



LEBANON THIS WEEK

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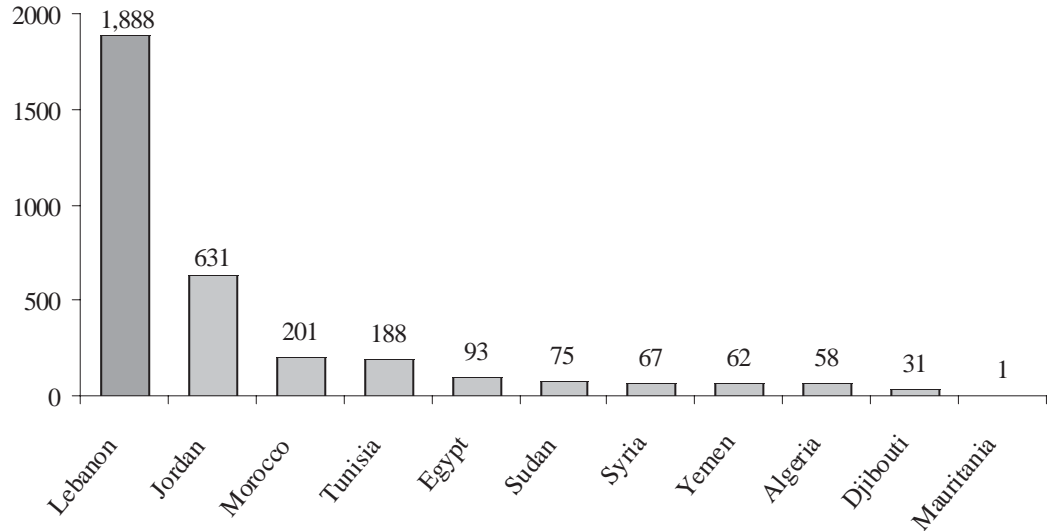
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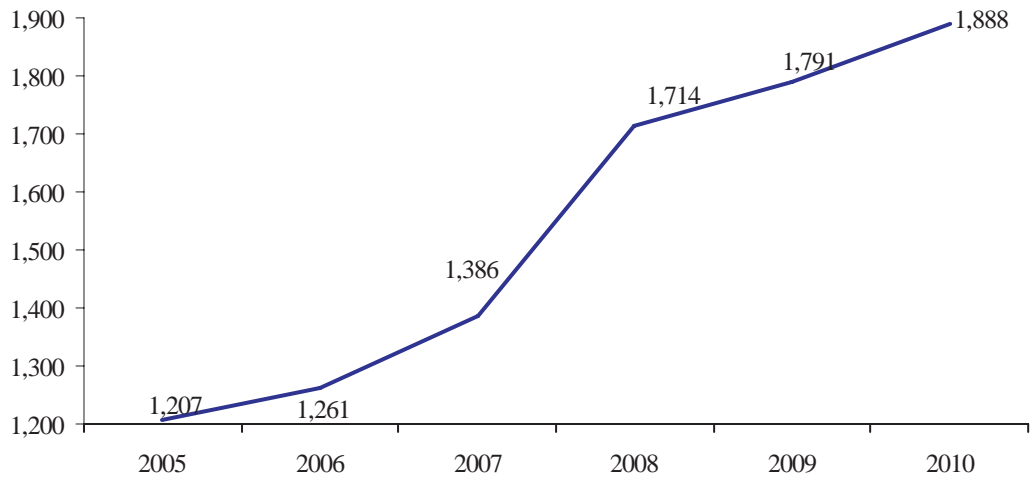
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Charts of the Week

Expatriates' Remittance Inflows per Capita to Arab Countries in 2010 (US\$)



Expatriates' Remittance Inflows per Capita to Lebanon (US\$)



Source: World Bank, Byblos Research

Quote to Note

"Ground transport infrastructure should be further developed, and safety and security issues must be addressed."

The World Economic Forum, on some of the measures needed to improve Lebanon's travel and tourism competitiveness

Number of the Week

\$28.3bn: The Central Bank of Lebanon's gross foreign currency reserves at the end of January 2011, as estimated by the Association of Banks in Lebanon

Economic Indicators

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

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

Most Traded Stocks on BSE	Last Price (\$)	% Change*	Total Volume	Weight in Market Capitalization	Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
Solidere "A"	18.30	(0.36)	154,136	15.12%	May 2011	7.875	100.50	4.22
Solidere "B"	18.38	(0.11)	10,280	9.87%	Mar. 2012	7.500	103.88	3.41
Byblos Common	1.90	(0.52)	149,151	5.53%	Sep. 2012	7.750	104.75	4.31
Byblos Priority	1.90	(0.52)	30,500	3.23%	June 2013	8.625	108.75	4.45
Byblos Pref. 08	104.00	0.00	0	1.72%	Apr. 2014	7.375	107.75	4.61
BLOM GDR	9.89	0.61	25,000	6.04%	Jan. 2016	8.500	118.00	5.05
BLOM Listed	8.89	(2.20)	17,200	15.81%	May 2016	11.625	112.75	5.45
Audi GDR	8.00	4.58	12,605	6.19%	Mar. 2017	9.000	116.13	5.77
Audi Listed	7.50	0.00	12,100	21.60%	Nov. 2018	5.150	97.00	5.64
HOLCIM	17.44	5.31	5,254	2.81%	Apr. 2021	8.250	114.25	6.31

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

Source: Byblos Capital Markets

	March 21-24	March 14-18	% Change	February 2011	February 2010	% Change
Total Shares Traded	79,571	582,650	(86.34)	7,279,483	55,216,126	(86.82)
Total Value Traded	\$1,268,611	\$5,192,662	(75.57)	\$29,306,533	\$158,807,366	(81.55)
Market Capitalization	\$12.10bn	\$12.12bn	(0.13)	\$12.68bn	\$12.84bn	(6.43)

Source: Beirut Stock Exchange (BSE)



Economic growth projected at 5.5% in 2011, domestic deadlock and regional risks to impact activity

Barclays Capital projected real GDP growth in Lebanon at 5.5% in 2011 compared to 7.5% last year. It said the inability of the political factions to agree on the formation of a new government is starting to weigh on the country's economic outlook, adding that economic challenges are increasing and risks are likely to rise. It indicated that domestic political uncertainty, along with the rise in geopolitical risks in the MENA region, the absence of a government, and the constant political wrangling have led to a policy void, institutional paralysis, and a lack of direction or timeline for much-needed fiscal and economic reforms. It noted that the current political stalemate is weighing on economic activity, as the Central Bank's coincident indicator slowed in the last quarter of 2010, reflecting receding activity in real estate, tourism, and a slowdown in consumption as indicated by softer growth in VAT receipts and customs revenues.

Barclays considered that increased political uncertainty in nearby Arab countries and its negative effect on growth prospects are adding to the complicated domestic picture. It noted that the destination of more than 50% of Lebanese exports is towards nearby Arab countries, especially to Egypt, Saudi Arabia and the UAE; which are also the main sources of FDI inflows and tourism to Lebanon. It considered that weakening economic growth in Egypt and rising risks in the GCC, as well as an increasing tendency to employ nationals and rely on local companies across the region, could negatively affect Lebanese expatriates and companies dependent on these economies.

In parallel, it said rising global food and oil prices pose significant inflationary and fiscal risks. It stated that rising global prices will negatively impact Lebanon's import bill and current account deficit, as well as the government's budget. It noted that higher oil prices will raise the value of the transfers to Electricité du Liban, which will be compounded by the effect of the government's recent decision to lower the import tax on gasoline by 57% that will cost around 1.5% of GDP.

Barclays Capital expressed concerns about the possible reversal in debt-sustainability trends despite improved fiscal indicators. It said the total primary surplus increased by 11.6% and was equivalent to 3.3% of GDP in 2010. It noted, however, that capital spending remains relatively constrained and far below the levels required to upgrade and modernize Lebanon's infrastructure in the energy and transport sectors, where bottlenecks affecting growth are most acute. Barclays said its base-case scenario is that a new government will be unable to ratify a budget without agreeing on the financing of the Special Tribunal for Lebanon. Accordingly, investment spending looks likely to remain at existing levels, with current spending rising further, bringing the deficit to around 8.2% of GDP this year up from 7.5% of GDP in 2010. It pointed out that the risks to the favorable debt dynamics are a slowdown in economic growth and a declining primary surplus, as a new government in place could increase current spending.

Key Macroeconomic Indicators				
	2009	2010F	2011F	2012F
Activity				
Real GDP (% yoy)	9.0	7.5	5.5	5.5
CPI (% average)	1.2	4.0	4.5	3.0
External Sector				
Current account balance (\$bn)	(3.3)	(3.9)	(4.2)	(4.4)
Current account balance (% of GDP)	(9.5)	(10.1)	(10.0)	(9.6)
Gross external debt (% of GDP)	170.9	162.0	165.0	170.5
International reserves (\$bn)	29.1	31.5	30.1	32.2
Public Sector				
Public sector balance (% of GDP)	(8.6)	(7.5)	(8.2)	(8.1)
Primary balance (including grants) (% of GDP)	3.1	3.1	2.5	3.3
Gross public debt (\$bn)	51.1	54.9	57.7	60.0
Gross public debt(% of GDP)	148.1	141.2	136.0	131.1

Source: Barclays Capital

Lebanon joins Euro-Mediterranean postal initiative

Lebanon and 13 countries of the Mediterranean basin launched Postal Euromed, a Euro-Mediterranean initiative that aims to implement a shared postal sector policy across the region. The agreement also aims to increase mail service efficiency through the development of new technologies, to create a common e-commerce platform and to encourage better cooperation related to financial and communication services. As such, the deal is expected to reduce the cost of transferring money by 5% in five years. The signatories of the initiative are Lebanon, Italy, France, Greece, the Principality of Monaco, Malta, Cyprus, Slovenia, Turkey, the Palestinian National Authority, Egypt, Morocco, Syria and Jordan. Lebanon was also elected to Postal Euromed's Board of Directors.

Deteriorating political climate to hurt growth and delay reforms

Standard Chartered Bank projected economic growth in Lebanon at 5.5% in 2011, compared to estimates of 7.5% in 2010. It attributed the expected economic slowdown this year to the deteriorating political environment, which is clouding the outlook for the service-dependent economy. It noted that the last quarter of 2010 and the first indicators of 2011 point to such a slowdown, with tourist arrivals down in the first two months of the year, the coincident indicator softening, and stock-market activity down by 93%. It added that government paralysis will most likely lead to a slowdown in government capital spending relative to the previous year, while the deadlock will indefinitely delay once again much-needed structural reforms that include the development of the infrastructure and the privatization of the energy and telecommunications sectors.

Standard Chartered expected the fiscal deficit to widen from 7.5% of GDP in 2010 to 9.5% of GDP in 2011 due to slippage on energy subsidies and lower tax collection from reduced growth. It indicated that fiscal policy will continue to be defined by a deteriorating fiscal balance, but added that constraints on government spending from political paralysis will put a floor beneath the deficit. It noted that the government will continue to support the currency peg, which means that interest rates will tend to track U.S. rates, while the Central Bank will maintain the interest rate differential on deposits in dollars and Lebanese pounds in order to encourage de-dollarization.

In parallel, Standard Chartered expected the Lebanese economy to show its typical resilience. It said the economy's fundamental structures should be sustained by continued confidence in its banking system and faith in the Central Bank's ability to maintain the U.S. dollar peg and pursue an orthodox approach towards reducing the public debt-to-GDP ratio, which declined to 133% of GDP in January from 150% of GDP a year earlier.

Lebanon is 82nd biggest exporter, 68th largest importer in 2010

Figures issued by the World Trade Organization indicate that Lebanon ranked in 82nd place among 104 countries around the world and in 10th place among 10 Arab countries in terms of merchandise exports in 2010. Lebanon's global and regional rankings were unchanged from 2009. Globally, Lebanon ranked ahead of Iceland, Paraguay and El Salvador and came behind Kenya, Honduras and Bolivia. Lebanon's exports increased by 20% year-on-year compared to an increase of 21.7% for world exports and a rise of 27.3% for the exports of Arab countries included in the survey. Lebanese exports accounted for 0.03% of global exports and for 0.98% of aggregate Arab exports in 2010.

Further, Lebanon ranked in 68th place among 104 countries globally and in 7th place among 9 Arab countries included in the survey in terms of merchandise imports in 2010. Lebanon came in 67th place globally in 2009 but its ranking was unchanged among Arab economies. Globally, Lebanon ranked ahead of Serbia, Dominican Republic and Jordan, and came behind Ecuador, Croatia and Kuwait. Regionally, Lebanon ranked ahead of Jordan and Bahrain and came behind Kuwait, Tunisia and Morocco. Lebanese imports increased by 11.4% year-on-year, compared to a rise of 20.9% for world imports and an increase of 9.1% for Arab imports. Lebanese imports accounted for 0.1% of global imports and for 5.8% of aggregate Arab imports in 2010.

In parallel, Lebanon ranked in 72nd place globally and in 9th place among 10 Arab countries in terms of the combined value of exports and imports in 2010. Lebanon came in 70th place globally and in 8th place among Arab economies in 2009. Globally, Lebanon ranked ahead of Costa Rica, Guatemala and Jordan and came behind Estonia, Bahrain and Serbia. Regionally, Lebanon ranked ahead of Jordan and came behind Bahrain, Tunisia and Iraq. Lebanon's trade volume amounted to \$23.5bn in 2010 compared to \$20.8bn in 2009, reflecting an increase of 13.1% compared to a rise of 21.3% in global trade activity and an increase of 19.7% in Arab trade. Lebanon's trade activity accounted for 0.08% of global trade and for 2.8% of aggregate Arab trade in 2010.

Agreements signed to support agricultural sector

The Ministry of Agriculture and the Chamber of Commerce, Industry and Agriculture of Zahlé signed a cooperation agreement to provide the Chamber's services to farmers in the Bekaa region. The agreement is expected to improve and develop agricultural production in the Bekaa, as the Chamber's laboratory and its consultation services will become accessible to all farmers. The ministry stated that the agreement would ease pressure on laboratories in Beirut and would reduce the financial burden on farmers in terms of transportation costs from the Bekaa to Beirut's laboratories. In addition, Spain delivered €3m worth of agricultural equipment to Lebanon as part of a project to improve the agricultural sector. The donation is the first phase of a three-year project that will benefit 13 agricultural cooperatives and contribute to the economic reconstruction of South Lebanon. In parallel, the Ministry of Agriculture signed a Memorandum of Understanding with the Spanish Catalan Institute of Forests and the YMCA. The aim of the MoU is to cooperate in the financing and implementation of various projects to manage and protect forests and other natural resources.

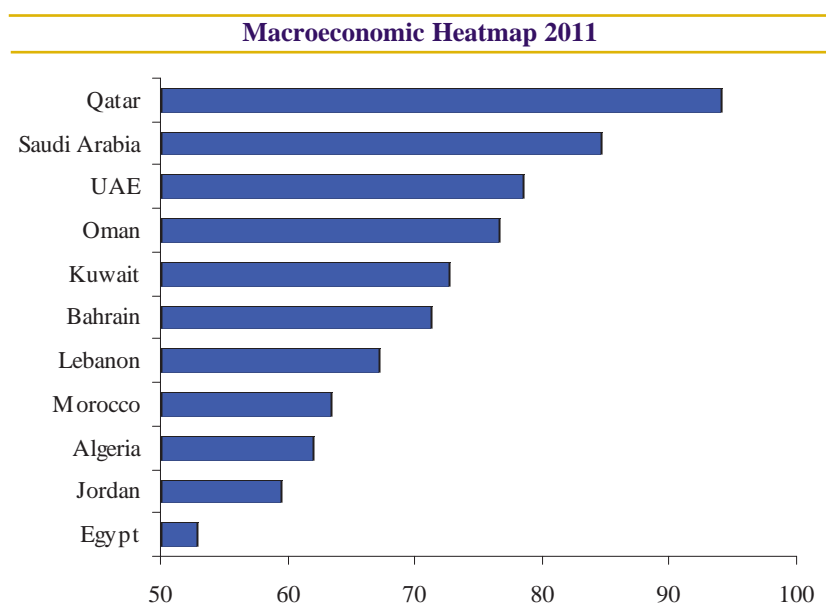
Growth expectations and relative political calm support Lebanon's economic positioning in the Arab world

Regional investment bank EFG Hermes ranked Lebanon in seventh place among 11 Arab countries on its Macroeconomic Heatmap for 2011, constituting an improvement from eighth place in 2010. The heatmap provides a holistic snapshot and points of comparison across the region, and reflects changes to growth forecasts and economic indicators affected by recent political developments. Lebanon ranked ahead of Morocco, Algeria, Jordan and Egypt, and was preceded by Bahrain, Kuwait, Oman, the UAE, Saudi Arabia and Qatar. The heatmap is a composite of 16 variables grouped in four broad categories of indicators that are Growth Outlook Indicators with a 35% weight, Other Key Macroeconomic Indicators (30%), Socioeconomic Indicators (25%), and Stock Market Investability (10%). EFG Hermes said it changed the weighting of the categories in 2011 to take into account greater political risks and changes in socioeconomic fundamentals, which are of increased importance for investors. It also assigned to individual variables in each category scores ranging from 100% for the 'strongest' score, 67% for the 'middle' category, and 33% for the 'weakest'.

Lebanon received a score of 67.2 points relative to the Arab average of 71.1 points on a maximum possible score of 100. EFG Hermes said Lebanon's score is less affected by political developments given the continued calm security situation. It added that Lebanon's score also benefits from real GDP growth forecast of 5%, which is still among the highest in the region despite its decline from 6.5% in 2010. It said the scores of Egypt, Oman, Bahrain, Morocco and Jordan deteriorated year-on-year, with Egypt falling from first to last place.

EFG Hermes placed Lebanon's economic growth rate in the 'strongest' category, along with Algeria and Qatar. Lebanon also came in the same category along with Kuwait, Saudi Arabia, Qatar and the UAE in terms of its positioning in the global economy. But it came in the 'weakest' category in terms of recovery in investment, along with Algeria, Jordan, Kuwait and the UAE. Further, Lebanon came in the 'strongest' category for its annual growth in private sector credit and foreign currency reserves relative to GDP. However, it came in the 'weakest' segment for its fiscal and current account balances relative to GDP, as well as for its short-term external debt and current account balance as a percentage of foreign reserves. Egypt, Jordan and Morocco came in the same category on the latter two indicators.

Also, EFG Hermes placed Lebanon in the 'low' category in terms of stock market breadth and depth, along with Bahrain, Jordan, Oman and Qatar; while it classified it in the 'high' category in terms of foreign investors' access, along with Bahrain, Egypt, Jordan, Morocco and Oman. Also, it considered the stock market's corporate governance and regulatory framework to be at a 'medium' level, similar to Bahrain, Egypt, Jordan, Morocco and Qatar. In parallel, EFG Hermes considered that Lebanon has a 'low' level of government stability and effectiveness, along with Algeria, Egypt and Kuwait; and that it has 'high' socioeconomic risks along with Algeria and Bahrain.



Source: EFG Hermes

Net public debt at \$45bn at end-January 2011

Lebanon's gross public debt reached \$52.3bn at the end of January 2011, constituting a decrease of 0.6% from end-2010, and an increase of 1.1% from end-January 2010. Domestic debt increased by 3.1% to \$31.3bn, while external debt decreased by 1.7% annually to \$20.9bn. Local currency debt accounted for 59.9% of gross public debt at end-January 2011 compared to 58.8% a year earlier, while foreign currency-denominated debt represented 40.1% of the total at the end of January relative to 41.2% a year earlier. The weighted interest rate on outstanding Treasury bills was 7.53%, while the weighted interest rate on Eurobonds was 7.31% at the end of January. Further, the weighted life on Eurobonds was 4.75 years, while that on Treasury bills was 618 days.

Commercial banks accounted for 53.3% of the local public debt at the end of January 2011 compared to 61.4% a year earlier. They were followed by the Central Bank with 30%, up from 22.3% at end-January 2010; while public agencies, financial institutions and the general public accounted for 16.8% of local debt, up from 16.3% a year earlier. Eurobond holders, foreign private sector loans and special T-bills in foreign currencies accounted for 86.6% of the external debt, followed by multilateral institutions with 7.2%, foreign governments with 4.7%, and Paris II loans with 1.5%. Net public debt, which excludes the public sector's deposits at the Central Bank and at commercial banks from overall debt figures, increased annually by 2.3% to \$44.9bn. In parallel, the gross market debt accounted for about 68% of total public debt. Gross market debt is the total public debt less the portfolios of the Central Bank, the National Social Security Fund, bilateral and multilateral loans, as well as Paris II and Paris III related debt.

Number of tourists down 13% in first two months of 2011

The number of incoming tourists to Lebanon totaled 205,079 in the first two months of 2011, constituting a decrease of 12.7% from 234,801 tourists in the same period last year, driven by annual declines in tourist arrivals of 17% in February and 7.6% in January. Arab tourists accounted for 36.2% of total visitors in the first two months of the year, and were followed by visitors from Europe with 28%, Asia with 20%, the Americas with 10.2%, Africa with 3.4%, and Oceania with 2.2%. The number of tourists reached 107,058 in February 2011 compared to 128,796 in February 2010. Tourists from Arab countries accounted for 36% of total visitors in February 2011, followed by visitors from Europe with 28.6%, Asia with 20%, the Americas with 9.7%, Africa with 3.5% and Oceania with 1.9%. Incoming tourists totaled 2.17 million in 2010, up 17.1% year-on-year.

Most tourism spending in Lebanon originated from Saudi Arabia and the UAE in first two months of 2011

Figures issued by Global Blue, the VAT refund operator for international shoppers, show that visitors from Saudi Arabia spent the most in Lebanon during the first two months of 2011, accounting for 18% of total tourists' spending. They were followed by visitors from the UAE with 12%, Kuwait and Syria with 8% each and Egypt with 6%. Spending by visitors from Nigeria rose by 50% in the first two months of the year from end-2010, followed by visitors from Syria with 34%, while spending by visitors from Jordan contracted by 29%, followed by visitors from Egypt with a 28% decrease, Qatar (-24%), Saudi Arabia (-16%), Kuwait (-7%) and the UAE (-6%). Beirut attracted 84% of total spending over the covered period, followed by the Metn area with 12%, the Keserwan region with 2% and Baabda with 1%. Fashion & clothing accounted for 69% of total spending, followed by watches with 11%, home & garden products with 6%, perfumes & cosmetics with 4%, department stores with 3%, and souvenirs & gifts, electronics & IT and consumer electronics & household appliances with 2% each. Spending on perfumes & cosmetics increased by 11% in the first two months of 2011, followed by spending on fashion & clothing with a 5% rise, spending on electronics & IT with a 4% growth, and home & garden with a 2% increase. Spending on souvenirs & gifts decreased by 23% in the first two months of 2011, followed by watches with an 11% drop, consumer electronics & household appliances and department stores with an 8% decrease each in the first two months of the year.

Free wireless Internet in public parks

The Ministry of Telecommunications, the Association of Banks in Lebanon (ABL) and Internet Service Provider Sodetel signed a Memorandum of Understanding to provide free wireless Internet services in public parks and gardens in Lebanon. The first phase of the project is expected to provide 11 public parks across Lebanon with wireless Internet services. The ministry stated that the project will expand to include more public parks and gardens in Lebanon, in agreement with the other signatory entities. Sodetel will provide technical support to the project while ABL will provide the financing.

FDI at €789m in 2010, €7.7bn between 2003 and 2010

Figures released by the Mediterranean Investment and Partnership Observatory (ANIMA-MIPO), indicated that the announced foreign direct investment in Lebanon totaled €789m in 2010, compared to €86m in 2009 and €1.06bn in 2008. FDI in Lebanon accounted for 2.7% of aggregate FDI flows last year in the 13 economies of the Southern Mediterranean basin. Further, aggregate FDI in Lebanon reached €7.65bn between 2003 and 2010 and grew at a compound annual growth rate (CAGR) of 13.7% during the covered period, compared to a regional FDI growth of 20%. Lebanon was the tenth largest recipient of FDI flows among the 13 covered economies in the 2003-2010 period.

ANIMA noted that Lebanon attracted 16 projects in 2010, including five projects in the banking sector and three in the tourism sector. FDI in banking and tourism totaled €40m and €10m, respectively, and accounted for 68% and 14%, respectively, of total FDI in 2010. It noted that the three largest announced FDI projects last year were the €80m Majid Al Futtaim shopping mall, the €95m acquisition of Crédit Libanais sal by regional investment bank EFG Hermes, and the €10m Kempinski Hotel. Further, it stated that Lebanon attracted on average €644m in FDI over the 2008-2010 period. It said Kuwait invested an average of €287m annually in the covered period, or 44.6% of average FDI inflows to Lebanon; followed by the UAE with €124m (19.3%); Egypt with €132m (20.5%); Switzerland with €43m (6.7%); and Canada and the U.S with €27m each (4.2% each).

In parallel, ANIMA indicated that that FDI outflows from Lebanon totaled €84m last year and reached €2.23bn over the 2003-2010 period. It noted that FDI outflows grew at a CAGR of 50% during the covered period, compared to a global CAGR of 20%. It stated that Lebanon's investments were mainly in banking, tourism, distribution and communication.

UNIDO to move to third phase of agro-industrial support project

The United Nations Industrial Development Organization (UNIDO) delivered equipment worth \$300,000 to factories in the southern suburbs of Beirut. The delivery is part of the Lebanese Agro-Industrial Support and Economic Recovery (LAISER) project that aims to support the government's rehabilitation of agro-industrial enterprises affected by the 2006 war. It said that Phase II of the project provided technical support, training and capacity development services to 41 small- and medium-sized enterprises in Beirut's Southern suburbs. UNIDO expected the Italian government to fund the third phase of the LAISER project by an amount of €1.48m. It said that Phase III will provide assistance and support to enterprises in Northern Lebanon, the Bekaa Valley and Southern Lebanon. LAISER aims to generate employment and alleviate poverty in the country as well as help war-affected enterprises to recover.

FDI in 2003-2010 (€m)		
Country	FDI	Ranking
Turkey	83,348	1
Egypt	60,889	2
Israel	35,738	3
Morocco	23,118	4
Algeria	19,889	5
Syria	15,418	6
Jordan	12,554	7
Libya	11,172	8
Tunisia	10,863	9
Lebanon	7,647	10
Cyprus	2,698	11
Malta	935	12
Palestine	495	13

Source: ANIMA-MIPO

Hotel occupancy at 37.4% in February

Figures released by STR Global show that the occupancy rate at Beirut hotels reached 37.4% and the average daily rate (ADR) amounted to \$187.05 in February 2011. STR said occupancy rates in Beirut dropped by 46.7% year-on-year, posting the second steepest decrease after Egypt in the Middle East, while the ADR regressed by 22.7% in the covered month, the steepest year-on-year contraction in the region. STR attributed the drop in hotel occupancy in Lebanon to the collapse of the national unity government last January and the expected impact of the Special Tribunal for Lebanon's indictment on market stability. The occupancy rate at hotels in the Middle East was 69.8% during the covered month relative to 65.8% in February 2010, while the region's ADR was \$219.93 up 1.6% from \$216.37 in the same period last year. Also, the occupancy rate at hotels in North Africa was 20.8% in February 2011 relative to 69.6% in the same month last year, while the region's ADR was \$124.68, up 46.7% from \$84.98 in February 2010.

Banque BEMO raises capital to LBP 62.2bn

Banque BEMO sal, one of Lebanon's listed banks, announced that it has raised its capital by LBP 46bn to LBP 62.2bn through the issuance of 46 million common shares at a par value of LBP 1,000 per share. The capital increase took place through the issuance of 16 million common shares that were distributed on a pro rata basis to existing shareholders for free by transferring LBP16bn from retained earnings and free reserves to the capital account, while the remaining 30 million common shares were subscribed to by the shareholders in cash. Last December, Moody's Investors Service placed Banque BEMO's 'Aa2.lb' long-term national scale rating on review for possible downgrade. It attributed the decision to the bank's need to further strengthen its core capitalization; as well as to weakening recurring earnings power and profitability metrics, and its high single-party credit exposure. Banque BEMO posted net profits of \$10.2m in 2010, constituting an increase of 16% from the previous year. Total assets reached \$1.21bn, up 0.8% from end-2009 and customer loans & advances rose by 18% to \$0.47bn. Customer deposits grew by 6.3% year-on-year to \$1bn at end-2010.

Fitch affirms Holcim's ratings, outlook is stable

Fitch Ratings affirmed the Swiss-based building materials company Holcim Ltd's Long-term Issuer Default and senior unsecured ratings at 'BBB', with a 'stable' outlook. It also affirmed the firm's short-term rating at 'F2'. Holcim Ltd is the parent company of Holcim Liban sal and holds a 52% stake in the Lebanese firm. The agency attributed its decision to the expected improvement in Holcim's credit metrics in the coming 24 months, after the strong de-leveraging the group achieved in 2010. It anticipated trading conditions in the construction industry to remain challenging in mature markets, especially in Western Europe, and for growth to persist in major emerging countries. Fitch indicated that its latest assumptions for Holcim include single-digit growth in revenues in 2010 and 2011, and a modest improvement in EBITDA. It also expected capital expenditures to increase, but to remain well below the peak of 2008, and for the firm to continue to gradually reduce its debt. The agency noted that Holcim's ratings continue to reflect its strong market positions in cement, aggregates and concrete, and its complementary product portfolio. It added that the group has solid geographical diversification, with a presence in more than 70 countries and a well-balanced mix between emerging and developed economies. It also considered Holcim's liquidity to be healthy. Holcim had global sales of over CHF21.6bn and cement production capacity of over 210 million tons in 2010.

Holcim Liban sal posted net profits of \$18m in the first half of 2010 compared to \$29.2m in 2009. The firm's net sales reached \$92.7m in the first half of 2010 relative to \$173m in 2009. Holcim's total assets reached \$297.8m and its equity amounted to \$227.5m at end-June 2010 compared to \$298.9m and \$209.5m, respectively, at end-2009. The firm is engaged in the production and sale of cement and other related services, and its shares are listed on the Beirut Stock Exchange. Last December, the firm approved a 50% capital reduction from LBP 195,160,400,000 (\$129.5m) to LBP 97,580,200,000 (\$64.73m) through decreasing the par value of the common shares from LBP 10,000 to LBP 5,000.

BBAC's profits up 7% to \$38m in 2010

Bank of Beirut and the Arab Countries sal (BBAC) posted unaudited consolidated net profits of \$38.4m in 2010, constituting an increase of 7.2% from 2009. Net operating income rose by 7.3% in 2010 to \$91.4m, with net interest income increasing by 40% to \$65.5m and non-interest receipts declining by 37.3% to \$20.3m year-on-year. Also, operating expenditures increased by 6.3% to \$51.45m, with staff expenses increasing by 7.2% to \$25.7m. Total assets reached \$4.1bn at end-2010, constituting a 10.44% rise from end-2009, while loans & advances to customers increased by 27.7% year-on-year to \$868m. Customer deposits totaled \$3.6bn at end-2010, constituting an increase of 10.8% from end-2009. The bank's shareholders' equity reached \$307.3m, up 9.6% in 2010.

IBL Bank's net income at \$36m in 2010

IBL Bank sal announced unaudited consolidated net profits of \$36.1m in 2010, up 28.4% from 2009. Net operating income rose by 30.1% last year to \$68.1m, with net interest income increasing by 28.4% to \$58m and non interest receipts growing by 52% to \$11.9m year-on-year. Also, operating expenditures increased by 17.4% to \$25.9m, with staff expenses increasing by 16.8% to \$13.06m. Total assets reached \$3.25bn at end-2010, constituting a 23.85% rise from end-2009, while loans & advances to customers increased by 81.4% year-on-year to \$509.5m. Customer deposits totaled \$2.96bn at end-2010, constituting an increase of 24.45% from end-2009. The bank's shareholders' equity reached \$218.65m, up 13.2% in 2010.



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	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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