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LEBANON THIS WEEK

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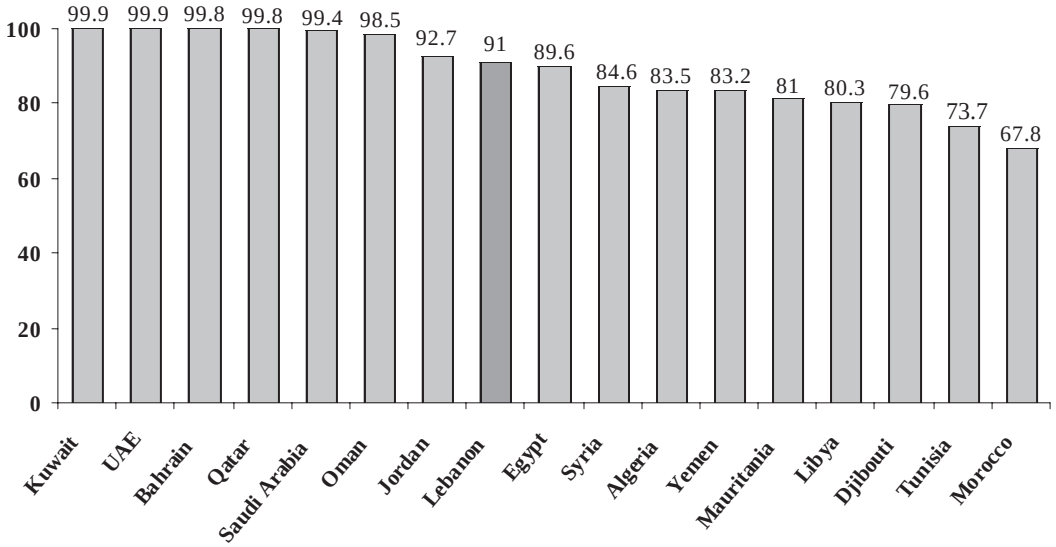
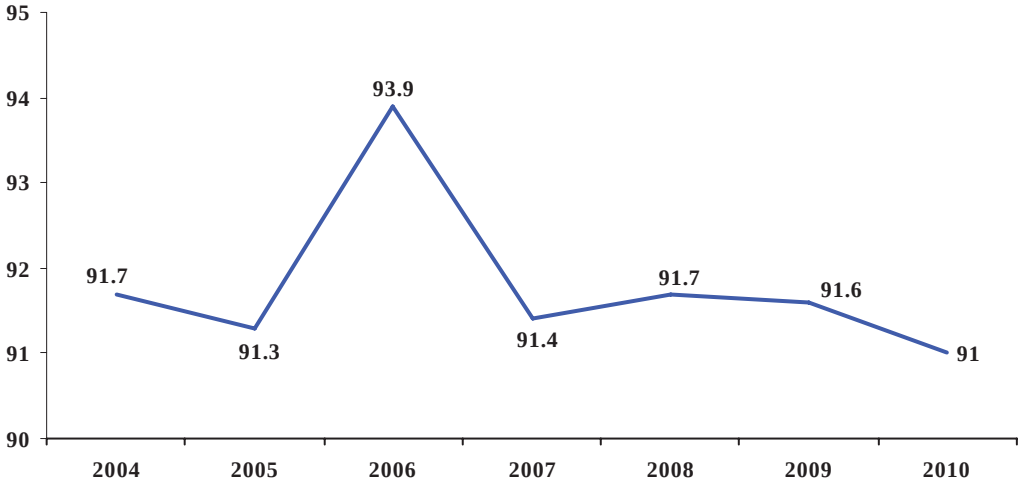
Charts of the Week

Fiscal Freedom Level of Arab Countries in 2010 (%)



Fiscal Freedom Level of Lebanon (%)



Source: Heritage Foundation/ Wall Street Journal

Quote to Note

"The pound is stable and will remain stable."

Central Bank Governor Riad Salameh, responding to concerns about the impact of the political crisis on the Lebanese pound

Number of the Week

$27.7bn: The Central Bank of Lebanon's gross foreign currency reserves at the end of November 2010, as estimated by the Association of Banks in Lebanon

Economic Indicators

$m *(unless otherwise mentioned)*	2008	Nov 09	2009	Sep10	Oct 10	Nov 10	% Change*
Exports	3,478	339	3,486	290	435	316	(6.78)
Imports	16,133	1,581	16,241	1,310	1,486	1,811	14.55
Trade Balance	(12,655)	(1,242)	(12,755)	(1,020)	(1,051)	(1,495)	20.37
Balance of Payments	3,462	280	7,899	186	(185)	(673)	(340.36)
Checks Cleared in LBP	9,350	850	11,122	1,124	1,849	1,626	91.29
Checks Cleared in FC	43,174	3,752	45,270	4,037	4,526	4,048	7.89
Total Checks Cleared	52,524	4,602	56,392	5,161	6,375	5,674	23.29
Budget Deficit/Surplus	(2,921)	(179)	(2,960)	(472)	(460)	(328)	83.24
Primary Balance	597	101	1,078	(44)	(118)	(32)	(131.68)
Airport Passengers	4,085,334	380,342	4,986,544	550,421	417,378	467,131	22.82
$bn *(unless otherwise mentioned)*	**Dec 2008**	**Nov 09**	**July 10**	**Sep 10**	**Oct 10**	**Nov 10**	**% Change***
BdL FX Reserves	17.06	24.81	27.42	28.46	28.20	27.74	11.81
In months of Imports	*15.03*	*15.69*	*18.92*	*21.7*	*18.9*	*15.3*	*(2.49)*
Public Debt	47.02	50.46	51.00	50.85	51.13	51.77	2.60
Net Public Debt	41.49	44.01	44.13	44.64	44.93	44.92	2.07
Bank Assets	94.25	113.57	121.68	126.74	126.65	127.57	12.33
Bank Deposits (Private Sector)	77.78	94.06	100.12	103.85	104.18	105.02	11.65
Bank Loans to Private Sector	25.04	28.81	31.71	33.82	34.39	34.92	21.21
Money Supply M2	24.76	33.19	38.02	39.32	39.31	39.31	18.44
Money Supply M3	68.66	81.04	86.74	90.06	90.57	91.00	12.29
LBP Lending Rate (%)	9.95	9.13	8.37	8.11	8.15	7.98	(115b.p.)
LBP Deposit Rate (%)	7.22	6.81	5.83	5.70	5.72	5.68	(113b.p.)
USD Lending Rate (%)	7.47	7.25	7.03	7.24	7.08	6.96	(29b.p.)
USD Deposit Rate (%)	3.33	3.07	2.75	2.78	2.81	2.80	(27b.p.)
%* Change in CPI**	6.36	4.47	7.42	7.15	8.69	10.82	635b.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"	18.18	(4.06)	221,847	14.55%
Solidere "B"	18.16	(4.37)	108,433	9.45%
Byblos Common	1.80	(2.70)	347,390	5.18%
Byblos Priority	1.85	0.00	0	3.05%
Byblos Pref. 08	103.00	0.00	20	1.65%
BLOM GDR	10.25	(2.57)	9,035	6.06%
BLOM Listed	10.25	(1.35)	20,282	17.63%
Audi GDR	8.51	(5.23)	10,523	6.38%
Audi Listed	7.80	(1.52)	12,989	21.75%
HOLCIM	17.00	0.29	500	2.65%

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

Sovereign Eurobonds	Coupon %	Mid Price $	Mid Yield %
May 2011	7.875	101.50	3.06
Mar. 2012	7.500	104.00	3.90
Sep. 2012	7.750	106.00	3.88
June 2013	8.625	110.38	4.04
Apr. 2015	10.000	118.00	5.21
Jan. 2016	8.500	113.00	5.48
May 2016	11.625	127.50	5.30
Mar. 2017	9.000	115.00	6.04
Nov. 2018	5.150	92.00	6.47
Apr. 2021	8.250	109.50	6.93

Source: Byblos Capital Markets

	January 17-21	January 10-14	% Change	December 2010	December 2009	% Change
Total Shares Traded	733,916	1,407,625	(47.86)	3,399,412	3,174,705	7.1
Total Value Traded	$7,210,024	$13,527,901	(46.70)	$33,080,487	$49,395,829	(33.0)
Market Capitalization	$12.50bn	$12.78bn	(2.23)	$12.68bn	$12.84bn	(1.3)

Source: Beirut Stock Exchange (BSE)

Merrill Lynch cuts its recommendation on Lebanese Eurobonds to 'Under Weight'

Merrill Lynch downgraded its recommendation on Lebanon's external debt to 'Under Weight' from 'Over Weight' in its model portfolio of emerging markets debt and reduced Lebanon's allocation by 2.5 percentage points to 3.4% due to the worsening of political conditions in the country. Last August, Merrill Lynch upgraded its recommendation on Lebanon's external debt to 'Over Weight' from 'Market Weight', following its upgrade in May to 'Market Weight' from 'Under Weight'. The last time Merrill Lynch had an 'Under Weight' recommendation on Lebanon's external debt was in April 2010. Lebanon's allocation was 5.5% in October, 5.8% in each of September and August, 5.7% in May, and 2.1% in each of the first four months of 2010.

Lebanon's external debt rating of 'Under Weight' placed Lebanon in the same category as Hungary and Mexico. Lebanon's 'Under Weight' does not compare well to the 'Over Weight' recommendation for similarly-rated countries, but is similar to the 'Under Weight' recommendation on the Europe, the Middle East & Africa (EMEA) region. Lebanon is represented in the portfolio by the April 2021 Eurobond. Lebanon accounted for 11.25% of the allocations in the EMEA region compared to 15.5% last November, 16.4% in October, 17.4% in August, and a high of 25% in March 2009. Lebanon's allocation was the 11th highest among countries in the portfolio, down from 8th highest in November and October 2010, and from 7th highest last August. Lebanon accounted for 17.7% of allocations to similarly-rated countries, down from 30% in October, 34% in August, 38.5% in May, while it was still up from 12% last March and 10.5% in January 2010.

Emerging Markets External Debt Portfolio

Country	Bonds	Weight (%)
Russia	Russia ’18s, ’28s, ’30s	10.6
Philippines	Philip ’19s,’30s	10.2
Brazil	Brazil ’17s, ’37s	9.2
Turkey	Turkey ’18s, ’36s	9.1
Mexico	Mexico ’17s, ’40s	8.2
Venezuela	Vz ’18Ns, ’19s	8.1
Indonesia	Indonesia ’18s, ’38s	6.9
Colombia	Colombia ’17s, ’19s, ’37s	5.0
Argentina	Boden ’15s, Disc$N	5.0
Peru	Peru ’19s, ’37s	6.3
Lebanon	**Lebanon ’21s**	**3.4**
South Africa	South Africa ’14s, ’20s	3.3
Panama	Panama ’15s, ’36s	3.2
Ukraine	Ukraine ’16s	2.8
Uruguay	Uruguay ’22s	2.5
El Salvador	El Salvador ’23s	1.6
Qatar	Qatar ’19s	1.1
Hungary	Hungary ’20s	0.8
Egypt	Egypt ’20s	0.5
Coatia	Croatia ’19s	0.3
Cash		4.7
Total		**100**

Source: Merrill Lynch, January 2011

In parallel, Lebanon's external debt posted the 9th highest return at 9.72% among 24 markets in the EMEA region in 2010, as well as the 26th best return among the 46 emerging markets included in Merrill Lynch's Sovereign Plus Debt Index. Lebanon outperformed the EMEA returns of 9.58% but underperformed the overall emerging market returns of 12.12% last year. Also, Lebanon's external debt underperformed the 15.3% returns posted by similarly-rated sovereigns, while it posted the 7th best performance at 10% in the EMEA region and the 24th best performance in emerging markets in US dollar terms. It also underperformed the 19.8% returns of US dollar 'B'-rated bonds. Further, Lebanon's external debt posted the 7th highest returns among 9 countries in the Middle East & Africa region in 2010, as it came ahead of Tunisia with 6.6% and the Ivory Coast with -30.7%, but behind Iraq with 27%, Gabon with 20%, Ghana with 18%, South Africa with 9.2%, Morocco with 7.1% and Egypt with 6.8%. Also, it posted returns of 0.38% in December, behind only Iraq (3.86%). Further, Lebanon's external debt posted the 10th highest return in the EMEA region and the 14th highest return in emerging markets in December 2010. It outperformed the EMEA returns of -0.42%, the emerging markets returns of -0.55%, and the -0.02% returns of similarly-rated sovereigns for the same month.

FDI at $4.7bn in 2010, equivalent to 12% of GDP

The World Bank estimated foreign direct investment (FDI) in Lebanon at $4.65bn in 2010, constituting a decline of 3.2% from $4.8bn in 2009, and compared to $4.33bn in 2008. Total FDI to the Middle East & North Africa region regressed by 12% to $28.4bn in 2010. FDI to Lebanon accounted for 16.4% of total FDI to MENA countries last year, up from 15% in 2009, while it accounted for 1.8% of total FDI to developing countries relative to1.6% in 2009. Further, FDI in Lebanon was equivalent to 11.9% of the country's GDP last year, compared to 13.7% of GDP in 2009. FDI to MENA countries was equivalent to 2.8% of GDP in 2010 and to 3.3% of GDP in 2009.

In parallel, the World Bank estimated economic growth in Lebanon at 8% in 2010 down from 9% in 2009, and compared to growth of 3.3% in the MENA region and 4.7% in MENA countries that are resource-poor and labor-abundant. It also projected Lebanon's real GDP growth at 7% in 2011, compared to 4.3% in the MENA region and 5.2% for the region's resource-poor and labor-abundant countries. Lebanon tied with Yemen as the fastest growing MENA economies in 2010 among nine low- and middle-income Arab countries. Further, the World Bank estimated Lebanon's current account deficit at 23.6% of GDP in 2010 compared to a surplus of 0.3% of GDP for the MENA region. It also forecast the current account deficit at 22.6% of GDP this year compared to a surplus of 1% of GDP for the region.

FDI in MENA Countries in 2010

	$bn	% of GDP
Egypt	6.50	3.0
Lebanon	4.65	11.9
Iran	2.90	0.9
Jordan	2.50	9.2
Algeria	2.00	1.3
Tunisia	1.70	3.9
Morocco	1.50	1.6
Other	6.60	-
Total	28.35	2.8

Source: World Bank, Byblos Research

Crisis to slow but not reverse economic growth and capital flows

The Institute of International Finance indicated that that the current political turmoil is unlikely to reverse the recent strong performance of the Lebanese economy, as long as there is no recourse to major violence. It projected real GDP growth to moderate from an estimated 7% in 2010 to 4% in 2011, adding that tourist arrivals and FDI may decline slightly this year. It considered that urgent structural reforms, such as addressing the bottlenecks in energy, telecommunications, transportation and water sectors, will be postponed in the absence of a new government, jeopardizing prospects for rapid medium-term growth. As such, it forecast capital spending to fall well below the amount included in the draft budget for 2011, resulting in a possible increase in the primary surplus from 3% of GDP in 2010 to 3.5% in 2011. It noted that Lebanon's public debt is mostly intermediated through domestic banks, which have a vested interest in the stability of the system and are willing to roll over their exposure to the sovereign.

The IIF expected Lebanese banks to remain sound and profitable, even in the event of prolonged political stalemate and moderating capital inflows, and to maintain adequate liquidity to expand credit to the private sector and to finance the budget deficit. It said depositors' commitment to Lebanon are likely to remain strong, motivated by a deep trust in the financial system and the perceived stability of the fixed exchange rate regime. It expected annual deposit growth to decelerate from 10% in 2010 to 6% in 2011, still well above the critical level that is required to finance the budget with new inflows. It noted that deposits growth remained positive during previous instances of political instability and security disturbances. It also expected risks to the stability of the exchange rate to remain minimal, as the current level of official exchange reserves of $30.8bn, in addition to gold holdings at the Central Bank valued at about $12.7bn, exceed the estimated GDP for 2010 and are equivalent to more than one year of import cover of goods and services.

The IIF noted, however, that downside risks to the forecast include the possibility of recourse to violence or sustained deterioration in domestic or regional security. It said that a sharp decrease in the liquidity of the banking system from such scenarios could pose a major risk to the sustainability of the public debt because deposits in banks need to grow by at least 4% a year to ensure the financing of the budget without additional exposure by banks, which currently hold about 23% of their assets in government securities.

Main Economic Indicators

	2009	2010	2011P*
Real GDP Growth (%)	8.6	7.0	4.0
Consumer Prices (avg., % change)	3.4	4.9	5.2
Credit to Private Sector (% change)	15.1	21.0	10.0
Broad Money (% change)	23.2	11.5	8.0
Government Revenue (% of GDP)	24.7	24.3	23.9
Government Expenditure (% of GDP)	33.3	31.6	30.8
Overall Deficit, excluding grants (% of GDP)	(8.7)	(7.3)	(6.8)
Primary Surplus, excluding grants (% of GDP)	2.6	3.0	3.5
Government Debt (% of GDP)	150	136	133
Current Account (% of GDP)	(22.0)	(15.8)	(15.2)

**: as of January 2011*
Source: Institute of International Finance

Political crisis to affect investor sentiment, postpone reforms indefinitely

Standard Chartered Bank indicated that political tensions in Lebanon have increased dramatically in recent weeks, jeopardizing the relative stability and economic prosperity that followed the Doha agreement reached in May 2008 among political factions. It said the Doha deal brought a period of exceptional prosperity for the country, but it did not provide a long-term solution to the impasse created by a fragile power-sharing equilibrium that has broken down once again.

It expected the most probable outcome of the current crisis to be a protracted deadlock, leading to the paralysis of the political and economic agenda until a structural solution is found. It said the political impasse and the absence of a government mean that the 2011 budget will not be passed and that the most important economic reforms will be postponed indefinitely. It added that the crucial restructuring and modernization of the electricity sector and the privatization of the telecom sector will certainly be postponed, but that paralysis under the previous government would have prevented significant progress on these fronts as well. It noted that this year's budget will be limited to operating expenditures given the inability to vote major new investment projects, which constitutes the one positive side effect of the current situation. It said that the inability to ratify a budget in past years has helped limit the widening of the fiscal deficit, which is crucial given the country's large public debt.

Standard Chartered indicated that the economy has experienced a boom in the past two year, as most macroeconomic indicators showed impressive improvement and the debt level declined significantly from 180% of GDP in 2006 to around 140% of GDP currently, but added that growth started to decelerate in the fourth quarter of 2010. It considered that the biggest impact of the ongoing crisis on the economy is likely to be a decline in sentiment, which could have ripple effects on tourism activity and foreign investor confidence, particularly in the real-estate sector. It noted that tourism had become a major generator of jobs and foreign currency in recent years.

Renewal of Central Bank Governor's term to become key issue in the absence of a government

The Royal Bank of Scotland (RBS) expected economic growth in Lebanon to decelerate to around 5% this year from the 8% average rate the country has achieved in recent years. It said growth has been led by tourism, financial services, construction and housing, but is likely to slow in the wake of current political developments. It anticipated the fiscal deficit to remain high and, in case a new government is not installed, for financing to be forthcoming from domestic sources only as the government requires the permission of Parliament to issue debt on international markets. Further, it anticipated that the primary surpluses that Lebanon has been recording over the last two of years to decline to negligible levels as debt servicing costs rise. It added that the prolonged lack of a government may prevent the execution of capital expenditures, currently projected at 3.5% of GDP for 2011.

It stressed that the key issue to watch on the policy front is what happens when the term of Central Bank Governor Riad Salameh comes to an end in July this year, given domestic political risks and particularly if there is no permanent government in place by then. It said Mr. Salameh has built up enormous credibility since 1993 when he first took office, and would likely secure another term given the success he has enjoyed in steering Lebanon during very difficult times, his perceived political neutrality, and the lack of any credible challengers. But it noted that the renewal of the governor's term requires a functioning government able to take decisions, and that the challenges of forming a new government are likely to keep uncertainties high.

In parallel, RBS said that any tension that leads to a switch in deposits from Lebanese pounds to U.S. dollars gives Lebanese banks more dollars to invest. It considered that the excess dollar liquidity should increase banks' demand for Eurobonds given that they can only invest a limited percentage of their equity in investment grade bonds but are allowed to buy as much Lebanese Eurobonds as they can. As such, it noted that the increased tension in Lebanon would drive Lebanese Eurobond prices higher up to a point. But it added that the main risk is when too much tension leads to the outflow of funds from the country. It expected Eurobond price movement to remain limited, given the strong bid from domestic banks and their desire to add to current holdings.

Standard & Poor's revises sovereign outlook to 'stable' from 'positive' on political uncertainty

Standard & Poor's affirmed Lebanon's long- and short-term sovereign credit ratings at 'B', but revised the ratings' outlook to 'stable' from 'positive'. It also maintained the transfer and convertibility assessment at 'BB-' and the recovery rating at '4'. It considered that the political impasse caused by the unity government's dissolution will be difficult to overcome, and that the caretaker government will struggle to govern and will have diminished control over the economic and political agenda.

The agency said that it will be difficult for Lebanon to implement much needed-structural reforms in the short term, especially in the public sector. It noted that political stability and structural reforms are essential to put the Lebanese economy on a sustainable growth path over the medium term, reduce the fiscal deficit, and maintain confidence in the banking system. It expected that political consensus in any new government will take time to forge, and that progress on structural reforms will be hard to achieve. It added that the government's inability to move forward on reforms would preclude an improvement in the sovereign's creditworthiness.

S&P noted that it already expected Lebanon to face this year large fiscal and current account deficits of 7.5% of GDP and 19% of GDP, respectively, even prior to the eruption of the political crisis. It forecast the public debt level at more than 120% of GDP by the end of 2011, one the highest in the world despite a declining trend over the past few years from contracting deficits and rapid GDP growth.

According to S&P, Lebanon's creditworthiness could improve if Prime Minister Hariri can form a new government, underpinned by a workable consensus for structural and fiscal reforms. However, the agency did not expect this scenario to emerge in the short term. It considered that the ratings could come under downward pressure if there was an outbreak of intense or prolonged civil unrest and entrenched political instability, reducing the government's effectiveness to formulate and implement stability-oriented economic policies.

Four ministries launch one-stop shop

The Ministry of State for Administrative Reforms signed cooperation agreements with the Health, Agriculture, Tourism and Education & Higher Education ministries for the establishment of a one-stop shop that would streamline the services provided by the four ministries. The one-stop window is expected to offer around 250 procedures that include 130 procedures from the Education & Higher Education Ministry, 40 procedures from the Health Ministry, 38 procedures from the Agriculture Ministry and 43 procedures from the Tourism Ministry. The one-stop shops are expected to expand to include other ministries such as the Justice and Labor ministries. The project is complementary to the ministries' computerization plan as the shops' procedures will be fully computerized.

Number of tourists up 17% in 2010

Figures issued by the Ministry of Tourim show that the number of incoming tourists to Lebanon totaled 2,167,989 in 2010, constituting an increase of 17.1% from 1,851,081 tourists in the same period last year. Arab tourists accounted for 34.6% of total visitors and were followed by visitors from Europe with 22.9%, Asia with 21.2%, the Americas with 12.5%, Africa with 5.9%, and Oceania with 2.8%. The number of tourists reached 152,234 in December 2010, constituting an increase of 10.6% from 137,651 in December 2009. Tourists from Arab countries accounted for 37.5% of total visitors in December 2010, followed by visitors from Europe with 28.7%, Asia with 16%, the Americas with 12.4%, Oceania with 2.9% and Africa with 2.4%. Incoming tourists totaled 1.9 million in 2009, up 39% year-on-year and constituted the highest growth rate in the world in tourist arrivals during the year.

Most tourism spending in Lebanon originates from Saudi Arabia, the UAE and Kuwait in 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 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 47% in 2010, followed by visitors from Egypt with 32%, Saudi Arabia (+27%), France (+25%), Jordan (+15%), the UAE (+11%) and Qatar (+4%), while spending by visitors from Kuwait decreased by 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 and consumer electronics & household appliances with 2% each. Spending on electronics & IT products increased by 33% in 2010, followed by spending on perfume & cosmetics with a 25% rise, fashion & clothing and consumer electronics & household appliances with 23% each, watches with 17%, department stores with 16%, garden products with 9% and souvenirs & gifts and home with 3%.

Cleared checks up 25% to $63bn in first 11 months of 2010

The value of cleared checks increased by 24.5% to $63bn in the first 11 months of 2010 compared to the same period of 2009. The value of cleared checks in Lebanese pounds rose by 23.3% to the equivalent of $13.4bn, while the value of cleared checks in US dollars rose by 22.3% to $49.6bn. The dollarization rate of cleared checks decreased from 80.1% to 78.7% year-on-year. Also, the value of returned checks in domestic and foreign currency amounted to $1.31bn in the first 11 months of 2010, up 30.7% from $999m in the period last year.

Construction permits up 37% in first 11 months of 2010

Figures released by the Association of Engineers of Beirut & Tripoli show that construction permits reached 15.6 million square meters in the first 11 months of 2010, up 36.9% from 11.4 million square meters in the same period last year. Construction permits totaled 1.19 million square meters in November 2010, down 1.7% year-on-year from 1.21 million square meters in November 2009. In parallel, cement deliveries reached 4.8 million tons in the first 11 months of 2010, an increase of 5.4% from 4.6 million tons in the same period last year. Cement deliveries reached 410,000 tons in November 2010, up 5.7% from 388,000 tons in November 2009.

Corporate Highlights

Standard & Poor's revises outlook on three banks

Standard & Poor's revised its outlook on Bank Audi, BankMed and BLOM Bank to 'stable' from 'positive' and affirmed the 'B' long-term counterparty credit ratings on all three banks, and the 'B' short-term counterparty credit ratings on Bank Audi and BankMed. It attributed the move to its earlier decision to change the outlook on Lebanon's sovereign ratings to 'stable' from 'positive' due to increased political uncertainties.

It said the ratings on the three banks mainly reflect the risks inherent in their fragile operating environment, especially the government's high indebtedness, fiscal deficit and fragile political stability. It considered that the banks' most important risk factor is their high direct exposure to the sovereign. It said that such exposure strongly ties the banks' fortunes to the republic's solvency. But it noted that Lebanese banks in general are supported by a large and stable resident and non-resident depositor base, which allows the sector to cover the government's financing requirements as long as confidence is maintained. In parallel, the agency said the banking sector has proven its resiliency to numerous challenges in recent years, including the assassination of former Prime Minister Rafik Hariri in 2005, the war with Israel in 2006, and the global economic downturn. It viewed favorably the banks' good customer franchises and strong liquidity position. It noted that the 'stable' outlook on the three banks reflects and closely follows that on the Republic of Lebanon, adding that a sovereign downgrade is likely to trigger a downgrade of the banks' ratings.

Government collapse is credit negative for Lebanese banks

Moody's Investors Service indicated that the collapse of Prime Minister Saad Hariri's national unity government is credit negative for Lebanon's banks, as it brings into question the country's economic growth projections of around 5% for this year versus 8% in 2010. It said that, even in the absence of a worst-case scenario of factional or regional clashes, the combination of potentially slower economic growth and market uncertainties would take its toll on the sector. It considered that Lebanese banks would incur losses if slower economic growth leads to rising loan delinquencies. It said banks have material credit exposures to sectors that are affected by slower growth such as retail lending, tourism, and construction and real estate, all of which have performed strongly in recent years. It noted that larger banks tend to have higher exposures to these sectors by virtue of their size, but they also tend to be better diversified regionally than their domestic competitors.

In parallel, the agency anticipated that rising event risk would likely lead banks to further increase their dollar placements with international financial institutions, which would provide them with off-shore dollar-denominated liquidity buffers. It pointed out, however, that this would increase the liquidity drag on their profitability, particularly as dollar interest rates have come down sharply in recent years. Further, Moody's estimated that protracted market uncertainty may lead to a widening of yields on Lebanese government securities, which account for around 25% of banking system assets. It noted that potential losses, together with revaluation write-downs of banks' available for sale government securities, may erode Lebanese banks' capital adequacy ratios. It said the banking sector's aggregate Basel II capital adequacy ratio is estimated at around 13%, above the 8% regulatory minimum, but not high enough considering Lebanon's operating environment. It also indicated that the risks of capital flight exist, but that the Lebanese banking sector has survived extreme strain in the past. It said commercial banks' placements with international financial institutions and the Central Bank's high level of foreign currency reserves provide a significant line of defense against the effects of possible capital flight and underpin Lebanon's exchange rate stability.

Car sales up 3.8% year-on-year in 2010

Moody's Investors Service indicated that the collapse of Prime Minister Saad Hariri's national unity government is credit negative for Figures released by the Association of Automobile Importers in Lebanon indicate that a total of 33,402 new passenger cars were sold in 2010, constituting an increase of 3.8% from the 32,177 cars sold in 2009. Japanese cars accounted for 38.6% of total sales, followed by Korean cars with a 31.9% share, European automobiles with 22.8%, American vehicles with 6%, and Chinese cars with 0.7%. Korean cars posted the only growth in sales with a 68.8% rise year-on-year. In parallel, Chinese cars posted a drop of 21% in sales year-on-year, followed by Japanese cars with a 15% decrease, American cars with a 14% decline and European cars with a 5.2% drop. Kia is the leading brand in the Lebanese market with 6,494 cars sold in 2010, followed by Nissan (5,663), Hyundai (4,152) Toyota (3,103), Chevrolet (1,338), Mitsubishi (1,287), and Renault (1,145).Lebanon's banks, as it brings into question the country's economic growth projections of around 5% for this year versus 8% in 2010. It said that, even in the absence of a worst-case scenario of factional or regional clashes, the combination of potentially slower economic growth and market uncert

Ericsson wins bid for Optical Transport Network

The Ministry of Telecommunication announced that Ericsson, a Swedish provider of telecommunications equipment and related services to mobile and fixed network operators, won the bid to construct the country's Optical Transport Network. The new network is the second phase of the national high-speed Internet implementation plan and is expected to increase Lebanon's Internet connection speed from one Megabit per second to 15 Megabits per second. The ministry stated that seven companies applied for the bid, but two of them were disqualified for incomplete application and one for inadequate technical requirements. Ericsson submitted the lowest budget compared to Nokia Siemens, Alcatel Lucent, and Huwawei.

Corporate Highlights

Total-Liban gets ISO certification

The International Organization for Standardization (ISO) awarded oil company Total-Liban the Quality Management System certification, also known as ISO 9001:2008. The ISO accreditation recognizes the quality of Total's operations in Lebanon, which include service-stations, fuel distribution, shops, car wash, oil change and lubricant sales. Established in Lebanon in 1951, Total-Liban is the domestic affiliate of French firm Total SA, and becomes the first Lebanese petroleum company to receive the Quality Management System certification. Total-Liban is the market leader in the gasoline market, has the largest distribution network with about 180 gas stations, and is one of the few companies that have the full stages of the distribution process.

Landmark Group to open 41 stores in Lebanon

Landmark Group opened two fashion stores, Centrepoint and Max, in Lebanon as part of its $150m expansion plan for the next three years. Landmark Group is expected to open 41 stores in total in Lebanon in the next five years, to launch several new brands of the Group and to cover more than 340,000 square foot of retail in the country. It is expected to invest $15m in the country over the next five years while it has already employed around 120 employees for its Centrepoint store. Established in 1973, Landmark Group is a retail conglomerates in the Middle East and India with a diversified portfolio of retail and hospitality brands. It has 900 stores in 15 countries in the region, occupies 13.4 m square feet and employs around 32,000 employees.

Lebanese start-up wins 2010 MedVentures competition

The Lebanese start-up Ounousa.com, a portal dedicated for Arabic-speaking women, won the 2010 MedVentures award. The start-up offers news and updates on women-related subjects such as fashion, beauty, health care and cooking. MedVentures rewards start-ups with high performance and potential growth from 10 Southern Mediterranean countries and is part of the Invest-in-Med program that is financed by the European Commission. The program aims at developing sustainable trade relationships, investments and enterprise partnerships between Mediterranean countries. Ounousa.com was coached and mentored by the incubator Berytech throughout the application process until the final stages of the competition.

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	Stable	B	B	Stable
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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