

LEBANON THIS WEEK

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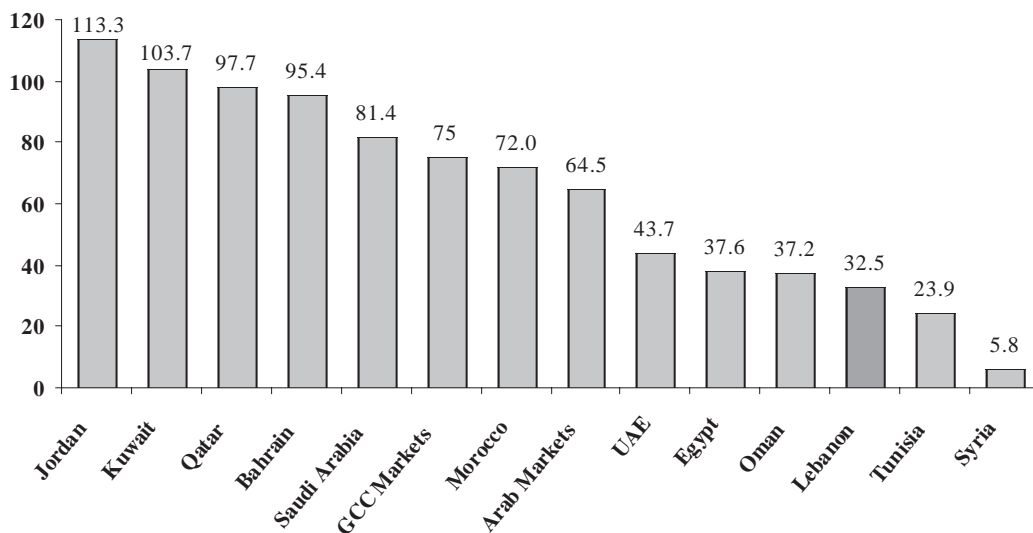
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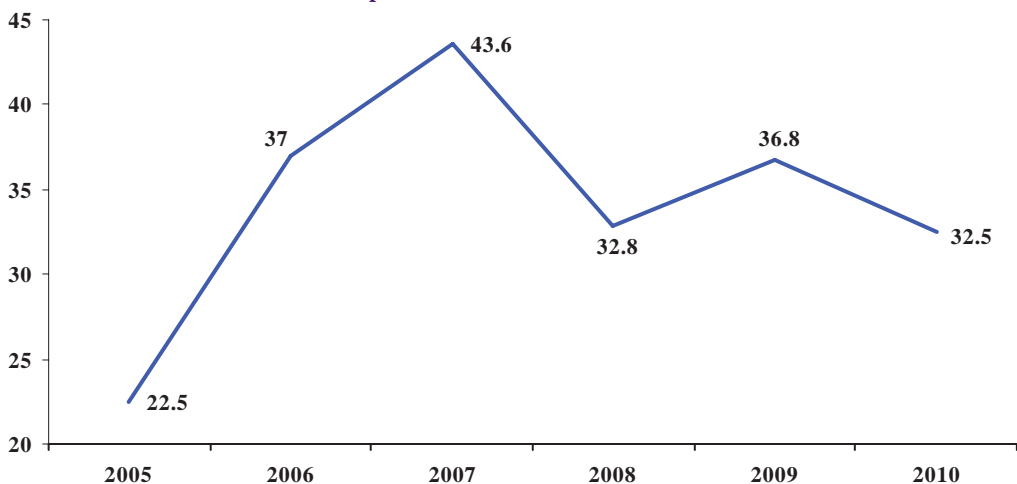
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Estimated Market Capitalization-to-GDP Ratio of Arab Stock Markets in 2010 (%)



Estimated Market Capitalization-to-GDP Ratio of the Beirut Stock Market



Source: Local Stock Markets, International Monetary Fund

Quote to Note

"Foreign investment inflows will remain sensitive to setbacks in the political process."

International rating agency Standard & Poor's, on the cost of political uncertainties to the Lebanese economy

Number of the Week

136: Lebanon's rank out of 139 countries in terms of the public's trust in politicians, according to the World Economic Forum's Global Competitiveness Index

Economic Indicators

\$m (unless otherwise mentioned)	2008	Oct 09	2009	August 10	Sep10	Oct 10	% Change*
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

\$bn (unless otherwise mentioned)	Dec 2008	Oct 09	July 10	August 10	Sep 10	Oct 10	% Change*
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

Most Traded Stocks on BSE	Last Price (\$)	% Change*	Total Volume	Weight in Market Capitalization	Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
Solidere "A"	19.29	4.10	87,978	15.18%	May 2011	7.875	101.75	2.56
Solidere "B"	19.39	4.08	21,280	9.92%	Mar. 2012	7.500	104.75	3.09
Byblos Common	1.85	1.09	173,167	5.23%	Sep. 2012	7.750	107.00	3.30
Byblos Priority	1.85	1.09	100,000	3.00%	June 2013	8.625	111.25	3.48
Byblos Pref. 08	102.50	0.00	2,250	1.61%	Apr. 2015	10.000	120.25	4.76
BLOM GDR	10.35	0.00	37,445	6.02%	Jan. 2016	8.500	116.00	4.87
BLOM Listed	9.50	1.06	42,850	16.08%	May 2016	11.625	127.50	5.30
Audi GDR	8.96	(0.44)	19,950	6.61%	Mar. 2017	9.000	119.50	5.14
Audi Listed	8.10	(2.29)	803,890	22.22%	Nov. 2018	5.150	98.75	5.23
HOLCIM	17.23	1.35	905	2.65%	Apr. 2021	8.250	115.75	6.15

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

Source: Byblos Capital Markets

	December 27-30	December 20-24	% Change	December 2010	December 2009	% Change
Total Shares Traded	1,300,007	1,469,760	(11.55)	3,399,412	3,174,705	7.1
Total Value Traded	\$10,695,122	\$12,734,873	(16.02)	\$33,080,487	\$49,395,829	(33.0)
Market Capitalization	\$12.71bn	\$12.68bn	0.23	\$12.68bn	\$12.84bn	(1.3)

Source: Beirut Stock Exchange (BSE)



Beirut ranks 33rd globally in house prices, 67th in rental yield, and 16th in prices relative to rent

The Global Property Guide's annual report on real estate investment trends around the world indicated that Beirut ranked in 33rd place among 92 markets globally in 2010, compared to 52nd place in 2009, and in first place in the Arab world in terms of the price of a 120 square meters apartment. Globally, the price of such an apartment in Beirut was \$4,258 per square meter, higher than in Dubai, Berlin and Lisbon, and slightly lower than in Andorra, Warsaw, Ljubljana in Slovenia and Prague. The Guide said that Lebanon has seen a spectacular boom in property prices over the past few years. It indicated that a 120 sqm apartment in Beirut that had a price of \$60,000 in December 2004 would now cost more than \$510,000. It added that rents have been rising during this period, but not as rapidly as prices. It noted that Beirut is now less attractive for property investment, as gross rental yields have fallen from over 11% six years ago to under 3.5% currently. Further, yields on larger apartments are even lower at below 3%.

The report offers the tools needed by foreign and non-resident investors to buy income-generating property overseas. It said only resale apartments and houses are included in the survey. The properties surveyed have to be in excellent condition, have good facilities, and have been refurbished or redecorated within the past five years. The Global Property Guide's valuation data is based on upper end apartments in prestigious areas that appeal to foreign investors or renters. It said that figures for Beirut cover the areas of Achrafieh, the Beirut Central District, Hamra, Jnah, Ramlet El Baida, Ras Beirut and Verdun.

Beirut ranked in 67th place in 2010, down from 53rd place in 2009 and 38th place in 2008 among 82 markets globally and in last place among 6 markets in the Middle East & North Africa in terms of Gross Rental Yield (GRY), which is the annual rent relative to the house price. The survey said the GRY is the return-on-investment before taxes, maintenance fees and other costs, and is a key figure for investors. Globally, Beirut had a higher GRY than Phom Phen in Cambodia, Hong Kong, and Shanghai, and slightly lower than in Paris, London, Tel Aviv, and Vilnius in Lithuania. Beirut's Gross Rental Yield was 3.3% in 2010 compared to 4.18% in 2009, 5.13% in 2008 and 7.46% in 2007, and significantly lower than the MENA average of 5.7% and the Arab average of 6.1%. The survey classified Lebanon's GRY in the 'very poor' category, down from 'poor' in 2009, 'moderate' in 2008 and 'good' in 2007. It was the only Arab market in this category.

Further, Beirut ranked in 16th place, up from 27th place in 2009 and 35th place in 2008 among 82 markets globally, and in first place in the MENA region, in terms of the price of an apartment relative to its rent, or the Price-to-Rent ratio. This ratio reflects the years of rent that are required to buy an apartment of 120 square meters, and is typically used for measuring the undervaluation or overvaluation of real estate prices. Globally, Lebanon's capital Beirut tied with Tel Aviv, ranked ahead of Paris, London, Vilnius in Lithuania and St James in Barbados, and came behind Limassol, Shanghai, Honk Kong and Phom Phen. Lebanon's price-to-rent ratio was 30, up from 24 in 2009 and 19 in 2008, and higher than the regional average of 20 and the Arab average of 18, indicating that it takes 30 years of rent to recover the purchase price of a 120sqm apartment in Beirut.

Beirut ranked in 25th place, up from 45th place in 2009, among 82 markets globally and in first place among 6 markets in the MENA region in terms of the Rent-per-Month of a 120 sqm apartment. Globally, monthly rent in Beirut was more expensive than in Dubai, Warsaw and Auckland in New Zealand, and slightly less costly than in Luxembourg, Vienna, Sydney and Cape Town in South Africa. Beirut's rent-per-month was \$2,342 for a 120 sqm apartment, up from \$1,488 a year earlier, and higher than the regional average of \$1,715 per month and the Arab average of \$1,593 per month.

Further, Lebanon ranked in fourth place among 8 Arab markets in terms of Roundtrip Transaction Cost, which reflects all costs of buying and reselling a residential property, expressed as a percentage of the property value. Such costs include registration costs, real estate agents' fees, legal fees and sales and transfer taxes. The cost of buying a property in Lebanon was lower than in Jordan, Morocco and Egypt. Roundtrip transaction costs in Lebanon were higher than the regional average of 8.73%.

City	Gross Rental Yield (%)	Price-to-Rent ratio	Bying Price* \$US/sqm	Rent* US\$/month	Roundtrip Cost (%)
Amman	8.00	13	1,157	1,152	15.24
Cairo	7.10	14	916	810	11.74
Marrakesh	6.63	15	1,994	1,321	12.13
Dubai	5.62	18	4,169	2,341	5.05
Tel Aviv	3.31	30	7,020	2,322	9.57
Beirut	3.30	30	4,258	2,342	11.57

*120 sqm apartment

Source: Global Property Guide, Byblos Research

Occupancy at Beirut hotels at 69%, room yields down 2% in first 11 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 69% in the first 11 months of 2010, decreasing from 73% 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 seventh highest in the first 11 months of 2009. The survey said the average rate per room at Beirut hotels was \$259 in the first 11 months of 2010, ranking the capital's hotels as the fifth most expensive in the region.

The average rate per room at Beirut hotels increased by 4.6% to \$259 year-on-year and posted the seventh steepest increase among all markets in the region, ahead of Amman and behind Hurghada. The average rate per room in Beirut came above the regional average of \$200, which declined by 2.2% from \$204 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, 53% in September, 71% in October and 73% in November 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, 62% in September, 85% in October and 79% in November 2009. Beirut hotels had an occupancy rate of 73% for all of 2009.

Further, revenues per available room (RevPAR) were \$178 in Beirut in the first 11 months of 2010, down from \$182 in the same period last year, ranking it in third place in the region after Dubai-Beach and Makkah. Beirut's RevPAR was down 1.9% year-on-year, compared to a decrease of 1.7% 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, \$120 in August, \$179 in September, \$151 in October and \$206 in November 2010. Makkah posted the highest average room rate in the region at \$310 and Dubai-Beach the highest RevPAR at \$243, while Sharm El Shaikh along with Hurghada posted the highest occupancy rate at 86% each in the first 11 months of the year.

Hotel occupancy at 65% in first 11 months of 2010

Figures released by Deloitte and STR Global show that the occupancy rate at Beirut hotels reached 65.2% in the first 11 months of 2010 compared to 70.7% in the same period last year. Also, the city's revenues per available room (RevPAR) averaged \$159 for the first 11 months of the year, constituting an increase of 7.2% from the corresponding period in 2009. In comparison, occupancy rates at hotels in the Middle East was 61% during the covered period relative to 61.4% in the first 11 months of 2009, while the region's RevPAR was \$121, down 5.8% from \$128 in the same period last year.

Finance Ministry urges ratification of 2010 and 2011 budgets in light of upcoming maturities

Finance Minister Raya el-Hassan expected economic growth to slow down and for capital inflows to decline in 2011 if political uncertainties persist. She noted that capital inflows need to increase by 10% to 11% annually in order for the government to be able to finance its public debt. She added that the government would face a major challenge in controlling the fiscal deficit if the draft budgets of 2010 and 2011 are approved without revenue measures that would match the massive rise in capital expenditures that total \$4.36bn in the two budgets. She revealed that the ministry is considering issuing additional long-term bonds denominated in Lebanese pounds after the success of the 7-year bond that was issued late last year. She expected debt-servicing costs to decline this year given the decline in interest rates on sovereign debt, adding that a further decline in rates on Treasury bills would make banks reluctant to subscribe to them given that banks might be able to get higher rates in other markets. She pointed out that the government faces \$3.36bn in foreign currency maturities in 2011 and that most of them will be refinanced, but added that Parliament needs to approve the 2010 and 2011 budgets to authorize the refinancing of these maturities. Otherwise, the government will have to resort to exceptional measures such as approving the clause in the budgets authorizing additional borrowing, while waiting for the full budgets to be ratified. She noted that the largest maturity this year is a \$1.1bn bond that matures in May. In parallel, Minister el-Hassan said the ministry paid \$400m to municipalities covering 2008 and 2009 dues. She noted that the ministry's surplus account at the Central Bank is about \$1.5bn, which would meet at least two months of expenditures, adding that the Telecommunications Ministry still needs to transfer \$1bn to the Finance Ministry's account in order for the latter to meet the 2010 dues to municipalities.

Hotel Performance in first 11 months of 2010			
	Occupancy Rate (%)	RevPAR (US\$)	RevPAR % change
Hurghada	86	40	12.6
Sharm El Sheikh	86	55	16.7
Dubai - Beach	80	243	(5.5)
Dubai - Overall	75	162	(9.3)
Abu Dhabi	74	172	(27.6)
Dubai - City	73	131	(10.9)
Cairo - City	72	84	4.2
Cairo - Overall	72	85	4.5
Jeddah	72	155	3.2
Makkah	72	225	40.9
Beirut	69	178	(1.9)
Al Ain	69	109	(4.2)
Muscat	67	149	(7.2)
Madina	66	128	36.5
Amman	64	95	9.1
Doha	62	175	(14.9)
Manama	59	152	(9.2)
Riaydh	54	128	4.4
Kuwait	53	141	(2.8)

Source: Ernst & Young, Byblos Research

Central Bank to maintain loan incentives, currency peg to US dollar

Central Bank Governor Riad Salameh expected real GDP growth to reach about 7.5% in 2010 despite the reversal of trends in Lebanon's main indicators in the last quarter of the year. He added that it is difficult to forecast the country's 2011 economic growth because of the prevailing political uncertainties and the paralysis of government institutions. He also anticipated inflation to have reached 4.5% to 5% at the end 2010, and for deposit inflows to have posted a 10% growth during the year, as Lebanon managed to attract the largest share of deposit inflows to the Middle East. He estimated that the balance of payments would post a surplus of about \$2bn in 2010 due to the decline in capital inflows and transfers relative to 2009. He noted that credit to the Lebanese economy increased by 20% in 2010, constituting the highest lending growth in the Middle East and compared to an average lending growth of 4% across the region. He attributed the growth in lending to the Central Bank's incentives and to the exemption from mandatory reserves requirements, which encouraged banks to extend more housing, educational and other loans. He considered that the significant increase in lending was the main driver of economic growth last year, and added that the incentives will remain in place as long as the inflation rate remains moderate.

In parallel, Governor Salameh reaffirmed that the Central Bank will maintain the Lebanese pound peg to the U.S. dollar, and that no change should be expected unless depositors decide to switch their funds to another foreign currency. He cautioned that any change in the current exchange rate policy would affect price stability and encourage speculation. He noted that Lebanon has a dollarized economy and that the dollar remains the favored currency of the markets, which rules out a peg to another currency or to a basket of currencies. He indicated that the Bank had to use part of its reserves in recent months to support the financing needs of the government, and not just to meet rising demand for foreign currencies in the last quarter of the year. He also emphasized the Central Bank's ability to maintain the stability of the exchange rate due to the high level of foreign currency reserves at the Central Bank, adding that the US dollar is trading within its set bracket.

Energy Ministry unveils 25-year national water strategy

Energy & Water Minister Gebran Bassil unveiled a national water strategy that aims to increase Lebanon's water supply to 1,862 million of cubic meters by 2035 and close the existing water deficit. He noted that the current water demand in a dry year is around 1,474 million m³ compared to supply of 1,191 million m³, leading to an annual deficit of 283 million m³. He forecast demand to rise to 1,800 m³ by 2035, which would result in a yearly water deficit of about 600 million m³ by then if no measures were taken. The ministry's plan would raise water supply to 1,862 million m³ per year and result in annual reserves of about 62 million m³. He estimated that the sector requires total investments of \$7.7bn, in addition to \$2bn in operating expenditures, in the coming 10 years. He noted that \$1.6bn in investment have already been pledged, adding that the balance has to come from the government, international organizations, and the private sector. He indicated that the strategy consists of developing the necessary infrastructure for the sector through building dams that would generate an additional 670 million m³ per year. He added that the water distribution network, which is 25-year old, is in need of upgrading and rehabilitation in order to reduce the high level of water waste that reaches 49%. The plan also includes the building of wastewater treatment plants to increase the level of wastewater that is treated from 6% currently to 80% by 2015 and 95% by 2022. In parallel, the plan covers upgrading the management of the sector through implementing institutional, regulatory, financial and commercial reforms. The minister considered that the ministry and water authorities are understaffed, and that the number of employees should increase to 4,050 from 1,342 currently in order to reach the global ratio of three employees per 100 users. The plan also includes the installation of one million water counters with the aim to cover 25% of users by 2012 and 75% by 2015. He added that the rate of bill collection should increase from 47% currently to 60% in 2012 and 80% in 2015.

In parallel, the minister unveiled a national energy efficiency strategy that is expected to reduce the country's energy demand by 5% in five years at an annual rate of 1%. The plan, which needs the Cabinet's approval, would enable Lebanon to produce 12% of its power output through renewable energy by 2020.

Treasury transfers to Electricité du Liban down 22% year-on-year

Figures released by the Finance Ministry show that Treasury transfers to Electricité du Liban totaled \$1.06bn in the first 11 months of 2010, constituting a decrease of 22% from \$1.36bn in the same period last year. It said that reimbursements to the Kuwait Petroleum Corporation (KPC) and to Algerian energy conglomerate Sonatrach accounted for \$1bn, or 94.4% of transfers year-to-November, while EdL's debt servicing represented the remaining 5.6%. It attributed the decline to a drop of \$290m, or 22%, in payments to KPC and Sonatrach during the covered period, and to a decrease in debt servicing by \$15m or 19% year-on-year. It credited the decrease in payments to KPC and Sonatrach to a 27% drop in the imported quantity as well as a decrease in international prices compared to the same period last year. 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 which started in November 2009. It noted that the supply of natural gas has stopped as of November 5 and that the Cabinet authorized the payments in December 2010, adding that EdL has yet to make the disbursement. It added that EdL contributed just 12.2% of repayments to the two oil suppliers in the first 11 months of the year compared to 7.2% in 2009 and relative to a larger oil bill. EdL transfers are expected to reach 16% of primary expenditures in 2010, compared to 20.7% in 2009, which reflects a lower level of transfers in 2010. 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.



Lebanese-pound bond listed on Beirut Stock Exchange

The Beirut Stock Exchange approved the listing, trading and pricing of the seven-year LBP 1,500bn bond issued last December by the Finance Ministry. The bond, which carries a coupon rate of 7.9%, constitutes the longest maturing issue to date in the domestic currency. Byblos Bank acted as the sole Lead Manager for the issuance, which took place on the basis of the Republic of Lebanon's Global Medium Term Note Program for Lebanese and provides for settlement through Euroclear. The bond, which matures in December 2017, helps the government further shift the financing of the deficit and the composition of the public debt from foreign currencies to Lebanese pounds.

Balance of payments posts surplus of \$2.1bn in first 11 months of 2010

Central Bank figures show that Lebanon's balance of payments posted a surplus of \$2.1bn in the first 11 months of 2010 compared to a surplus of \$6.3bn in the same period last year. The balance of payments posted a deficit of \$673m in November compared to a deficit of \$185m in October and a surplus of \$280bn in November 2009. The November 2010 deficit was caused by a deficit of \$345m in the Central Bank's net foreign assets and a deficit of \$328m in those of banks and financial institutions. The cumulative surplus over the first 11 months of 2010 was caused by a surplus of \$2.4bn in the Central Bank's net foreign assets and a deficit of \$283m 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.

Fiscal deficit up 9.4% to \$2.8bn in first 11 months of 2010

Figures released by the Finance Ministry show that the fiscal deficit reached \$2.84bn in the first 11 months of 2010, up 9.44% from \$2.6bn in the same period of the previous year. The deficit was equivalent to 27.7% of total budget and Treasury expenditures compared to 25.1% in the first 11 months of 2009. Overall government expenditures reached \$10.3bn, down 0.5% year-on-year, while total revenues decreased by 3.9% to \$7.42bn in the covered period. Budgetary expenditures increased marginally by 0.4% to \$9.2bn and included \$351m in outlays from previous years, while budget revenues declined by 4% to \$7bn. Tax revenues improved by 12% year-on-year to \$6.1bn, of which 32.4%, or \$2bn, were in VAT receipts that posted an 11% annual rise. Tax revenues accounted for 87.7% of budgetary revenues and for 83% of total Treasury and budget receipts.

The distribution of other tax revenues shows that customs revenues rose 6% year-on-year to \$1.7bn, income & capital gains tax receipts grew by 11.7% to \$1.3bn, revenues from property taxes improved by 41% to \$637.6m, and other tax receipts, mainly stamp fees, increased by 15% to \$277m. Further, the distribution of income tax revenues shows that taxes on profits accounted for 41% of total income tax receipts, followed by the tax on interest deposits with 29%, taxes on wages & salaries with 20%, and capital gains tax with 9.5%. Receipts from taxes on profits increased by 9.7% year-on-year, income from capital gains tax grew by 17.6%, revenues from the tax on interest rose by 15%, and tax receipts on wages & salaries improved by 8.6%. Also, the distribution of property taxes shows that revenues from real estate registration fees rose by 45% to \$500m, built property taxes increased by 45.6% to \$90m and revenues from inheritance tax grew by 3.4% to \$47.3m. In parallel, non-tax budgetary revenues contracted by 52.4% to \$865m, with revenues from government properties dropping by 67% to \$486.7m and administrative fees & charges increasing by 5.4% to \$307m. Receipts from telecommunications services, which account for 45% of income from government properties and for 25.4% of non-tax revenues, dropped by 82% to \$220m in the first 11 months of the year.

Debt servicing increased by 4% year-on-year to \$3.56bn, accounting for 34.7% of total expenditures and for 39% of budgetary spending. It absorbed 48% of overall revenues and 50.8% of budgetary receipts. Interest payment on domestic debt rose by 7.5% to \$2.3bn, while interest disbursement on foreign debt declined by 1.5% to \$1.3bn. Repayment of principal on foreign debt rose by 15.4% to \$200m. Excluding debt servicing, the primary surplus reached \$1.62bn, or 18% of budget expenditures compared to a surplus of \$1.78bn, or 19.5% of budget spending a year earlier. The overall primary surplus reached \$926.8m, or 9% of total spending compared to a surplus of \$1bn, or 9.8% of total expenditures a year earlier.

Central Bank foreign assets increase by 8.2% to \$30.6bn in 2010, last quarter sees reversal

The Central Bank's interim balance sheet reached \$62.6bn at the end of 2010 compared to \$53.75bn at the end of 2009 and to \$60.1bn at the end of September 2010. Assets in foreign currencies reached \$30.6bn at the end of 2010, constituting an increase of 8.2% from \$28.3bn at end-2009, but a decline of 3% from \$31.5bn at the end of last September. Assets in foreign currencies decreased by \$203.2m in December, \$373m in November, \$333.4m in October and \$3.38m in May; while they increased by \$230m in September, \$309.3m in August, \$627.7m in July, \$109m in June, \$146.2m in April, \$561.7m in March, \$236.9m in February, and \$1bn in January. This resulted in an aggregate increase of \$2.3bn in 2010.

The value of the Central Bank's gold reserves increased by 29.3% year-on-year and by 7.4% in the fourth quarter to \$13bn, reaching a new all-time high due to the rise in global gold prices. Its securities portfolio rose by 25.4% annually and by 32% in the last quarter of the year to \$9.6bn. Further, deposits of the financial sector rose by nearly \$5bn, or 13% in 2010 to \$42.7bn due to capital inflows into the banking sector. However, such deposits increased by just 0.6%, or \$238.4m, in the fourth quarter of the year. Further, deposits of the public sector grew by 4.6% year-on-year and by 26.3% in the fourth quarter to \$6.2bn. Assets in foreign currencies increased by \$28.3bn in 2009, \$7.34bn in 2008, declined by \$580m in 2007 and rose by \$1.32bn in 2006.

Stock market activity at \$1.9bn in 2010

Figures released by the Beirut Stock Exchange indicate that total trading volume reached 164 million shares in 2010, constituting an increase of 60.5% from end-2009, while aggregate turnover amounted to \$1.87bn, up 80% from a turnover of \$1.04bn in 2009. Market capitalization decreased by 1.3% to \$12.7bn in 2010, of which 71.7% was in banking stocks and 24.2% 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 during 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 14.7% compared to 8.1% in 2009. Lebanon's market capitalization accounted for about 1.3% of the aggregate market capitalization of Arb equity marketd. Bank stocks accounted for 90.4% of aggregate trading volume by the end of this year, followed by real estate stocks with 9.3%. In terms of value of shares traded, banking stocks accounted for 81.5% of aggregate value, followed by real estate stocks with 18.2%. The average daily traded volume for the period was 674,813 shares for an average daily value of \$7.7m. The figures reflect increases of 61.2% in volume and 80.8% in value year-on-year

Entrepreneurship organization Endeavor opens Beirut office

Non-profit organization Endeavor Global announced the opening of a country affiliate in Beirut to identify and service promising entrepreneurs in Lebanon. Established in 1997, Endeavor is a U.S.-based organization dedicated to identify and support high-potential entrepreneurs in emerging markets through mentoring, access to key networks, strategic advice and introductions to sources of capital. The Beirut office will be the 11th independently-run country affiliate in emerging markets and the fourth in the Middle East after Turkey, Egypt and Jordan. The Endeavor Lebanon board is chaired by Mr. Fares I. Fares, Chairman and CEO of financial services firm Wedge Alternatives. He is joined on the board by prominent businessmen such as M1 Group CEO Azmi Mikati, Teeba Holding CEO Sami Khoury, and former Booz & Company executive Charles El-Hage. The organization said it currently serves more than 550 entrepreneurs representing in excess of 300 companies. It added that Endeavor-mentored entrepreneurs generated \$3.5bn in revenues, raised \$92m in equity capital in 2009, and have created about 130,000 high-quality jobs.

Kafalat loan guarantees reach \$167m in 2010

Figures released by the Kafalat Corporation show that loans extended to small and medium-size companies under the guarantee of Kafalat reached \$169.4m in 2010, up 21.3% from \$139.6m in 2009. The number of loan guarantees totaled 1,404 in 2010 compared to 1,050 in 2009. The average loan size reached \$120,640 compared to \$132,964 in 2009. Mount Lebanon accounted for 43.1% of guarantees, followed by the South & Nabatieh with 21.5%, Bekaa with 17.7% the North with 12.4%, and Beirut with 5.3%. The agriculture sector accounted for 43.4% of total guarantees, followed by industry with 38.7%, tourism with 14.7%, handicraft with 1.7% and specialized technologies with 1.6%. 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

Malia Group inaugurates five-star hotel in Erbil

Malia Group's tourism and investment affiliate Hotelline and hotel management firm Rotana Hotel Management Corporation inaugurated a five-star hotel in Erbil, the capital of Kurdistan in northern Iraq. The 201-room Erbil Rotana Hotel is the first branded five-star facility in Kurdistan and cost about \$55m to build. It plans to cater to the business, government and leisure segments of the market. In September 2007, Hotelline signed a partnership agreement with Rotana Hotel Management Corporation to build and co-manage a hotel in Erbil. Malia Invest and Italian firm DIVA srl own equity in the Erbil Rotana Hotel, while Rotana Hotel Management Corporation manages the hotel. Established in 1936, Lebanon's Malia Group is involved in the production, marketing, sales and distribution of pharmaceuticals, consumer goods, personal-and professional-care products and fashion retail. It is also involved in hospitality, real estate development, engineering, contracting, system integration and IT solutions.

Bank of Beirut exercises call option on Preferred Shares

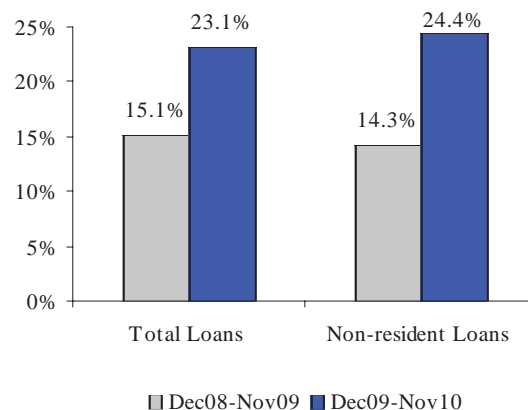
Bank of Beirut sal exercised its call option on its Class C Preferred Shares, as per the share's original issuance conditions. In October 2005, the bank issued 2.92 million redeemable, non-cumulative Class C Preferred Shares at an issue price of \$25 per share for a total value of \$73m. The Class C Preferred Shares earned dividends of \$2.27 per share in 2009. As result of the bank's exercising its call option, the Beirut Stock Exchange de-listed the preferred shares as of December 2010. The bank still has two other issues of preferred shares known as Class D and Class E Preferred shares.

Commercial banks' assets reach \$128bn at end-November 2010

The consolidated balance sheet of commercial banks operating in Lebanon shows that total assets reached \$127.6bn at the end of November 2010, constituting an increase of 10.7% from end-2009 and up 12.3% from end-November 2009. Private sector deposits totaled \$105bn, up by 9.7% from end-2009 and by 11.6% from end-November 2009. Deposits in Lebanese pounds reached \$39bn, increasing by 14.6% from end-2009 and by 18.6% year-on-year, while deposits in foreign currencies reached \$66bn and rose by 6.9% from the end of last year and by 7.9% from end-November 2009. Non-resident foreign currency deposits totaled \$14.9bn at end-November 2010, increasing by 4.8% from end-2009 and by 8.2% year-on-year. Total private sector deposits increased by \$225m in January, \$1.07bn in February, \$1.07bn in March, \$997m in April, \$82m in May, \$908m in June, \$1.8bn in July, \$792m in August, \$1.14bn in September, \$331m in October, and \$831m in November 2010. In parallel, deposits of non-resident banks reached \$5.1bn, up 11.8% from end-2009 and up 5.6% from end-November 2009. The dollarization rate of deposits reached 62.9% at the end of November, down from 64.5% at end-2009 and from 65% a year earlier. Further, the average deposit rate in Lebanese pounds reached 5.68% in November compared to 6.81% a year earlier, while the same rate in US dollars was 2.8%, down from 3.07% in November 2009.

Loans to the private sector amounted to \$34.9bn, constituting an increase of 23.1% from end-2009 and up 21.2% year-on-year. The dollarization rate in private sector lending reached 80.7% compared to 84% at end-2009 and 84.6% a year earlier. The average lending rate in Lebanese pounds was 7.98% in November 2010 compared to 9.04% a year earlier, while the same average in US dollars was 6.96% compared to 7.25% in November 2009. Claims on the public sector stood at \$28.7bn, down 0.2% year-on-year and 1.1% from end-2009, and accounted for 45.1% of the banking sector's total claims. The ratio of private sector loans to deposits in foreign currencies stood at 42.7%, well below the Central Bank's limit of 70%, and above the ratio of 39.9% a year earlier. In parallel, the same ratio in Lebanese pounds was 17.2%, up from 13.4% a year earlier. The ratio of total private sector loans to deposits stood at 33.3%, compared to 30.6% a year earlier. The banks' aggregate capital base stood at \$9.1bn, up 14.4% from end-2009 and up 16.1% from \$7.83bn in November 2009.

Growth in Private Sector Loans (%)



Source: Association of Banks in Lebanon

Ratio Highlights

(in % unless specified)	2007	2008	2009	Change*
Nominal GDP ⁽¹⁾ (\$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



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