central Bank Business Survey Q3-10*

### **Cleared checks up 25% to \$57bn in first 10 months of 2010**

The value of cleared checks increased by 24.6% to \$57.3bn in the first 10 months of 2010 compared to the same period of 2009. The value of cleared checks in Lebanese pounds rose by 27.9% to the equivalent of \$11.8bn, while the value of cleared checks in US dollars rose by 23.8% to \$45.5bn. The dollarization rate of cleared checks decreased from 80% to 79.4% year-on-year. Also, the value of returned checks in domestic and foreign currency amounted to \$1.19bn in the first 10 months of 2010, up 28.5% from \$923m in the period last year.

### **Construction permits up 41% in first 10 months of 2010**

Figures released by the Association of Engineers of Beirut & Tripoli show that construction permits reached 14.4 million square meters in the first 10 months of 2010, up 41.4% from 10.2 million square meters in the same period last year. Construction permits totaled 1.34 million square meters in October 2010, up 22.4% year-on-year from 1.1 million square meters in October 2009. In parallel, cement deliveries reached 4.4 million tons in the first 10 months of 2010, an increase of 5.4% from 4.2 million tons in the same period last year. Cement deliveries reached 548,000 tons in October 2010, up 6.8% from 516,000 tons in October 2009.

### **Car sales up 6.3% year-on-year in first 11 months of 2010**

Figures released by the Association of Automobile Importers in Lebanon indicate that a total of 30,966 new passenger cars were sold in the first 11 months of 2010, constituting an increase of 6.3% from the 29,122 cars sold in the same period last year. Japanese cars accounted for 39% of total sales, followed by Korean cars with a 31.4% share, European automobiles with 23%, American vehicles with 5.8%, and Chinese cars with 0.73%. Korean cars posted the only growth in sales with a 78.3% rise year-on-year. In parallel, Chinese cars posted a drop of 18.3% in sales year-on-year, followed by Japanese cars with a 13% decrease, American cars with a 13% decline and European cars with a 4.2% drop. Kia is the leading brand in the Lebanese market with 5,932 cars sold in the first 11 months of 2010, followed by Nissan with 5,192, Hyundai with 3,786 cars sold, Toyota with 3,003, Chevrolet and Mitsubishi each with 1,205, and Renault with 1,086 cars.

### **Berytech Fund invests \$1.2m in technology firm ElementN**

The Beirut-based seed capital fund Berytech Fund announced it has invested \$1.2m in ElementN to help launch the firm's new Cloud Computing platform. Established in 2002, ElementN is a technology firm specialized in mobile and web-based e-business technology and solutions. The investment is intended to help the company finance the marketing, channel building and operations needed to launch a Platform-as-a-Service targeted at the growing segment of Rich Client developers in the United States and the MENA region. Its "Rich Cloud" will target software developers, independent software vendors, and start-ups.

Established in May 2008, the Berytech Fund invests in early-stage technology companies, providing equity capital and strategic guidance. The fund invests between \$100,000 and \$1.2m per firm. Last October, the Berytech Fund announced the acquisition of a 35% stake in Dermendar, a new technology start-up focused on online digital image processing. ElementN's is the fund's biggest investment since inception. The Berytech Fund has about \$6m in assets under management and was established by five banks, Univeristé Saint Joseph and three firms and investors in the ICT sector.

### **Lebanon & Gulf Bank raises \$30m in preferred shares**

Lebanon & Gulf Bank sal, one of Lebanon's medium-size banks, announced that it has raised \$30m from the issuance of 300,000 Preferred Shares. The preferred shares are non cumulative, perpetual, and subject to a call option by the bank starting in 2016 and for each subsequent year. The issue price is \$100 per share and the par value is LBP 20,000 per share. Holders of the Preferred Shares will receive a dividend of 7.5% annually per share. The bank said net proceeds from the issuance will be used for expansion purposes. Lebanon & Gulf Bank announced consolidated net profits of \$16.9m in the first 9 months of 2010, up by 72% from the same period last year. The bank had total assets of \$1.8bn, loans & advances to customers of \$598m, and customer deposits of \$1.6bn at the end of September 2010.

### **Crédit Libanais issues \$75m in subordinated bonds**

Crédit Libanais sal, one of Lebanon's top 10 banks, announced that it has raised \$75m from the issuance of subordinated bonds. The issuance included 7,500 bonds at an issue price of \$10,000 each. The bonds carry an annual interest rate of 6.75% per year. The bank said net proceeds from the sale of the bonds will be used for general corporate purposes. Last August, regional investment bank EFG Hermes Holding SAE announced the acquisition of a 65% stake in Crédit Libanais sal for \$542m. It 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. Crédit Libanais sal 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.

### **Public Corporation for Housing raises mortgage ceiling to \$179,000**

The Public Corporation for Housing (PCH) increased the ceiling of real estate loans subject to its subsidies program from LBP 180m, or \$120,000 per loan to LBP 270m or \$179,000 per loan. The PCH attributed the increase of the ceiling on mortgages to the unprecedented rise in real estate prices in the country during the previous three years. The PCH provides subsidized mortgages of up to 30 years to individuals with monthly income that does not exceed LBP 5m. It noted that it extended LBP 775bn in mortgages to 6,192 families in 2010. Loans extended through the state-owned PCH benefit from deductions in reserve requirements for banks and target low income citizens. Earlier this year, the Housing Bank sal increased the ceiling on its mortgages from LBP 450m, or \$300,000, to LBP 600m or \$400,000. The Housing Bank is owned by commercial banks, local insurance companies and the government, with the latter holding 20% of the bank's capital. Loans extended by the bank also benefit from deductions in reserve requirements for commercial banks.

## Corporate Highlights

### Holcim's net profits at \$18m in first half of 2010

Cement producer Holcim Liban sal posted net profits of \$18m in the first half of 2010 compared to \$29.2m in 2009. The firm's net sales reached \$92.7m relative to \$173m in 2009. Holcim's total assets reached \$297.8m and its equity amounted to \$227.5m at end-June 2010 compared to \$298.9m and \$209.5m, respectively, at end-2009. The company's total loans and borrowings reached \$20.4m at end-June 2010 compared to \$40m at end-2009, while its banks' balance and cash decreased to \$9.6m from \$16.1m at end-2009. The firm is engaged in the production and sale of cement and other related services. In parallel, the firm's Extraordinary General Assembly held on December 14, 2010 decided to reduce the firm's capital by 50%, from LBP 195,160,400,000 (\$129.5m) to LBP 97,580,200,000 (\$64.73m) through decreasing the par value of the common shares from LBP 10,000 to LBP 5,000. Holcim Liban is majority-owned by the Swiss-based Holcim Ltd. and its shares are listed on the Beirut Stock Exchange.

### Ciments Blancs' net income at \$2.5m in first half of 2010

Société Libanaise des Ciments Blancs sal, an affiliate of Holcim Liban sal, declared net profits of \$1.5m in the first half of 2010 compared to \$2.5m in 2009. The company generated sales worth \$7.5 in the first half of the year relative to \$13.2m in 2009. The firm's total assets reached \$20.36m at end of June 2010 compared to \$19.1 at end-2009. Total equity amounted to \$16.7m as at the end of June compared to \$15.2m as at end-2009.

### Monoprix supermarkets to reopen in Lebanon

Advanced Development Management and Investment Corporation sal (ADMIC), an operator of shopping centers and supermarkets, announced plans to re-open four Monoprix supermarkets in Lebanon in 2011 at a total cost of \$40m. Established in 1996, ADMIC holds the master franchise rights to develop the Monoprix supermarket and Géant hypermarket chains in Lebanon and other Arab countries, and opened its first outlet in the Jnah area of Beirut in June 1999. It also holds the master franchise rights to develop the BHV chain of department stores in Lebanon, Syria and Jordan. Both the Monoprix and BHV chains are part of the French retail giant Groupe Galeries Lafayette. ADMIC sold in 2008 its five Monoprix supermarkets and its Géant Casino hypermarket in Lebanon to Kuwait's Sultan Center Food Products Co. for \$108m. As part of the deal, ADMIC signed a three-year non-competition agreement that expires in July 2011. According to *Le Commerce du Levant*, ADMIC expects its revenues to reach between \$200m and \$220m by 2012 compared to \$110m in 2010, with half of the revenues to be realized outside Lebanon. ADMIC recently opened its first Monoprix supermarket in Damascus and is expected to operate a second one in Aleppo.

### Banque Bemo's ratings placed on review

Moody's Investors Service placed Banque Bemo's 'Aa2.lb' long-term national scale rating on review for possible downgrade. It attributed the decision to the bank's weakening recurring earnings power and profitability metrics; the bank's need to further strengthen its core capitalization; and high single-party credit exposures. The agency considered that Bemo's profitability is being challenged by lower interest rates combined with Lebanese banks' need to maintain high liquidity buffers. It said failure to improve profitability on a risk-adjusted basis would exert pressure on the bank's ratings. It added, however, that Lebanon's robust economic growth over the past two years and projections that the economy will continue to grow at around 6% in 2011 should support the bank's strong credit quality. Moody's noted that Bemo's thin profitability would be unable to absorb a plausible increase in provisioning charges and shield its capital in case of pressure on the quality of its assets. It added that these factors become more relevant when considering the bank's high credit concentrations, as a potential deterioration in the credit standing of a few customers or a specific industry could result in substantial credit charges.

Moody's expected Bemo's net interest margins to improve as interest rates start to rise over the medium term. It added that it will monitor the potential impact of higher interest rates on the bank's credit quality as well as on valuations of the bank's sizeable portfolio of government securities. It said the review of the bank's ratings will focus on the evolution of credit concentrations and profitability in conjunction with its capital planning. Moody's assigned to Bemo its 'Aa2.lb/LB-1' Lebanese National Scale Ratings in May 2008. Bemo posted net profits of \$6.9m in the first 9 months of 2010, unchanged from the same period last year. It had total assets of \$1.3bn and loans of \$0.5m at end-September, constituting increases of 5% and 16%, respectively, from end-2009. Its deposits rose by 4% year-to-September to \$1bn.

### Launch of first ferry line between Lebanon and Turkey

The first ferry line between Lebanon and Turkey launched its operations that link the port city of Tripoli and the southern Turkish city of Mersin. The venture is co-owned by the Lebanese company Marine Contracting and the Turkish marine company Fergun, which invested \$6m to acquire a 100 meters ferry. The trip between the two cities takes around 10 hours aboard the ferry, which has a load capacity for 170 cars or 25 semi-trailers, or 16 similar commercial vehicles, and accommodations for 700 passengers. The ferry is expected to perform one trip per week during the low season and three weekly roundtrips during the summer season.

## Ratio Highlights

(in % unless specified)	2007	2008	2009	Change*
Nominal GDP <sup>(1)</sup> (\$bn)	25.0	29.9	34.9	
External Debt / GDP	84.9	70.7	60.9	(980)
Local Debt / GDP	83.2	86.5	85.5	(100)
Total Debt / GDP	168.1	157.3	146.4	(1,090)
Total External Debt / GDP	194	172	169.2	(280)
Trade Balance / GDP	(36.0)	(42.3)	(36.5)	580
Exports / Imports	23.8	21.6	21.5	(10)
Budget Revenues / GDP	23.2	21.7	22.9	120
Budget Expenditures / GDP	33.4	24.5	24.8	30
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	235.2	560
Bank Assets / GDP	329.0	315.2	330.2	1,500
Bank Deposits / GDP	269.1	260.1	274.4	1,430
Private Sector Loans / GDP	81.7	83.7	81.3	(240)
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	Oct 2009	Sep 2010	Oct 2010	Change*	Risk Level
Political Risk Rating	56.5	59.5	58.5	▲	High
Financial Risk Rating	28.0	28.0	28.0	↔	High
Economic Risk Rating	35.5	35.5	35.5	↔	Low
Composite Risk Rating	60.0	61.5	61.0	▲	Moderate

Regional Average	Oct 2009	Sep 2010	Oct 2010	Change*	Risk Level
Political Risk Rating	65.1	64.6	64.5	▼	Moderate
Financial Risk Rating	42.0	42.2	42.3	▲	Very Low
Economic Risk Rating	34.8	38.2	38.2	▲	Low
Composite Risk Rating	70.9	72.5	72.5	▲	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](mailto:research@byblosbank.com.lb)**  
**[www.byblosbank.com](http://www.byblosbank.com)**

---

---

Lebanon This Week is a research document that is owned and published by Byblos Bank sal. The contents of this publication, including all intellectual property, trademarks, logos, design and text, are the exclusive property of Byblos Bank sal, and are protected pursuant to copyright and trademark laws. No material from Lebanon This Week may be modified, copied, reproduced, repackaged, republished, circulated, transmitted, redistributed or resold directly or indirectly, in whole or in any part, without the prior written authorization of Byblos Bank sal.

The information and opinions contained in this document have been compiled from or arrived at in good faith from sources deemed reliable. Neither Byblos Bank sal, nor any of its subsidiaries or affiliates or parent company will make any representation or warranty to the accuracy or completeness of the information contained herein.

Neither the information nor any opinion expressed in this publication constitutes an offer or a recommendation to buy or sell any assets or securities, or to provide investment advice. This research report is prepared for general circulation and is circulated for general information only. Byblos Bank sal accepts no liability of any kind for any loss resulting from the use of this publication or any materials contained herein.

The consequences of any action taken on the basis of information contained herein are solely the responsibility of the person or organization that may receive this report. Investors should seek financial advice regarding the appropriateness of investing in any securities or investment strategies that may be discussed in this report and should understand that statements regarding future prospects may not be realized.

---

# 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