

LEBANON THIS WEEK

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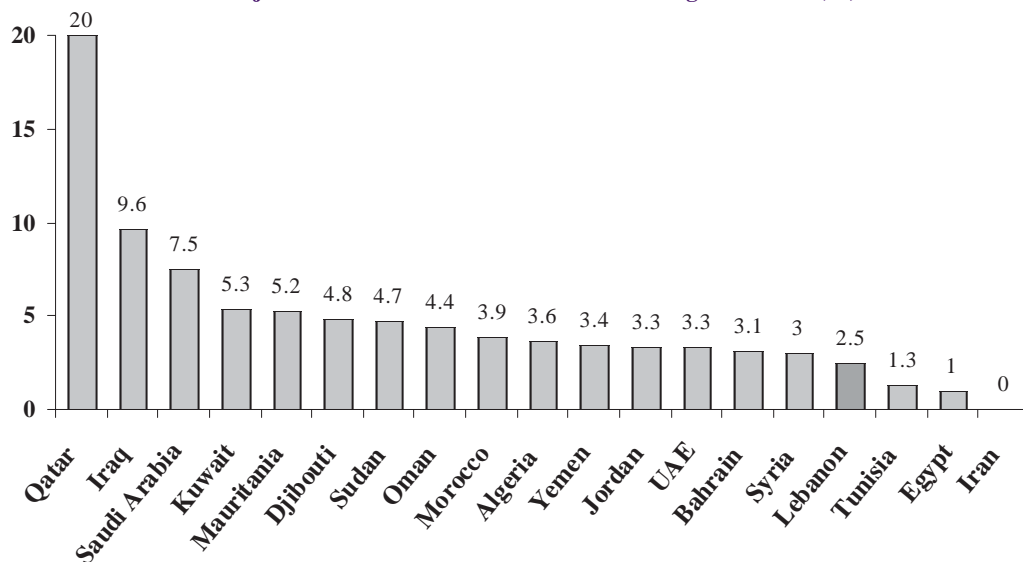
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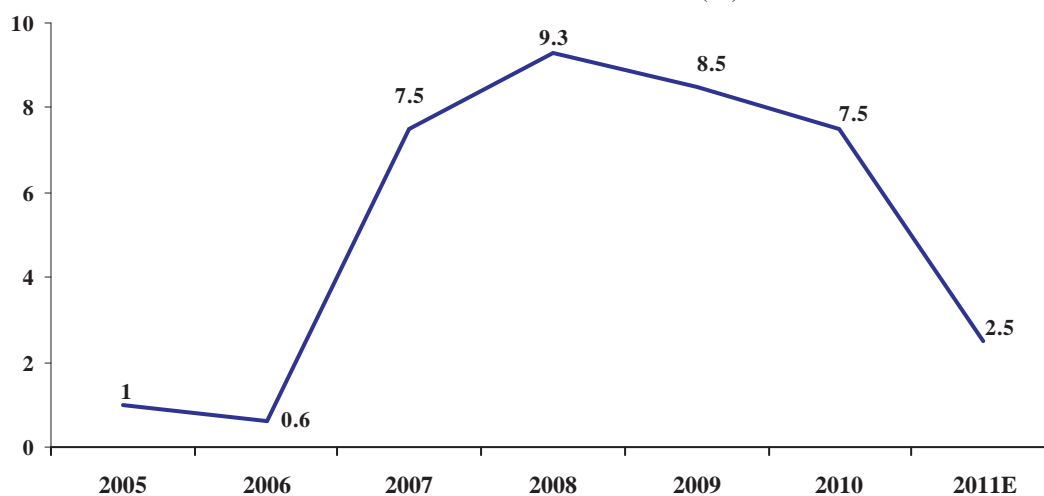
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Charts of the Week

Projected Real GDP Growth in the MENA region in 2011 (%)



Real GDP Growth in Lebanon (%)



Source: International Monetary Fund, April 2011

Quote to Note

"Economic growth in Lebanon will depend on perceptions of political stability in the country."

The Economist Intelligence Unit, on the direct impact of politics on the Lebanese economy

Number of the Week

6,800: Number of trademarks registered with Lebanon's Intellectual Property Protection Office in 2010, according to the Ministry of Economy & Trade

Economic Indicators

\$m (unless otherwise mentioned)	2009	Jan 10	2010	Nov 10	Dec 10	Jan 11	% Change*
Exports	3,486	313	4,256	316	487	297	(5.11)
Imports	16,241	1,245	17,956	1,811	1,470	1,729	38.88
Trade Balance	(12,755)	(932)	(13,700)	(1,495)	(983)	(1,432)	53.65
Balance of Payments	7,899	(44)	3,326	(673)	1,243	(772)	1,654.55
Checks Cleared in LBP	11,122	1,088	13,519	1,079	1,278	1,206	10.85
Checks Cleared in FC	45,270	4,444	53,925	4,048	4,370	4,404	(0.90)
Total Checks Cleared	56,392	5,532	67,444	5,127	5,648	5,610	1.41
Budget Deficit/Surplus	(2,960)	(18)	(2,892)	(352)	(62)	(48)	169.03
Primary Balance	1,078	202	1,232	(32)	276	202	(0.17)
Airport Passengers	4,986,544	369,694	5,552,260	467,131	369,735	369,735	0.01

\$bn (unless otherwise mentioned)	Dec 2009	Jan 10	Oct 10	Nov 10	Dec 10	Jan 11	% Change*
BdL FX Reserves	25.66	26.78	28.20	27.74	28.60	28.30	5.68
<i>In months of Imports</i>	18.6	21.5	18.9	15.3	19.4	16.3	(24.19)
Public Debt	51.09	51.65	51.13	51.77	52.59	52.29	1.24
Net Public Debt	44.11	43.92	44.93	44.92	45.01	44.95	2.35
Bank Assets	115.25	116.52	126.65	127.57	128.93	128.41	10.20
Bank Deposits (Private Sector)	95.77	95.99	104.18	105.02	107.20	106.13	10.56
Bank Loans to Private Sector	28.37	29.36	34.39	34.92	34.93	35.31	20.27
Money Supply M2	34.16	34.77	39.31	39.31	39.40	37.12	6.76
Money Supply M3	82.08	82.43	90.57	91.00	92.15	91.57	11.09
LBP Lending Rate (%)	9.04	8.91	8.15	7.98	7.91	7.71	(120b.p.)
LBP Deposit Rate (%)	6.75	6.61	5.72	5.68	5.68	5.63	(98b.p.)
USD Lending Rate (%)	7.28	7.26	7.08	6.96	6.74	7.14	(12b.p.)
USD Deposit Rate (%)	3.05	3.04	2.81	2.80	2.80	2.84	(20b.p.)
%* Change in CPI**	4.20	4.96	6.92	6.07	6.19	6.92	196b.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"	18.40	(0.97)	128,284	15.28%
Solidere "B"	18.40	0.00	24,305	9.93%
Byblos Common	1.92	0.52	121,234	5.67%
Byblos Priority	1.92	0.52	402,020	3.28%
Byblos Pref. 08	104.00	0.00	0	1.73%
BLOM GDR	9.48	(2.77)	46,050	5.82%
BLOM Listed	8.90	(1.11)	41,898	15.89%
Audi GDR	7.43	(0.67)	7,000	5.78%
Audi Listed	7.14	0.28	19,634	20.66%
HOLCIM	17.06	(2.01)	7,686	2.76%

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

Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
May 2011	7.875	100.25	4.72
Mar. 2012	7.500	103.75	3.30
Sep. 2012	7.750	104.88	4.08
June 2013	8.625	108.63	4.40
Apr. 2014	7.375	108.00	4.48
Apr. 2015	10.00	117.63	5.09
Jan. 2016	8.500	112.88	5.39
Mar. 2017	9.000	116.25	5.72
Nov. 2018	5.150	97.13	5.62
Apr. 2021	8.250	114.75	6.24

Source: Byblos Capital Markets

	April 11-15	April 4-8	% Change	March 2011	March 2010	% Change
Total Shares Traded	921,491	1,230,661	(25.12)	12,555,873	8,084,842	55.30
Total Value Traded	\$8,033,731	\$10,336,715	(22.28)	\$72,891,528	\$59,053,649	23.43
Market Capitalization	\$12.04bn	\$11.97bn	0.61	\$12.09bn	\$12.25bn	(8.73)

Source: Beirut Stock Exchange (BSE)



IMF projects real GDP in Lebanon at 2.5% in 2011, economy posts 24th fastest growth globally in 2010

The International Monetary Fund projected economic growth in Lebanon at 2.5% in 2011 compared to growth of 4.1% in the Middle East & North Africa, 1.9% for oil importing economies and 1.5% for the Mashreq economies, as well as compared to growth of 6.5% in emerging and developing economies and 4.4% for the world economy. It also forecast Lebanon's real GDP growth at 5% in 2012 compared to 4.2% in each of the MENA region and the Mashreq countries. Lebanon's projected growth rate in 2011 would make it the fourth slowest growing economy in the MENA region behind Tunisia at 1.3%, Egypt at 1% and Iran at zero percent.

The Fund forecast inflation in Lebanon to average 6.5% this year, sixth highest in the region, relative to 10% for each of the MENA and Mashreq regions. Lebanon's inflation rate averaged 4.5% in 2010 and 1.5% in 2009. Further, it projected Lebanon's current account deficit at 12.9% of GDP in 2011 compared to a surplus of 12.7% of GDP for the region and a deficit of 4.7% of GDP for the Mashreq countries. Lebanon posted current account deficits of 10.2% of GDP in 2010 and 9.4% of GDP in 2009.

In parallel, the IMF estimated Lebanon's economic growth at 7.5% in 2010 compared to growth of 3.8% in the MENA region and 5% for the Mashreq economies, as well as compared to growth of 2.7% in emerging and developing economies and 5% growth for the world economy. Lebanon was the third fastest growing economy in the MENA region last year, behind Yemen at 8% and Qatar at 16.3%. It was also the 24th fastest growing economy in the world in 2010, as its growth rate was similar to that of Brazil, Panama, and Niger last year.

The Fund previously highlighted the weaknesses in the availability, quality, and timeliness of economic data in Lebanon, and urged the authorities to take bold steps to improve Lebanon's statistical system. It noted that Lebanon's statistical system remains weak and in need of significant improvement, which mitigates the growth forecasts. It said real sector statistics should be compiled on a timely basis. It added that data shortage in national accounts, employment and wage statistics, coverage of the fiscal accounts, balance of payments statistics, and the real estate sector, among others, still hamper economic analysis and policy development.

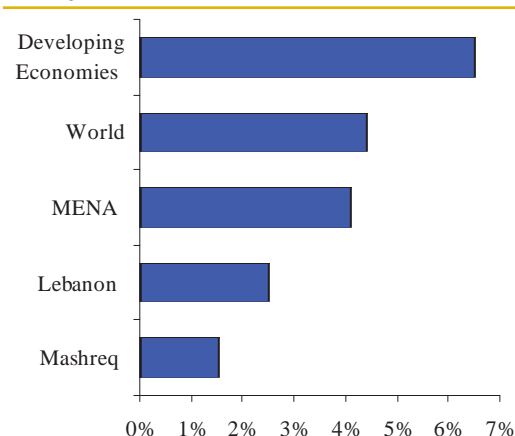
Economic slowdown likely to continue

Merrill Lynch indicated that the economic and financial indicators for January 2011 show that the economic shock from the collapse of the Lebanese Cabinet during that month and the ensuing political standoff broadly approached the shock seen following the assassination of Prime Minister Rafiq Hariri in February 2005 and the July 2006 war. It said the 12-month rolling balance of payments dropped to a surplus of \$2.6bn in January from a peak of \$8.5bn in March 2010, deposits outflows totaled \$1bn during the month, the dollarization rate of deposits increased by two percentage points, and deposit growth decelerated to 10.5% year-on-year in January from peaks of above 20% annually in early 2010. Further, it expected the moderate economic slowdown that was evident in the fourth quarter of 2010 to persist if political tensions do not abate meaningfully.

In parallel, Merrill Lynch noted that fiscal results were robust in 2010, but recent trends suggest a different outcome this year. It said the fiscal results for 2010 came at the strong end of expectations, with the fiscal deficit standing at 7.4% of GDP and the primary surplus at 3.2% of GDP compared to 8.9% and 3.1% of GDP in 2009, respectively. Still, fiscal revenues were 0.2% lower in 2010 after having risen by 20% annually since 2007. It attributed the revenue stagnation to a 33% drop in non-tax revenues due to the transfer of most telecommunications receipts to the Telecommunications Ministry's account at the Central Bank, keeping them effectively off-budget going forward. It added that tax revenues grew by 11.2% in 2010, which is half the growth rate recorded in 2008 and 2009. It said that consumption trends seemed to have further slowed down in the first two months of this year, with VAT revenues increasing by just 2.8% year-on-year.

In parallel, it attributed the 0.7% decline in fiscal expenditures in 2010 in part to the continued absence of an approved budget, as capital expenditures were largely carried over to this year. It added that an important aspect to the decline is the 20.4% drop in transfers to loss-making Electricité du Liban (EdL), which saved the Treasury 1.3% of GDP. It said the decline was caused by the lagged terms of payment of 6 to 9 months to the principal oil suppliers; the substitution since September 2009 of gas oil with cheaper natural gas from Egypt's EGAS priced at \$5 per million BTU; and the domestic political feud that delayed the start of the payment of the EGAS natural gas bill until December 2009. As such, it expected EdL transfers to increase this year to their 2009 levels again, reflecting higher oil prices since mid-2010. It noted that fiscal transfers to EdL are the third largest expenditures item after debt servicing and the wage bill, and added that as long as structural reforms are delayed by political standoff, EdL will continue to cost the Treasury between 3% of GDP to 5% of GDP annually.

Projected Real GDP Growth in 2011 (%)



Source: International Monetary Fund, April 2011

Lebanon's CDS spreads widen by 17% in first quarter on regional turmoil

Figures released by CDS and bond pricing firm CMA Datavision show that spreads on 5-year credit default swaps (CDS) for Lebanon ended the first quarter at 347.7 basis points, widening by 49.6bps from 298.1bps at the end of 2010 and by 60bps from 287.7bps at end-September. It attributed the widening of Lebanon's CDS spreads to the deterioration of political conditions in the country since last January as well as to the turmoil across the Middle East & North Africa during the covered period. Lebanon's 5-year CDS spreads widened by 28.5bps between end-2009 and end-2010, reflecting market stability last year. It said Lebanon's CDS spreads widened by just 16.6%, compared to the worst performers during the quarter such as Bahrain that posted a 74% change, followed by Saudi Arabia with 66.4%, Tunisia with 43%, Egypt with 42.6%, and Japan with 39.2%.

In parallel, CMA Datavision indicated that Lebanon ended the first quarter of 2011 with a five-year cumulative probability of default (CPD) of 21.9%, deteriorating from 19.2% at the end of 2010 and 16.2% at the end of March 2010. It said the CPD quantifies the probability of an issuer being unable to honor its debt obligations over a given time period. It added that the CPD is a function of the market's recovery level, which varies according to several factors and distance to default. It calculates the CPD using an industry standard model and proprietary credit data. Lebanon's CPD at end-March shows that Lebanese debt was less risky than that of Dubai (24.7%), Ukraine (27.7%), Argentina (34.7%), Portugal (40.1%), Ireland (43%), Venezuela (51.8%) and Greece (57.7%). Norway, Sweden and Finland had the lowest CPDs among the 64 sovereigns covered in the survey, with rates of 1.6%, 2.5% and 3.6%, respectively.

Further, the firm downgraded Lebanon's rating from 'CMA_bb' in the fourth quarter of 2010 to 'CMA_bb-' in the first quarter of this year, according to its proprietary CMA Implied Ratings methodology. Lebanon's downgrade came as part of a broader regional trend, as the firm also downgraded the ratings of Egypt, Bahrain, Morocco, Tunisia, Turkey, Israel, Saudi Arabia, Qatar, and Abu Dhabi. Iraq was the only sovereign in the region upgraded by the firm during the quarter. CMA noted that the cost of debt insurance in the MENA region increased in the first quarter, as bond investors moved to the sidelines and are waiting for the unrest to subside.

Exchange of maturing T-bills with 7-year bonds, re-issuance of maturing Eurobonds under consideration

Central Bank Governor Riad Salamé attributed the recent increase in demand for foreign currencies to commercial needs and to the maturing of government securities held by non-residents. He stressed that maintaining interest rates at their current levels would be beneficial for lending to the economy, to contain the fiscal burden on the Treasury, and to avoid an increase in the cost of funds at commercial banks. He indicated that the Finance Ministry has suggested exchanging Treasury bills maturing in June with 7-year Treasury bonds that carry a 7.9% interest rate, and encouraged banks to participate in the exchange that will take place on April 21st. In parallel, Governor Salamé stated that the Finance Ministry has requested the opinion of the Ministry of Justice about the possibility of re-issuing the Eurobonds that mature this coming May. He affirmed that the Central Bank would be ready to address the issue in case of a negative answer from the Justice Ministry. Further, the governor indicated that foreign exchange bureaus need to stop using banks to conduct transactions on behalf of their clients, such as transferring money abroad, as this would reflect negatively on the banking sector. He noted that clients should conduct transactions directly with banks, instead of using foreign exchange bureaus.

Association of Banks amends reference rate on US dollar and Lebanese pound lending

The Association of Banks in Lebanon (ABL) recommended to its member banks to increase the Beirut Reference Rate in US dollars to 4.79% from 4.72% previously starting in May 2011. The rate, considered as the reference rate for lending in foreign currency, replaced in 2009 the London Inter-Bank Offering Rate (LIBOR) since the ABL considered that the LIBOR no longer accurately reflects the cost of funding and lending in Lebanon. Additionally, the ABL recommended to its member banks to decrease the Beirut Reference Rate in Lebanese pounds to 7.21% from 7.27% previously. The Beirut Reference Rate in US dollars and Lebanese pounds were adopted in March and May 2009, respectively. The ABL indicated that the BRR does not replace the Beirut Prime Lending Rate in each currency, but constitutes the basis to calculate the prime rate after adding the cost of liquidity and refinancing, credit risks, and the profitability of banks to the prime lending rate.

Economic activity regresses in February 2011

The Central Bank's Coincident Indicator, an index of economic activity in Lebanon, reached 243.2 points in February 2011 compared to 254.4 in January 2011 and 245.8 in February 2010. The Coincident Indicator, an average of 8 weighted economic indicators, regressed by 4.4% in February and by 1.1% year-on-year. The indicator averaged 250.13 in the 12-months ending February 2011 compared to 250.4 in the 12-months ending January 2011 and to 231.1 in the 12-months ending February 2010. As a result, the average coincident indicator decreased marginally by 0.1% month-on-month and rose by 8.3% year-on-year. The indicator posted the third consecutive monthly decline in February, as it regressed by 0.4% in January and by 4.2% in December. This constitutes the third time since the coincident indicator's inception that it declines for three consecutive months, with the first time in June, July and August 1995 and the second time during the first quarter of 1997. Further, the current three-month decline is the steepest relative to the two other instances. The indicator peaked at an all time high of 266.7 in November 2010. Further, the month-to-month decrease in February constituted the third worst drop ever for the indicator for the covered month, with the steepest drops coming in 1994 and 2005. In parallel, the indicator improved 8 times and regressed 11 times in the month of February since 1993. The indicator averaged 249.5 in 2010 and 225.9 in 2009.

Occupancy at Beirut hotels at 43%, room yields down 50% in first two months of 2011

Ernst & Young's benchmark survey of the Middle East hotel sector indicated that the average occupancy rate at hotels in Beirut was 43% in the first two months of 2011 compared to 70% in the same period last year. The occupancy rate at Beirut hotels was the lowest among 21 markets in the region, while it was the 13th highest in the first two months last year. The survey said the average rate per room at Beirut hotels was \$210 in the first two months 2011, ranking the capital's hotels as the 10th most expensive in the region.

The average rate per room at Beirut hotels decreased by 19.6% year-on-year, posting the steepest decline among all markets in the region. The average rate per room in Beirut came above the regional average of \$197, which increased by 2% from \$193 in the same period last year. Occupancy rates at Beirut hotels were 44% in January and 42% in February. Beirut hotels had an occupancy rate of 68% in 2010.

Further, revenues per available room (RevPAR) were \$92 in Beirut in the first two months of 2011, down from \$184 in the same period last year, and ranking it in 14th place in the region. Beirut's RevPAR was down 50.1% year-on-year, compared to a marginal decrease of 0.1% across the region. Beirut posted RevPARs of \$99 in January and \$84 in February 2011. Dubai-Beach posted the highest average room rate in the region at \$368 and the highest RevPAR at \$315, while Dubai-Apartments posted the highest occupancy rate at 88% in the first two months 2011.

Hotel Performance in first two months of 2011			
	Occupancy Rate (%)	RevPAR (US\$)	RevPAR % change
Dubai-Apartments	88.0	110	(2.2)
Dubai - Beach	85.0	315	9.7
Dubai - City	85.0	170	1.0
Dubai - Overall	85.0	215	4.9
Muscat	80.0	178	13.9
Abu Dhabi	80.0	224	6.8
Al Ain	75.0	129	(6.5)
Doha	73.0	206	2.9
Makkah	73.0	158	14.3
Jeddah	68.0	136	(6.7)
Riyadh	63.0	154	11.2
Kuwait	62.0	183	16.3
Manama	53.0	138	(18.2)
Amman	52.0	76	(2.3)
Cairo-Pyramids	49.0	70	(15.0)
Hurghada	49.0	24	(22.6)
Madina	46.0	72	(6.0)
Cairo-City	45.0	61	(30.6)
Cairo -Overall	45.0	62	(28.7)
Sharm El Shaikh	44.0	30	(34.8)
Beirut	43.0	92	(50.1)

Source: Ernst & Young, Byblos Research

Treasury transfers to Electricité du Liban down 2.5% year-to-February

Figures released by the Finance Ministry show that Treasury transfers to Electricité du Liban totaled \$232m in the first two months 2011, constituting a decrease of 2.5% from \$237.4m in the same period last year. It said that reimbursements to the Kuwait Petroleum Corporation (KPC) and to Algerian energy conglomerate Sonatrach accounted for \$221m, or 95.3% of transfers in the covered period, while EdL's debt servicing represented 4.7% of the total. The ministry attributed the decrease in transfers to a 5% decline in total reimbursements, mainly because of a quantity effect. It noted that payments reflect a 31% drop in the volume of imported gas and an 8% contraction in the quantities of imported fuel oil compared to the same period of 2010. It said, however, that the average oil prices according to which the 2011 payments were made are 14% higher compared to 2010. It added that EdL contributed to just 5.6% of repayments to the two oil suppliers in the first two months of the year. EdL transfers constitute the third largest expenditures item after debt servicing and salaries & wages in overall fiscal spending. Transfers to EdL were equivalent to 3% of GDP in 2010 compared to 4.3% of GDP in 2009 and to 5.4% of GDP in 2008.

Airport passengers down 4.5% in first quarter of 2011

Figures released by the Hariri International Airport (HIA) show that the number of airport passengers (arrivals, departures, transit) totaled 1,024,664 in the first quarter of 2011, constituting a decline of 4.5% from the same period last year. The UAE accounted for 215,553 passengers, or 21% of total passenger activity. It was followed by Saudi Arabia with 115,578 passengers, or 11.3% of the total; France with 97,789 travelers (9.5%) and Turkey with 66,669 travelers (6.5%). The total number of flights reached 14,359 in the first quarter of 2011, down 1.3% year-on-year. Middle East Airlines registered 4,647 flights, accounting for 32.4% of the total. It was distantly followed by Royal Jordanian Airlines with 674 flights or 4.7% of the total, Qatar Airways with 544 flights, Etihad Airways with 460 flights, Fly Dubai with 430 flights, and Saudi Arabian Airlines with 419 flights. The UAE was the biggest source and destination of traffic to Lebanon, as aircraft movement to and from the UAE totaled 2,167 flights, accounting for 15.1% of the total. Also, the HIA processed 16,122 metric tons of cargo in the first three months of 2011, of which 15,847 tons of freight and 275 tons of mail. MEA processed 5,015 tons of freight, of which 4,891 tons in regular freight and 124 tons in mail.

Economic cost of sectarianism at \$3bn, or 9% of GDP

A report on the cost of the sectarian system in Lebanon estimated the cost of sectarianism to the Lebanese economy at \$3bn or 9% of GDP annually based on a life time approach. The study said that the opportunity cost of the sectarian system is \$2 per person per day. It aggregated the burden from birth, to schooling, to housing, to living expenses and old age, and estimated the per capita lifetime burden of sectarianism at about \$114,000. The report calculated the cost of confessional residential segregation at \$800m in 2010. It added that 16% of public sector employees, or about 6 employees per 1,000 civil servants, are imposed due to equal confessional representation in the public administration. As a result, the total cost of excessive public sector employment reaches \$396m per year. Further, it estimated the lost revenues to public utilities at \$150m in the electricity sector and at \$67.5m in the water sector. It said this is the outcome of political parties and politicians using confessional pressure so that their followers do not pay service charges. It considered that most representation contracts are allocated on a confessional basis, resulting in excessive market concentration and economic costs of \$850m per year. Further, it noted that the prevalence of sectarianism in the public school system results in an opportunity cost of about \$240m annually. The report was conducted by Dr. Jad Chaaban at the American University of Beirut.

EU launches €0.85m support program for Tripoli incubator

The European Union launched its new support program to the Business Incubation Association in Tripoli (BIAT) and inaugurated BIAT's Innovation Center. The EU provided a grant of €53,000 to upgrade and consolidate its incubation services in Tripoli and Northern Lebanon. The support is part of the EU's grant of €2.8m to develop a network of business development centers across Lebanon. The network currently includes the Berytech incubator that covers Beirut and Mount Lebanon, and SouthBIC in Sidon that covers Southern Lebanon. In addition, the EU will provide BIAT with specialized training by European incubation professionals and institutions. BIAT started its operations in 2006 and has provided business assistance and incubation services to over 600 individuals and enterprises in Northern Lebanon so far.

Most tourism spending in Lebanon originated from Saudi Arabia and the UAE in first quarter 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 quarter 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 58% in the covered period, followed by visitors from Syria with 6% and the UAE with 3%; while spending by visitors from Egypt contracted by 31%, followed by visitors from Qatar (-24%), Jordan (-18%), Saudi Arabia (-15%), and Kuwait (-12%). 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 5%, perfumes & cosmetics with 4%, department stores and souvenirs & gifts with 3%, electronics & IT and consumer electronics & household appliances with 2% each. Spending on home & garden increased by 8% in the first quarter of 2011, followed by perfumes & cosmetics with a 5% rise, and fashion & clothing with a 3% growth. Spending on souvenirs & gifts decreased by 17% in the covered period, followed by watches with a 10% drop, department stores with a 7% decline, electronics & IT with a 6% decrease and consumer electronics & household appliances with a 4% contraction.

Car sales up 7.4% year-on-year in first quarter of 2011

Figures released by the Association of Automobile Importers in Lebanon indicate that a total of 6,483 new passenger cars were sold in the first quarter of 2011, constituting an increase of 7.4% from the 6,039 cars sold in the same period last year. Korean cars accounted for 42.6% of total car sales, followed by Japanese cars with a 27.5% share, European automobiles with 23.2%, American vehicles with 5.9%, and Chinese cars with 0.7%. The number of Korean cars sold grew by 56.2% year-on-year. In parallel, the number of Chinese cars sold posted a drop of 18% year-on-year, followed by Japanese cars with a 17.6% decrease, American cars with a 16.4% decline and European cars with a 5.3% retreat. Kia is the leading brand in the Lebanese market with 1,692 cars sold in the first quarter of 2011, followed by Hyundai with 1,070, Nissan with 908 cars sold, Toyota with 320, Chevrolet with 262 cars sold, Peugeot with 207, and Renault with 201 cars.

Saudi Oger divests stake in MEDGULF Group

Saudi Oger Ltd, the conglomerate owned by the family of late Prime Minister Rafiq Hariri, sold its 51% stake in the MEDGULF Group to LFZ Holding, the investment vehicle of MEDGULF's shareholder and CEO Lutfi El-Zain. The MEDGULF Group, which started its activities in the 1980s in Lebanon, is a leading regional insurance company with operations in Lebanon, Saudi Arabia, Bahrain, the UAE, Jordan, Turkey and the United Kingdom. MEDGULF. In 1997, the Bahrain-based insurer MEDGULF acquired a 68% stake in the local firm Strikers Holding sal, which resulted in a new entity named MEDGULF Strikers sal. In 1998, the firm merged with Arab Universal Insurance sal, a member of Groupe Méditerranée. A subsequent capital increase led to a new shareholders base that included Méditerranée Investors Group, Saudi Oger Ltd and Al-Azizia Commercial Investment, an investment vehicle of Saudi Prince al-Waleed bin Talal that held a 25% stake in MEDGULF sal. LFZ Holding acquired at a later stage Al-Azizia's share in the insurer and held a 49% stake in the Group.

The group operates in Lebanon through Mediterranean and Gulf Insurance and Reinsurance Co. sal, which is the largest insurer by premiums in the market. It also operates in Saudi Arabia through the publicly-traded Mediterranean and Gulf Cooperative Insurance & Reinsurance Company KSA, one of the largest insurers in the kingdom. The firm was established in 2006 and started operations in the kingdom in 2009. The group also operates in Bahrain and Jordan through MEDGULF subsidiaries. Its other operations include Third Party Administrator MEDIVISA, which manages and services the medical portfolio of MEDGULF in its main markets; and risk manager Addison Bradley. The Group estimates its premiums at about \$870m in 2010, with Saudi Arabia generating two thirds of its overall premiums. MEDGULF sal generated premiums of \$118.3m in the Lebanese market in 2010, accounting for a 10% local market share. *Al Bayan* magazine ranked the MEDGULF Group in third place in the Arab world in terms of premiums and in 7th place in profits for 2009. Saudi Oger's stake was valued at \$400m and the transaction was financed in part through a syndicated term loan facility provided by a consortium of several Lebanese banks and a foreign bank.

Broadband firm files lawsuit against mobile operators

Lebanese Internet Service Provider and broadband operator Cedarcom sal filed a lawsuit against Mobile Interim Company (MIC) 1 operated by Alfa, and MIC2 operated by MTC Touch for monopolistic and unfair competition practices. It said that the government-owned MIC1 and MIC2 do not have licenses from the Council of Ministers and did not receive licensed frequencies from the Telecommunications Regulatory Authority (TRA) to implement and offer 3G services. It indicated, however, that both Alfa and MTC have taken active steps to build, manage and operate 3G networks, which is inconsistent with Telecommunications Law 431 that was ratified in 2002. It noted that the Lebanese Telecom Association, which includes major ISPs in the country, cautioned repeatedly the Minister of Telecommunications and the TRA about the increasing threat of creating a new monopoly in wireless broadband services by introducing 3G services in the absence of 3G licensing, unequal taxation, and fair competition among government-owned and private operators. It added that the market is already suffering from fixed-line and mobile GSM monopolies, as well as from unfair and unjust competition in the DSL segment. It noted that private ISPs and data operators are prohibited from increasing their DSL capacities and from getting long-term licenses, are kept on interim transitory yearly licenses, and are forced to pay up to 60% of direct and indirect taxes. It stated that Alfa and MTC are not subject to these rules and regulations, which is against telecom laws.

Lebanese investor to buy seven InterContinental hotels

Lebanese businessman Toufic Aboukhater is reportedly acquiring seven hotels branded by the InterContinental Hotels Group for €450m. The deal includes the 100-year old Carlton Hotel in Cannes and six InterContinental-branded hotels in Amsterdam, Madrid, Rome, Frankfurt, Vienna and Budapest. Mr. Aboukhater is buying the hotels from the Morgan Stanley Real Estate Fund VI International, which purchased the hotels in 2006 for €634m. The London-based Cedar Capital Partners, a hotel investment and advisory firm, will manage the assets on his behalf. Mr. Aboukhater used to own the Grand hotel in Monaco and the Dorchester Hotel in London, and has stakes in oil, transport and manufacturing companies, mainly in the United States.



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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