



## LEBANON THIS WEEK

### In This Issue

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

**Capital Markets.....1**

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

Lebanon ranks 105th globally, 13th in Arab region in credit ratings

Preparations underway for offshore oil and gas exploration tender

Economic activity stagnant in January 2011

Merrill Lynch maintains its recommendation on Lebanese Eurobonds at 'Under Weight'

Consumer Price Index up 4.6% annually in December 2010

Lebanon ranks 70th globally, 8th in Arab region in travel & tourism competitiveness

Launch of agricultural hydroponics program

Lebanon is one of the more stable countries in the MENA region

Business councils to unify regulatory framework

Balance of payments posts deficit of \$772m in January

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

Commercial banks' assets reach \$128bn at end-January 2011

Total car imports down 8% in 2010, used cars account for 60% of imported vehicles

Occupancy at Beirut hotels at 44%, room yields down 38% in January 2011

Hotel occupancy at 41.6% in January

Two listed banks announce dividends for 2010

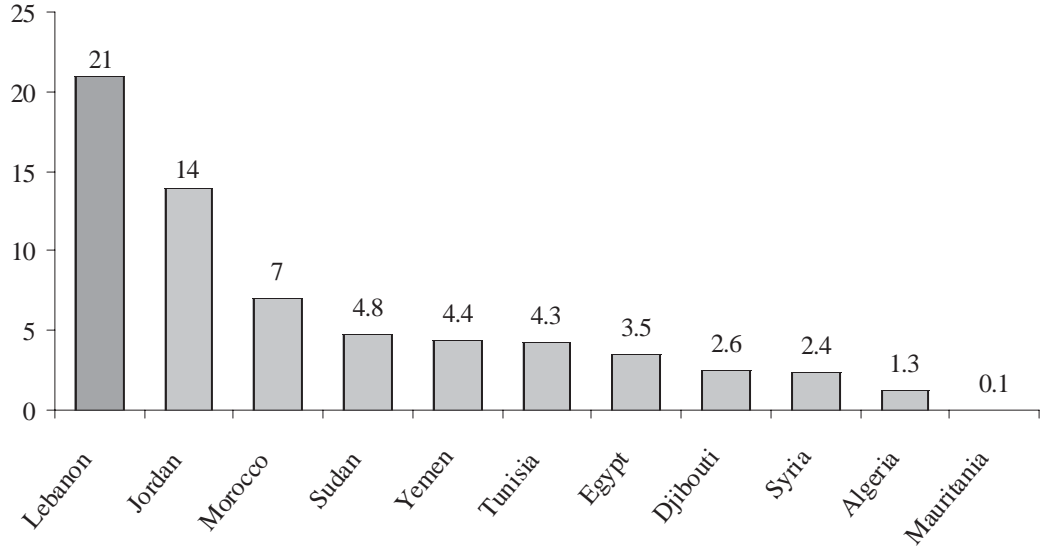
**Ratio Highlights.....8**

**Risk Outlook.....8**

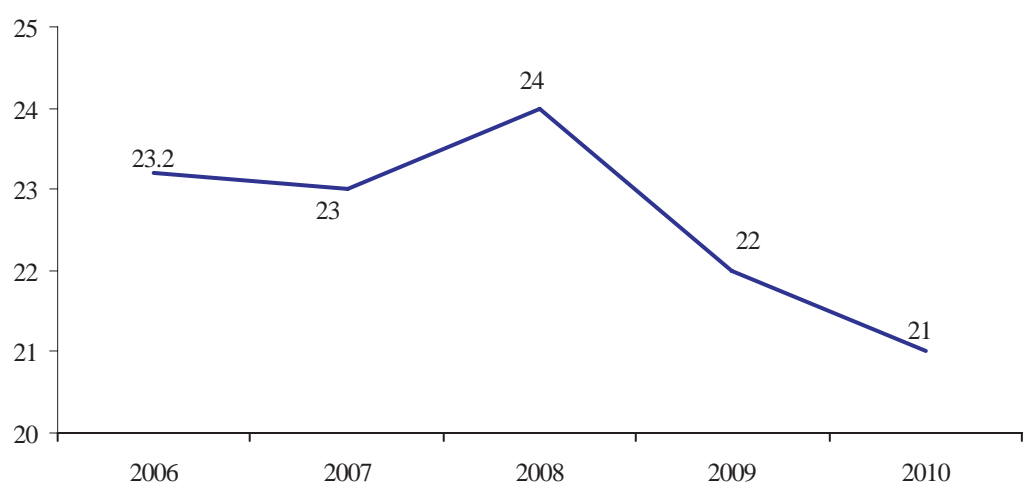
**Ratings & Outlook.....8**

### Charts of the Week

Expatriates' Remittance Inflows to Arab Countries in 2010 (% of GDP)



Expatriates' Remittance Inflows to Lebanon (% of GDP)



Source: World Bank, International Monetary Fund

### Quote to Note

"The two key objectives for Lebanon's economy in 2011 are to generate a high level of real GDP growth and to maintain the current level of interest rates."

*Central Bank Governor Riad Salamé, on the current year's economic and monetary priorities*

### Number of the Week

**1,050:** Average number of speeding tickets that policemen write per day across Lebanon, according to the Internal Security Forces

## Economic Indicators

| <b>\$m (unless otherwise mentioned)</b>  | <b>2008</b>     | <b>Dec 09</b> | <b>2009</b>   | <b>Oct 10</b> | <b>Nov 10</b> | <b>Dec 10</b> | <b>% Change*</b> |
|--|-----------------|---------------|---------------|---------------|---------------|---------------|------------------|
| Exports                                  | 3,478           | 364           | 3,486         | 435           | 316           | 487           | 33.79            |
| Imports                                  | 16,133          | 1,380         | 16,241        | 1,486         | 1,811         | 1,470         | 6.52             |
| Trade Balance                            | (12,655)        | (1,016)       | (12,755)      | (1,051)       | (1,495)       | (983)         | (3.25)           |
| Balance of Payments                      | 3,462           | 1,610         | 7,899         | (185)         | (673)         | 1,243         | (22.80)          |
| Checks Cleared in LBP                    | 9,350           | 1,061         | 11,122        | 1,227         | 1,079         | 1,278         | 20.45            |
| Checks Cleared in FC                     | 43,174          | 4,756         | 45,270        | 4,526         | 4,048         | 4,370         | (8.12)           |
| Total Checks Cleared                     | 52,524          | 5,817         | 56,392        | 5,753         | 5,127         | 5,648         | (2.91)           |
| Budget Deficit/Surplus                   | (2,921)         | (368)         | (2,960)       | (460)         | (352)         | (62)          | (83.15)          |
| Primary Balance                          | 597             | 72            | 1,078         | (118)         | (32)          | 276           | 283.33           |
| Airport Passengers                       | 4,085,334       | 738,211       | 4,986,544     | 417,378       | 467,131       | 369,735       | (49.91)          |
| <b>\$bn (unless otherwise mentioned)</b> | <b>Dec 2008</b> | <b>Dec 09</b> | <b>Sep 10</b> | <b>Oct 10</b> | <b>Nov 10</b> | <b>Dec 10</b> | <b>% Change*</b> |
| BdL FX Reserves                          | 17.06           | 25.66         | 28.46         | 28.20         | 27.74         | 28.60         | 11.46            |
| <i>In months of Imports</i>              | <i>15.03</i>    | <i>18.59</i>  | <i>21.7</i>   | <i>18.9</i>   | <i>15.3</i>   | <i>19.4</i>   | <i>4.36</i>      |
| Public Debt                              | 47.02           | 51.09         | 50.85         | 51.13         | 51.77         | 52.59         | 2.94             |
| Net Public Debt                          | 41.49           | 44.11         | 44.64         | 44.93         | 44.92         | 45.01         | 2.04             |
| Bank Assets                              | 94.25           | 115.25        | 126.74        | 126.65        | 127.57        | 128.93        | 11.87            |
| Bank Deposits (Private Sector)           | 77.78           | 95.77         | 103.85        | 104.18        | 105.02        | 107.20        | 11.93            |
| Bank Loans to Private Sector             | 25.04           | 28.37         | 33.82         | 34.39         | 34.92         | 34.93         | 23.12            |
| Money Supply M2                          | 24.76           | 34.16         | 39.32         | 39.31         | 39.31         | 39.40         | 15.34            |
| Money Supply M3                          | 68.66           | 82.08         | 90.06         | 90.57         | 91.00         | 92.15         | 12.27            |
| LBP Lending Rate (%)                     | 9.95            | 9.04          | 8.11          | 8.15          | 7.98          | 7.91          | (113b.p.)        |
| LBP Deposit Rate (%)                     | 7.22            | 6.75          | 5.70          | 5.72          | 5.68          | 5.68          | (107b.p.)        |
| USD Lending Rate (%)                     | 7.47            | 7.28          | 7.24          | 7.08          | 6.96          | 6.74          | (54b.p.)         |
| USD Deposit Rate (%)                     | 3.33            | 3.05          | 2.78          | 2.81          | 2.80          | 2.80          | (25b.p.)         |
| %* Change in CPI**                       | 6.36            | 4.20          | 7.15          | 8.69          | 10.82         | 10.65         | 645b.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> | <b>Sovereign Eurobonds</b> | <b>Coupon %</b> | <b>Mid Price \$</b> | <b>Mid Yield %</b> |
|----------------------------------|------------------------|------------------|---------------------|--|----------------------------|-----------------|---------------------|--------------------|
| Solidere "A"                     | 18.37                  | 0.82             | 134,162             | 15.20%                                 | May 2011                   | 7.875           | 100.75              | 2.91               |
| Solidere "B"                     | 18.40                  | 1.49             | 46,584              | 9.83%                                  | Mar. 2012                  | 7.500           | 103.88              | 3.48               |
| Byblos Common                    | 1.91                   | 0.53             | 104,034             | 5.70%                                  | Sep. 2012                  | 7.750           | 104.88              | 4.26               |
| Byblos Priority                  | 1.91                   | 1.06             | 50,000              | 3.25%                                  | June 2013                  | 8.625           | 108.50              | 4.59               |
| Byblos Pref. 08                  | 104.00                 | 0.00             | 0                   | 1.74%                                  | Apr. 2014                  | 7.375           | 108.00              | 4.54               |
| BLOM GDR                         | 9.83                   | (1.70)           | 45,500              | 6.17%                                  | Jan. 2016                  | 8.500           | 117.75              | 5.13               |
| BLOM Listed                      | 9.10                   | 0.00             | 10,350              | 16.32%                                 | May 2016                   | 11.625          | 112.75              | 5.45               |
| Audi GDR                         | 7.65                   | 0.53             | 143,052             | 5.95%                                  | Mar. 2017                  | 9.000           | 115.75              | 5.84               |
| Audi Listed                      | 7.50                   | 4.60             | 0                   | 20.85%                                 | Nov. 2018                  | 5.150           | 97.00               | 5.64               |
| HOLCIM                           | 16.56                  | 0.00             | 216                 | 2.70%                                  | Apr. 2021                  | 8.250           | 114.50              | 6.28               |

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

Source: Byblos Capital Markets

|                              | <b>March 14-18</b> | <b>March 7-11</b> | <b>% Change</b> | <b>February 2011</b> | <b>February 2010</b> | <b>% Change</b> |
|------------------------------|--------------------|-------------------|-----------------|----------------------|----------------------|-----------------|
| <b>Total Shares Traded</b>   | 582,650            | 618,795           | (5.84)          | 7,279,483            | 55,216,126           | (86.82)         |
| <b>Total Value Traded</b>    | \$5,192,662        | \$7,427,040       | (30.08)         | \$29,306,533         | \$158,807,366        | (81.55)         |
| <b>Market Capitalization</b> | \$12.12bn          | \$11.98bn         | 1.10            | \$12.68bn            | \$12.84bn            | (6.43)          |

Source: Beirut Stock Exchange (BSE)



### Lebanon ranks 105th globally, 13th in Arab region in credit ratings

In its semi-annual survey on the creditworthiness of 178 countries, *Institutional Investor* magazine ranked Lebanon in 105th place worldwide and in 13th place among 19 Arab countries in the March 2011 survey. Lebanon ranked in 112th place globally and in 13th place regionally in September 2010. The survey rates the creditworthiness of countries on a scale of 0 to 100, with 100 representing countries with the least chance of debt default. The ratings are based on input provided by senior economists and sovereign risk analysts at leading global banks and money management and securities firms.

On a global basis, Lebanon ranked ahead of Cape Verde, Sri Lanka and Uganda, and came immediately behind Venezuela, Georgia and Paraguay. Lebanon's rank remained unchanged from the previous survey. Lebanon received a score of 34.3 points, below the global average of 46.5 points as well as lower than the Arab average of 49.1 points. Its score improved by 1.8 points, or 5.5% from September 2010, constituting the fourth best improvement in the Arab region numerically and the third best in percentage terms. Lebanon was one of five Arab countries whose score improved from the previous survey. The rankings of 4 Arab countries improved, 4 regressed and 11 remained unchanged, while the scores of 11 countries improved and 8 declined from September 2010.

*Institutional Investor* said voting for the survey was conducted in November and December, before the uprisings in the Arab world broke out. Therefore, the scores and rankings in the Arab world reflect the level of sovereign credit worthiness at the end of 2010. But it conducted a snap poll of survey respondents in late February that shows a sharp drop in ratings across the region. It indicated that half of the respondents considered that political change in the region will have a very negative or somewhat negative impact on the countries' creditworthiness over the next three to five years, while the other half said the impact will be neutral or somewhat positive.

The global average score improved marginally to 46.5 points from 46.2 points, largely reflecting gains in developed nations. The survey said developments in the Middle East will impact global creditworthiness, because of the lack of clarity about the direction, pace or the scale of political change. Norway remained the country with the best creditworthiness in the world while Somalia had the highest probability of default worldwide.

### Preparations underway for offshore oil and gas exploration tender

The Ministry of Energy & Water signed an agreement with French consulting firm Beicip-Franlab to prepare the tender process for offshore oil and gas exploration. Beicip-Franlab, in partnership with the Norwegian government's program, "Oil for Development" and the Norwegian company Petroleum Geo-Services (PGS), is expected to finalize 27 decrees by July and present them to the Cabinet for approval. Beicip-Franlab will be in charge of the technical aspect of the bidding process, the Norwegian program will be responsible for the legal and institutional aspects, and PGS will manage the marketing and promotional sides. The ministry indicated that the first licensing round for offshore gas exploration would take place in November 2011, and expected exploration to start in November 2012. Last August, the Lebanese Parliament ratified a draft law that authorizes for the first time offshore oil and gas exploration and drilling. The law provides the basis to apply an international law called Production Sharing Agreement (PSA), essential in the production sharing deals that usually take place between states and international oil companies. Last March, the United States Geological Survey (USGS) estimated that the Levant Basin Province has a mean of 1.7 billion barrels of recoverable oil and a mean of 122 trillion cubic feet of recoverable gas. The Levant Basin Province encompasses approximately 83,000 square kilometers of the eastern Mediterranean area off the coasts of Lebanon, Syria, Cyprus and Israel. The USGS stressed that the estimates represent technically-recoverable oil and gas resources, and are not estimates of economically-recoverable resources.

### Economic activity stagnant in January 2011

The Central Bank's Coincident Indicator, an index of economic activity in Lebanon, reached 254.4 points in January 2011 compared to 255.5 points in December 2010 and 244.1 points in January 2011. The Coincident Indicator, an average of 8 weighted economic indicators, regressed by 0.4% in December, and increased by 4.2% year-on-year. The indicator averaged 250.4 in the 12-months ending January 2011 compared to 249.5 in 2010 and to 228.3 in the 12-months ending January 2010. As a result, the average coincident indicator improved marginally by 0.4% month-on-month and rose by 9.7% year-on-year. The indicator posted the second consecutive monthly decline in January, as it regressed by 4.2% last December. This constitutes the fourth decline of the indicator in both January and December since the coincident indicator's inception. In parallel, the indicator improved 9 times and regressed 9 times in the month of January since 1993.

### Arab Countries Rankings & Scores

| Country        | Credit Rating | Arab Rank | Global Rank |
|----------------|---------------|-----------|-------------|
| Qatar          | 79            | 1         | 24          |
| Kuwait         | 76.2          | 2         | 30          |
| UAE            | 75.3          | 3         | 32          |
| Saudi Arabia   | 75.0          | 4         | 33          |
| Oman           | 71.8          | 5         | 37          |
| Bahrain        | 68.1          | 6         | 42          |
| Tunisia        | 60.5          | 7         | 55          |
| Libya          | 54.6          | 8         | 64          |
| Morocco        | 54.5          | 9         | 65          |
| Algeria        | 53.4          | 10        | 69          |
| Egypt          | 51.1          | 11        | 74          |
| Jordan         | 46.2          | 12        | 79          |
| <b>Lebanon</b> | <b>34.3</b>   | <b>13</b> | <b>105</b>  |
| Syria          | 31.8          | 14        | 116         |
| Yemen          | 25.0          | 15        | 143         |
| Iraq           | 22.9          | 16        | 148         |
| Djibouti       | 21.8          | 17        | 151         |
| Mauritania     | 21.6          | 18        | 152         |
| Sudan          | 9.9           | 19        | 175         |

Source: *Institutional Investor*, *Byblos Research*

### Merrill Lynch maintains its recommendation on Lebanese Eurobonds at 'Under Weight'

Merrill Lynch maintained its recommendation on Lebanon's external debt at 'Under Weight' in its model portfolio of emerging markets debt in March and kept Lebanon's allocation at 3.4%. Last January, Merrill Lynch downgraded Lebanon's external debt to 'Under Weight' from 'Over Weight' and reduced Lebanon's allocation by 2.5 percentage points from 5.9% due to the worsening of political conditions in the country at the time. 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'. Lebanon's allocation was 5.9% in December, 5.5% in October, 5.8% in each of September and August, 5.4% in July, 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. Lebanon's 'Under Weight' does not compare well to the 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 10.8% of the allocations in the EMEA region compared to 11.25% last January, 15.5% in November, 17.4% in August 2010, and a high of 25% in March 2009. Lebanon's allocation was the 12th highest among countries in the portfolio, down from 11th highest in January, 8th highest in November and 7th highest last August. Lebanon accounted for 17.7% of allocations to similarly-rated countries, unchanged from January, but down from 30% in October, 34% in August, 38.5% in May, while it was still up from 12% 2010.

In parallel, Lebanon's external debt posted the fifth highest return at 1.4% among 24 markets in the EMEA region in the first two months of 2011, as well as the 7th best return among the 46 emerging markets included in Merrill Lynch's Sovereign Plus Debt Index. Lebanon outperformed the EMEA returns of -0.7% and the overall emerging market returns of -0.42% year-to-February. Also, Lebanon's external debt outperformed the -1.37% returns posted by similarly-rated sovereigns. Further, Lebanon's external debt posted the highest returns among 10 countries in the Middle East & Africa region in the first two months 2011, as it came ahead of Morocco with 0.36%, South Africa with -0.3%, Iraq and Ghana with -2.5% each, Tunisia with -3.54%, Gabon with -5.2%, Nigeria with -6.3%, Egypt with -10.6%, and the Ivory Coast with -12.2%. Also, it posted returns of 0.51% in February, behind Egypt (5.06%), Tunisia (1.37%), South Africa (1.3%), and Morocco (0.6%).

In parallel, Lebanon's external debt posted the 15th highest return in the EMEA region and the 22nd highest return in emerging markets in February 2011. It underperformed the EMEA returns of 0.56%, but outperformed the emerging markets returns of 0.27% and the 0.08% returns of similarly-rated sovereigns for the same month. Merrill Lynch said the spread on Lebanese Eurobonds ended February 2011 at 356 basis points, 14th narrowest in the EMEA region and 29th narrowest among emerging markets. It was wider than the EMEA spread of 263 basis points and the emerging markets overall spread of 282 basis points at end-February 2011.

### Consumer Price Index up 4.6% annually in December 2010

The Central Administration of Statistics' Consumer Price Index indicates that inflation increased by 4.6% in December 2010 from December 2009. Prices of clothing and footwear increased by 20.3%, followed by water, electricity, gas & other fuels (+8.1%), food & non-alcoholic beverages (+6.8%), education (+6.7%), restaurants & hotels (+6.3%), transportation (+4.8%), recreation & entertainment (+2.1%), miscellaneous goods & services (+2%), furnishings & household equipment (+0.9%) and alcoholic beverages & tobacco (+0.8%). In parallel, prices of health care regressed by 2.6% followed by communication (0.1%) 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 0.5% in December 2010 from November 2010. Prices of water, electricity, gas & other fuels increased by 1.7%, followed by food & non-alcoholic beverages (+1.1%), clothing and footwear and transportation (+0.9%), restaurants & hotels (+0.2%), recreation & entertainment (+0.2%) and miscellaneous goods & services (+0.1%). In parallel, prices of health care regressed by 1%, while housing prices, education, communication, alcoholic beverages and furnishings & household equipment remained unchanged month-to-month.

| Emerging Markets External Debt Portfolio |                           |            |
|--|---------------------------|------------|
| Country                                  | Bonds                     | Weight (%) |
| Russia                                   | Russia '18s, '28s, '30s   | 10.7       |
| Mexico                                   | Mexico '17s, '40s         | 9.4        |
| Philippines                              | Philip '19s, '30s         | 9.3        |
| Brazil                                   | Brazil '17s, '37s         | 9.2        |
| Turkey                                   | Turkey '18s, '36s         | 9.0        |
| Venezuela                                | Vz '18Ns, '19s            | 8.3        |
| Indonesia                                | Indonesia '18s, '38s      | 6.9        |
| Colombia                                 | Colombia '17s, '19s, '37s | 5.0        |
| Argentina                                | Boden '15s, Disc\$N       | 4.7        |
| South Africa                             | South Africa '14s, '20s   | 4.6        |
| Peru                                     | Peru '19s, '37s           | 3.5        |
| <b>Lebanon</b>                           | <b>Lebanon '21s</b>       | <b>3.4</b> |
| Panama                                   | Panama '15s, '36s         | 3.2        |
| Ukraine                                  | Ukraine '16s              | 2.8        |
| Uruguay                                  | Uruguay '22s              | 2.6        |
| El Salvador                              | El Salvador '23s          | 1.5        |
| Qatar                                    | Qatar '19s                | 1.1        |
| Hungary                                  | Hungary '20s              | 0.9        |
| Cash                                     |                           | 4.7        |
| <b>Total</b>                             |                           | <b>100</b> |

Source: Merrill Lynch, March 2011

### Lebanon ranks 70th globally, 8th in Arab region in travel & tourism competitiveness

The World Economic Forum ranked Lebanon in 70th place among 139 countries on its Travel & Tourism Competitiveness Index (TTCI), constituting the first time Lebanon is included in the index. It also ranked Lebanon in eighth place among 14 Arab countries included in the survey, and in 19th place among 33 Upper Middle Income Countries (UMICs). The TTCI measures the competitiveness of the travel and tourism (T&T) industry in countries around the world by assessing the corresponding regulatory framework; the sector's business environment and infrastructure; and the industry's human, cultural, and natural resources.

Globally, Lebanon ranked ahead of Albania, the Dominican Republic and Georgia and came behind Peru, India and Brunei Darussalam. It also ranked ahead of Albania and the Dominican Republic and came behind Peru and South Africa among UMICs. Lebanon received a score of 4.03 points, slightly lower than the global average of 4.1 points but similar to the UMIC and Arab averages of 4.05 points and 4 points respectively. The WEF noted that the rankings were compiled prior to the start of political unrest in the Middle East & North Africa.

The World Economic Forum said Lebanon had the highest affinity for Travel and Tourism in the world, with tourism accounting for a significant amount of economic activity; a very positive attitude toward foreign travelers; and an appreciation of the value of the country's attributes for tourism. It added that the country has as a number of cultural attributes, such as five World Heritage cultural sites and some creative industries. Also, the WEF considered Lebanon's tourism infrastructure to be well developed, but noted the need to improve the ground transport infrastructure as well as overall safety and security, in order to improve Lebanon's T&T competitiveness. It added that policy rules and regulations should be generally reviewed to better support the sector's development, as Lebanon ranks 98th worldwide on this variable. It also encouraged authorities to take into account environmental sustainability, where Lebanon ranks 125th globally.

Lebanon ranked ahead of Sri Lanka and Brazil, and came behind Thailand and The Gambia on the T&T Regulatory Framework sub-index, which covers policy-related elements, generally under the purview of the government. It ranked ahead of Saudi Arabia and behind Egypt among Arab countries. Also, Lebanon ranked ahead of China and Poland and came behind South Africa, Mexico on the T&T Business Environment & Infrastructure sub-index, which captures elements of the business environment and the hard infrastructure of an economy. It ranked ahead of Jordan and behind Kuwait among Arab countries. Further, Lebanon ranked ahead of Saudi Arabia and Egypt and came behind Sri Lanka and Bolivia on the T&T Human, Cultural, and Natural Resources sub-index. It came in third place among Arab countries, behind only the UAE and Tunisia.

#### Arab Countries' Scores & Rankings

|                | Overall Score | Arab Rank | Global Rank |
|----------------|---------------|-----------|-------------|
| UAE            | 4.78          | 1         | 30          |
| Bahrain        | 4.47          | 2         | 40          |
| Qatar          | 4.45          | 3         | 42          |
| Tunisia        | 4.39          | 4         | 47          |
| Oman           | 4.18          | 5         | 61          |
| Saudi Arabia   | 4.17          | 6         | 62          |
| Jordan         | 4.14          | 7         | 64          |
| <b>Lebanon</b> | <b>4.03</b>   | <b>8</b>  | <b>70</b>   |
| Egypt          | 3.96          | 9         | 75          |
| Morocco        | 3.93          | 10        | 78          |
| Kuwait         | 3.68          | 11        | 95          |
| Syria          | 3.49          | 12        | 105         |
| Algeria        | 3.37          | 13        | 113         |
| Libya          | 3.25          | 14        | 124         |

Source: World Economic Forum, Byblos Research

#### Components of the Travel & Tourism Competitiveness Index

| Category                                  | Global Rank | Arab Rank | UMIC Rank | Lebanon Score | Global Average Score | Arab Average Score | UMIC Average Score |
|---|-------------|-----------|-----------|---------------|----------------------|--------------------|--------------------|
| T&T Regulatory Framework                  | 78          | 9         | 22        | 4.42          | 4.6                  | 4.5                | 4.5                |
| T&T Business Environment & Infrastructure | 63          | 8         | 14        | 3.86          | 3.8                  | 3.9                | 3.7                |
| T&T Human, Cultural, & Natural Resources  | 69          | 3         | 18        | 3.80          | 3.9                  | 3.7                | 3.9                |

Source: World Economic Forum, Byblos Research

### Launch of agricultural hydroponics program

The United States Agency for International Development (USAID) announced it will provide \$12m to fund a five-year program that aims to improve agricultural output in Lebanon. The Developing Hydroponics to Access International Markets (DHAIM) project aims to establish a high-value fruit, vegetables and flowers hydroponic sector by strengthening horticulture export market linkages. According to the USAID, DHAIM will address the developmental challenges of the fresh fruits and vegetables sector. The project aims to increase access to external markets; raise the competitiveness of the greenhouse sector; increase business linkages; the adoption of best agricultural practices; improve marketing, decision-making and risk management; and increase access to credit for SMEs. It said the hydroponics method improves crop flexibility and quality control and allows the production of specific crops with higher, stable and long-term returns. It mitigates many climatic constraints and is less dependent on seasons as conventional farming methods. The project will be implemented by ACIDI/VOCA, a private, nonprofit organization that promotes broad-based economic growth in developing countries, as well as seven local sub-partners.

### **Lebanon is one of the more stable countries in the MENA region**

*The Economist* magazine's Arab League Index of Unrest ranked Lebanon among the countries least likely to undergo regime change in the region. *The Economist* ranked Lebanon as the fourth most stable country among 17 Arab countries included in the index. The index measures Arab countries' vulnerability to political unrest, instability and possible revolution on a scale from zero percent to 100%, with 100% representing the highest level of instability. It is composed of a set of indicators directly linked to unrest and political instability. *The Economist* assigned a weight of 35% to the share of the population that is under 25, 15% to the number of years the government has been in power, 10% each to Transparency International's Corruption Perception Index and the Economist Intelligence Unit's Democracy Index, 10% for GDP per capita, 5% for the level of media censorship as expressed by Freedom House's Censorship Index, and 5% for the absolute number of people younger than 25. Lebanon received a score of 30.7%, and was preceded by the UAE with 24.3%, Kuwait with 21.7% and Qatar with 20.7% as the countries least likely to face unrest. The results of the index show that Yemen, Libya and Egypt are the most likely countries to experience unrest in the region.

In parallel, the Bloomberg Combustibility Index for the Middle East & North Africa placed Lebanon among the nations that are least prone to unrest in the region. Bloomberg ranked Lebanon as the 7th most stable country among 20 MENA countries included in the index. The index measures a country's level of stability on a scale from one to 100, with a score of 100 reflecting the highest level of stability. The index is a composite of six variables that are GDP per capita adjusted for purchasing power parity, unemployment, median age, income inequality, access to information, unemployment, and repression. The Repression Factor accounts for 50% of the index's weight and is derived from the size of a country's military per capita, length of tenure of the head of state, whether the head has a military background and is commander-in-chief of the armed forces, whether the current head of state came to power due to a coup or an assassination, military spending as a percentage of GDP, and absolute military spending. Lebanon received a score of 56.6 points, higher than the MENA average of 50.6 points and almost similar to Mauritania's score of 56.3 points. Jordan, Saudi Arabia, Morocco, the UAE, Kuwait and Qatar were considered more stable than Lebanon, with Qatar being the most stable country in the region with a score 78.4 points. In contrast, Libya, Sudan and Yemen were considered to be the most unstable MENA countries.

### **Business councils to unify regulatory framework**

The Turkish-Lebanese, Turkish-Jordanian and Turkish-Syrian business councils signed an agreement to define and specify the regulatory framework for collaboration between the three councils. The councils agreed to have the same structure for their individual board of directors, as well as to establish a general board composed of 20 members equally divided between the four countries, and a 16-member board of directors. The agreement aims to improve trade, investment and economic relations between the four countries. The agreement is also expected to enhance joint actions that would serve the interest of the four countries through the creation of job opportunities and the increase of investments in tourism, industry and energy.

### **Balance of payments posts deficit of \$772m in January**

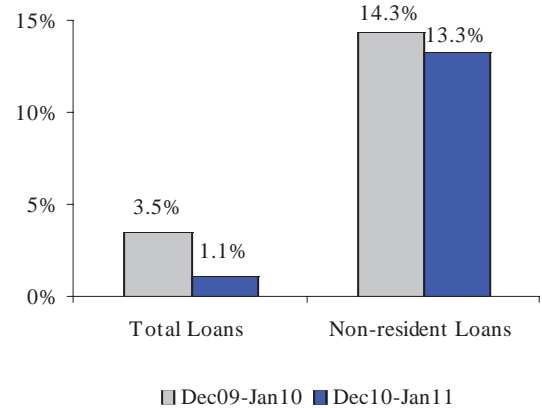
Central Bank figures show that Lebanon's balance of payments posted a deficit of \$772.1m in January 2011 compared to a deficit of \$44.3m in the same month last year. The January results were caused by a deficit of \$367.9m in the Central Bank's net foreign assets and a deficit of \$404.2m in those of banks and financial institutions. The balance of payments posted deficits in January 2007, 2008 and 2010. The balance of payments posted a cumulative surplus of \$3.3bn in 2010, \$7.9bn in 2009 and \$3.5bn in 2008.

### Commercial banks' assets reach \$128bn at end-January 2011

The consolidated balance sheet of commercial banks operating in Lebanon shows that total assets reached \$128.4bn at the end of January 2011, constituting a decrease of 0.4% from end-2010 and an increase of 10.2% from end-January 2010. Private sector deposits totaled \$106.1bn, declining by 1% from end-2010 and rising by 10.6% from a year earlier. Deposits in Lebanese pounds reached \$36.9bn, down 6.6% from end-2010 but up 5.8% year-on-year, while deposits in foreign currencies reached \$69.3bn and rose by 2.2% from the end of last year and by 13.3% from end-January 2010. Non-resident foreign currency deposits totaled \$15.3bn at end-January 2011, down 1.8% from end-2010 and up 10.3% year-on-year. Total private sector deposits decreased by \$1.1bn in January 2011 from end-2010. In parallel, deposits of non-resident banks reached \$5.3bn, up 18.2% from end-2010. The dollarization rate of deposits reached 65.3% at the end of January, up from 63.2% at end-2010 and from 63.7% a year earlier. Further, the average deposit rate in Lebanese pounds reached 5.63% in January compared to 6.61% a year earlier, while the same rate in US dollars was 2.84%, down from 3.04% in January 2010.

Loans to the private sector amounted to \$35.3bn, constituting an increase of 1.1% from end-2010 and up 20.2% year-on-year. The dollarization rate in private sector lending reached 80.5% compared to 80.3% at end-2010 and 84% a year earlier. The average lending rate in Lebanese pounds was 7.71% in January 2011 compared to 8.91% a year earlier, while the same average in US dollars was 7.14% compared to 7.26% in January 2010. Claims on the public sector stood at \$27.7bn, down 8% year-on-year and 5.5% from end-2010, and accounted for 44% of the banking sector's total claims. The ratio of private sector loans to deposits in foreign currencies stood at 41%, well below the Central Bank's limit of 70%, and slightly above the ratio of 40.4% a year earlier. In parallel, the same ratio in Lebanese pounds was 18.7%, 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 \$9.4bn, up 2.1% from end-2010 and up 20.2% from \$7.84bn in January 2010.

### Growth in Private Sector Loans (%)

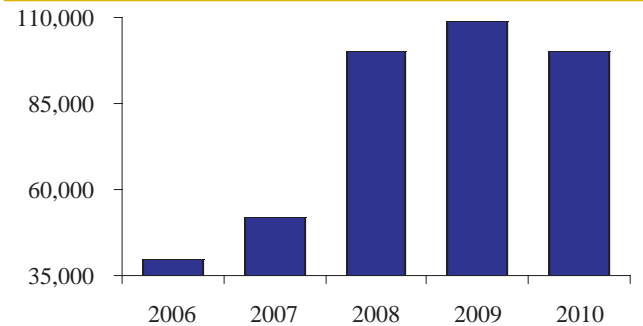


Source: Association of Banks in Lebanon

### Total car imports down 8% in 2010, used cars account for 60% of imported vehicles

Figures released by the Ministry of Finance indicate that the total number of new and used cars imported to Lebanon reached 100,354 in 2010, constituting a decline of 7.7% from 108,739 cars imported in 2009. It said the share of used cars has increased in recent years, as it accounted for 58% of car imports in 2008, 65% in 2009 and 60% in 2010, up from 57% in 2007 and 55% in 2005. It added that cars with medium-cylinder capacity accounted on average for 65% of imported cars during the 2005-10 period, but the share of cars with higher cylinder capacity has increased from 26% in 2005 to 31% in 2010. It noted that the average price per car at import was \$14,216 in 2010 compared to \$13,446 in 2009 and \$13,546 in 2008. The ministry noted that car imports rose by 31% in 2007 and 93% in 2008, and slowed down to 8.4% in 2009. It attributed the significant increase in car imports in 2007 to a "catch-up" effect after two years of depressed economic activity, and to improved economic conditions in 2008 and 2009.

### Number of Imported Cars



Source: Ministry of Finance

The ministry indicated that government revenues from car imports and sales fluctuated in parallel to the volume of cars imported in recent years. It said the government's aggregate nominal revenues from such activity jumped by 79% in 2008 and rose by 14% in 2009, but declined by 3% in 2010. Also, public revenues from car imports and sales were equivalent to 2% of GDP in 2010, compared to 2.3% of GDP in each of 2008 and 2009 and 1.7% of GDP in 2007. It added that revenues from customs tariffs and excise taxes totaled \$447.8m in 2010 after peaking at \$461m in 2009; VAT revenues reached \$187m last year relative to \$192m in 2009; car registration fees totaled \$153.2m in 2010 compared to \$158m in the previous year; and road-usage fees increased to \$138m in 2010 from \$134.7m in 2009. In parallel, it noted that the government's indirect revenues from gasoline consumption through the excise tax reached \$663m in 2009 and \$690m in 2010, equivalent to an average of 1.8% of GDP.

### Occupancy at Beirut hotels at 44%, room yields down 38% in January 2011

Ernst & Young's benchmark survey of the Middle East hotel sector indicated that the average occupancy rate at hotels in Beirut was 44% in January 2011, decreasing from 64% in the same month last year. The occupancy rate at Beirut hotels was the second lowest among 19 markets in the region, while it was the 12th highest in January 2010. The survey said the average rate per room at Beirut hotels was \$220 in January 2011, ranking the capital's hotels as the eighth most expensive in the region.

The average rate per room at Beirut hotels decreased by 11.3% to \$220 year-on-year and posted the second steepest decline among all markets in the region, after that of Abu Dhabi. The average rate per room in Beirut came above the regional average of \$197, which increased marginally by 0.6% from \$195 in January 2010. Occupancy rates at Beirut hotels were 73% in November and 65% in December 2010. Beirut hotels had an occupancy rate of 68% in 2010.

Further, revenues per available room (RevPAR) were \$99 in Beirut in January 2011, down from \$160 in the same month last year, ranking it in 13th place in the region. Beirut's RevPAR was down 38.3% year-on-year, compared to an increase of 3.1% across the region. Beirut posted RevPARs of \$206 in November, and \$159 in December 2010. Dubai-Beach posted the highest average room rate in the region at \$370 and the highest RevPAR at \$305, while Dubai-Apartments posted the highest occupancy rate at 83% in January 2011.

| Hotel Performance in January 2011 |                    |               |                 |
|-----------------------------------|--------------------|---------------|-----------------|
|                                   | Occupancy Rate (%) | RevPAR (US\$) | RevPAR % change |
| Dubai-Apartments                  | 83.0               | 102           | (0.6)           |
| Dubai - Beach                     | 82.0               | 305           | 12.9            |
| Dubai - Overall                   | 82.0               | 201           | 6.8             |
| Dubai - City                      | 81.0               | 155           | 1.5             |
| Hurghada                          | 79.0               | 38            | 21.0            |
| Abu Dhabi                         | 76.0               | 197           | (9.2)           |
| Muscat                            | 75.0               | 164           | 16.2            |
| Doha                              | 73.0               | 205           | 21.8            |
| Cairo -Overall                    | 67.2               | 83            | 3.4             |
| Sharm El Shaikh                   | 67.0               | 47            | 0.1             |
| Cairo-City                        | 66.0               | 81            | (0.2)           |
| Jeddah                            | 66.0               | 130           | (4.3)           |
| Makkah                            | 65.0               | 141           | 36.8            |
| Riyadh                            | 59.0               | 144           | 7.2             |
| Manama                            | 55.0               | 148           | (2.0)           |
| Kuwait                            | 55.0               | 146           | 6.0             |
| Amman                             | 50.0               | 73            | 2.5             |
| <b>Beirut</b>                     | <b>44.0</b>        | <b>99</b>     | <b>(38.3)</b>   |
| Madina                            | 33.0               | 49            | (19.8)          |

Source: Ernst & Young, Byblos Research

### Hotel occupancy at 41.6% in January

Figures released by STR Global show that the occupancy rate at Beirut hotels reached 41.6% and revenues per available room (RevPAR) averaged \$86.1 in January 2011. STR said occupancy rates in Beirut dropped by 21% and RevPAR regressed by 24.6% in the covered month, posting the steepest year-on-year decrease in both categories in the Middle East. The occupancy rate at hotels in the Middle East was 60.5% during the covered month relative to 54.1% in January 2010, while the region's RevPAR was \$127.35, up 7.9% from \$118 in the same period last year. Also, the occupancy rate at hotels in North Africa was 59% in January 2011 relative to 60% in the same month last year, while the region's RevPAR was \$59, up 11% from \$53.3 in January 2010.

### Two listed banks announce dividends for 2010

The Board of Directors of BLOM Bank sal announced that it will propose to distribute pre-tax dividends of LBP 675 (\$0.45) per common share for 2010, which would result in a 35% payout ratio for both common and preferred shares. The board also called for an Ordinary General Assembly to be held on April 8, 2011. In parallel, the Board of Directors of Bank Audi sal declared that it will propose to distribute pre-tax dividends of LBP 603 (\$0.4) per common share, and called for an Ordinary General Assembly to be held on April 6, 2011. The dividends are subject to a 5% withholding tax.

## 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               | Nov 2009 | Oct 2010 | Nov 2010 | Change* | Risk Level |
|-----------------------|----------|----------|----------|---------|------------|
| Political Risk Rating | 57.0     | 58.5     | 58.5     | ▲       | High       |
| Financial Risk Rating | 28.0     | 28.0     | 28.0     | ↔       | High       |
| Economic Risk Rating  | 35.5     | 35.5     | 35.5     | ↔       | Low        |
| Composite Risk Rating | 60.2     | 61.0     | 61.0     | ▲       | Moderate   |

| Regional Average      | Nov 2009 | Oct 2010 | Nov 2010 | Change* | Risk Level |
|-----------------------|----------|----------|----------|---------|------------|
| Political Risk Rating | 64.9     | 64.5     | 64.4     | ▼       | Moderate   |
| Financial Risk Rating | 42.0     | 42.3     | 42.3     | ▲       | Very Low   |
| Economic Risk Rating  | 34.8     | 38.2     | 38.0     | ▲       | Low        |
| Composite Risk Rating | 70.8     | 72.5     | 72.3     | ▲       | 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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