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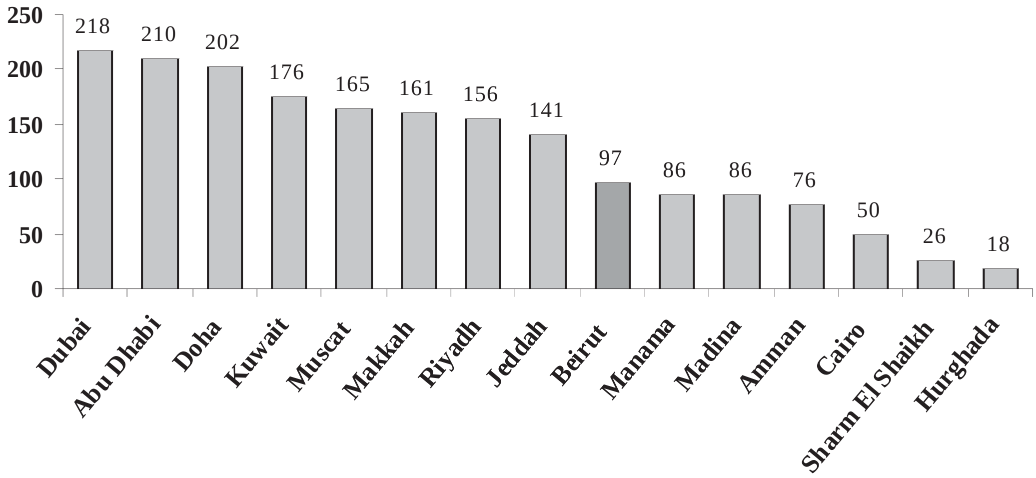
LEBANON THIS WEEK

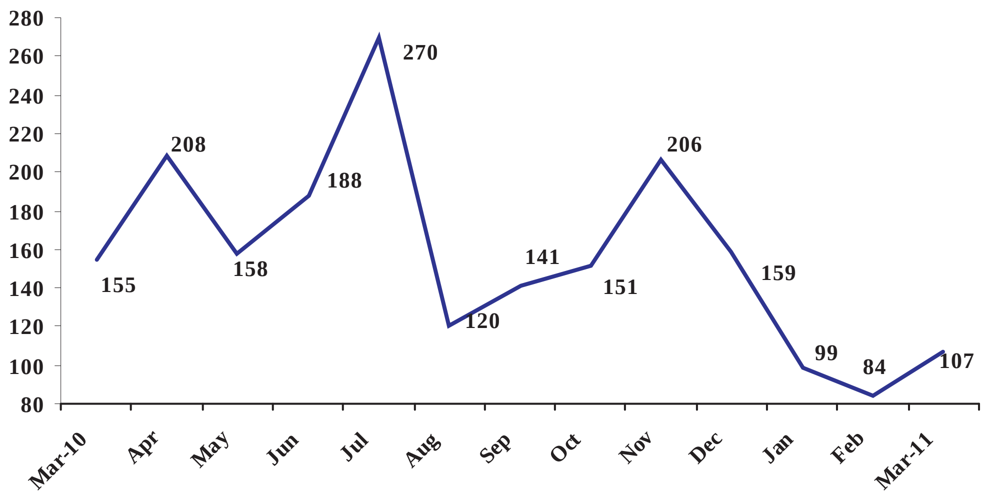
In This Issue

Charts of the Week

Revenue Per Available Room at Hotels in Arab Cities in the First Quarter of 2011 (US$)



Revenue Per Available Room at Hotels in Beirut (US$)



Source: Ernst & Young, Byblos Research

Quote to Note

"The turmoil in the Arab world could have boosted the Lebanese economy through the diversion of some of the regional trade, tourism, and finance."

The Institute of International Finance, on the domestic political paralysis that has deprived Lebanon from a golden opportunity to be a safe haven for the Arab world

Number of the Week

20,487: Number of employees at commercial banks operating in Lebanon at the end of 2010, according to the Central Bank of Lebanon

Economic Indicators

$m *(unless otherwise mentioned)*	2009	Feb 10	2010	Dec 10	Jan 11	Feb 11	% Change*
Exports	3,486	342	4,256	487	297	304	(11.11)
Imports	16,241	1,026	17,956	1,470	1,729	1,218	18.71
Trade Balance	(12,755)	(864)	(13,700)	(983)	(1,432)	(914)	5.79
Balance of Payments	7,899	759	3,326	1,243	(772)	104	(86.30)
Checks Cleared in LBP	11,122	966	13,519	1,278	1,206	1,172	21.33
Checks Cleared in FC	45,270	3,929	53,925	4,370	4,404	4,094	4.20
Total Checks Cleared	56,392	4,895	67,444	5,648	5,610	5,266	7.58
Budget Deficit/Surplus	(2,960)	(176)	(2,892)	(62)	(48)	(501)	184.55
Primary Balance	1,078	123	1,232	276	202	(266)	(316.26)
Airport Passengers	4,986,544	339,237	5,552,260	369,735	369,735	307,134	(9.46)

$bn *(unless otherwise mentioned)*	Dec 2009	Feb 10	Nov 10	Dec 10	Jan 11	Feb 11	% Change*
BdL FX Reserves	25.66	26.88	27.74	28.60	28.30	28.42	5.73
In months of Imports	*18.6*	*26.20*	*15.3*	*19.4*	*16.3*	*23.33*	*(10.94)*
Public Debt	51.09	51.98	51.77	52.59	52.29	52.08	0.19
Net Public Debt	44.11	44.20	44.92	45.01	44.95	45.31	2.51
Bank Assets	115.25	118.27	127.57	128.93	128.41	130.06	9.97
Bank Deposits (Private Sector)	95.77	97.07	105.02	107.20	106.13	106.80	10.02
Bank Loans to Private Sector	28.37	29.87	34.92	34.93	35.31	35.70	19.52
Money Supply M2	34.16	35.42	39.31	39.40	37.12	37.03	4.55
Money Supply M3	82.08	83.75	91.00	92.15	91.57	92.01	9.86
LBP Lending Rate (%)	9.04	8.83	7.98	7.91	7.71	7.71	(112b.p.)
LBP Deposit Rate (%)	6.75	6.42	5.68	5.68	5.63	5.63	(79b.p.)
USD Lending Rate (%)	7.28	7.26	6.96	6.74	7.14	7.01	(25b.p.)
USD Deposit Rate (%)	3.05	2.99	2.80	2.80	2.84	2.90	(9b.p.)
%* Change in CPI**	4.20	6.07	6.07	6.19	6.92	5.09	(98b.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"	18.87	3.40	92,004	15.76%
Solidere "B"	18.66	2.41	15,275	10.13%
Byblos Common	1.83	1.10	628,379	5.49%
Byblos Pref. 08	100.00	(3.85)	1,500	1.67%
Byblos Pref. 09	100.00	(3.85)	334	1.67%
BLOM GDR	9.40	1.18	81,350	5.80%
BLOM Listed	8.80	0.00	31,189	15.80%
Audi GDR	7.51	0.81	5,800	5.88%
Audi Listed	7.00	0.00	41,635	20.37%
HOLCIM	17.45	0.00	6,412	2.84%

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

Sovereign Eurobonds	Coupon %	Mid Price $	Mid Yield %
May 2011	7.875	100.06	(3.21)
Mar. 2012	7.500	103.25	3.51
Sep. 2012	7.750	104.94	3.78
June 2013	8.625	109.00	4.06
Apr. 2014	7.375	108.13	4.35
Apr. 2015	10.00	117.50	5.03
Jan. 2016	8.500	113.25	5.24
Mar. 2017	9.000	117.00	5.52
Nov. 2018	5.150	97.00	5.61
Apr. 2021	8.250	114.88	6.19

Source: Byblos Capital Markets

	May 9-13	May 2-7	% Change	April 2011	April 2010	% Change
Total Shares Traded	1,066,704	280,752	279.95%	18,453,479	26,726,767	(30.96)
Total Value Traded	$5,959,719	$2,585,007	130.55%	$94,089,158	$84,719,626	11.06
Market Capitalization	$11.97bn	$11.88bn	(0.80)	$11.91bn	$13.01bn	(8.44)

Source: Beirut Stock Exchange (BSE)

Lebanon's piracy rate at 72% in 2010, 39th highest globally and 5th highest in MENA region

The U.S.-based Business Software Alliance (BSA), an industry group representing the world's leading computer software developers, ranked Lebanon in 39th place worldwide and fifth in the Middle East and North Africa region (MENA) in terms of software piracy rate in 2010. Also, Lebanon came in 12th place among the 29 upper middle-income countries (UMICs) included in the survey. Lebanon's piracy rate reached 72% last year, unchanged from 2009, but down from 74% in 2008 and 73% in each of 2007 and 2006. The survey covered business application software, as well as operating systems, consumer-oriented software and local-language software. Globally, Lebanon's piracy rate was equivalent to that of Tunisia and Panama, and was higher than the rate in Argentina, the Philippines and Uruguay and lower than rates in Honduras, Thailand and Serbia. Further, Lebanon's piracy rate was equivalent to that of Panama, and was higher than rates in Argentina and Uruguay and lower than rates in Serbia and Albania among UMICs. Also, Lebanon's piracy rate was significantly higher than the global rate of 42% and the Middle East & Africa rate of 58%. Venezuela had the highest piracy rate of 88% and South Africa had the lowest rate of 35% in 2010 among UMICs.

Software Piracy in MENA region in 2010

Country	Rate	Rank	Losses (US$m)
Yemen	90%	1	12
Libya	88%	2	74
Iraq	85%	3	147
Algeria	83%	4	69
Lebanon	**72%**	**5**	**49**
Tunisia	72%	5	52
Morocco	65%	7	75
Turkey	62%	8	516
Oman	62%	8	33
Egypt	60%	10	196
Kuwait	60%	10	68
Jordan	57%	12	28
Bahrain	54%	13	22
Saudi Arabia	52%	14	414
Qatar	49%	15	52
UAE	36%	16	173
Israel	31%	17	170

Source: Business Software Alliance

In parallel, Lebanon posted the 82nd highest piracy-related dollar losses worldwide, the 24th highest losses among the UMICs, the 13th highest losses in the MENA region and the 11th highest losses among Arab countries. Piracy-related losses in the country totaled $49m in 2010, compared to $46m in 2009, $49m in $44m in 2007 and $39m in 2006. Globally, Lebanon's piracy-related dollar losses were, higher than in Slovenia, Georgia and Puerto Rico and lower than losses in Qatar, Tunisia and Bolivia. Its losses were higher than in Lithuania and Botswana, but lower than Costa Rica and Azerbaijan among UMICs. Lebanon's piracy-related dollar losses accounted for 0.1% of global losses, 0.4% of UMIC losses, 2.3% of MENA losses, 3.3% of such losses in the Arab world and 1.7% of losses in the Middle East & Africa region. Piracy rates in the MENA region increased in 10 countries, regressed in three, and remained unchanged in four countries.

Number of industrial firms at 4,000, gross output at $6.8bn in 2007

A survey on the Lebanese industrial sector, conducted by the Ministry of Industry in cooperation with the Association of Lebanese Industrialists and the United Nations Industrial Development Organization, indicated that Lebanon has 4,033 industrial establishments with 5 workers or more in 2007. It said that 86.2% of the industrial establishments operate in 10 major sectors of food products & beverages, furniture & other manufactured goods, other non-metallic mineral products, fabricated metal products, printed matter & recorded media, chemicals & man-made fibers, rubber & plastic products, machinery & equipment, electrical machinery & apparatus and pulp, paper & paper products. The study added that thes industries generated 90.7% of the total value-added of the sector, employed 87.3% of the workforce and achieved 94.6% of industrial investments. It also found that 78.2% of the industrial establishments employ between 5 and 19 workers, while only 3% employ more than 100 workers. The survey estimated the industrial workforce at 82,843 individuals, including 8,100 owners and 4,560 seasonal workers. It added that women represented 17% of the total workforce.

Industrial Output in 2007

Sector	Output (% of total)
Food & beverages	25.7%
Other non-metallic minerals	11.7%
Fabricted metal	10.9%
Electrical machinery	10.6%
Chemicals & man-made fibers	7.5%
Manufactured goods	6.7%
Paper products	5.9%
Rubber & plastic	4.7%
Printed matter & recorded media	4.1%
machinery & equipment	3.0%

Source:Ministry of Industry

In parallel, the study showed that industrial enterprises employing more than 4 workers produced a gross output of $6.8bn in 2007, resulting in an output per worker of $82,087. It also estimated the average yearly salary per employee at $7,355, and the value-added per worker at nearly $25,000. Further, it found that fixed assets owned by the industrial sector totaled $4bn and gross fixed capital formation amounted to $296m in 2007. The distribution of industrial enterprises shows that 49.8% of them are located in Mount Lebanon, followed by the Bekaa with 18.4%, North Lebanon (12.8%), South Lebanon (10.4%), Beirut (5.9%) and Nabatiyeh (2.55%).

Lebanon in the News

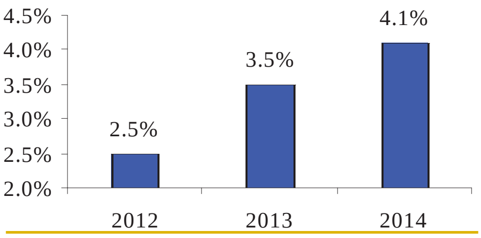
Finance Ministry targets fiscal deficit of 7% of GDP for 2012

The Ministry of Finance's preliminary projections for the 2012 budget draft estimated overall spending at 29.2% of GDP in 2012, which includes 9.4% of GDP in debt servicing and 19.8% of GDP for other items. It said the non-debt servicing component consists of wages & salaries at 8% of GDP, transfers to Electricité du Liban at 3.8% of GDP, capital expenditures at 2.4% of GDP, current expenditures at 0.92% of GDP, and other Treasury spending at 2.8% of GDP. It forecast spending to decline to 27.7% of GDP in 2013 and to stabilize at this level in 2014. It attributed the decline to an anticipated reduction of non debt servicing expenditures to 18.9% of GDP in 2013 and 18.5% of GDP in 2014, as well to a decrease in debt servicing to 8.8% of GDP in 2013 and 9.2% of GDP in 2014. However, it anticipated transfers to EdL to remain high at 3.5% of GDP in 2013 and 3.6% of GDP in 2014, while it foresaw a slight reduction in capital expenditures to 2.2% of GDP in 2013 and 2.1% of GDP in 2014.

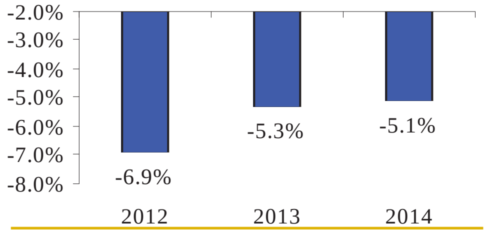
In parallel, the ministry estimated fiscal revenues at 22.3% of GDP in 2012 and to average 22.5% of GDP in 2013-14. It based its revenues forecast on its real GDP growth assumptions for the covered period, and added that the forecast excludes the tax measures included in the 2010 and 2011 budget drafts.

As such, the ministry estimated the fiscal deficit at 6.9% of GDP and the primary surplus at 2.5% of GDP in 2012. It stated that it aims to reduce the fiscal deficit to 5.3% of GDP in 2013 and 5.1% of GDP in 2014, and to increase the primary surplus to 3.5% of GDP in 2013 and 4.1% of GDP in 2014. According to the ministry, it will try to meet these target figures through rationalizing expenditures and finalizing paying dues for the 2012-14 period such as payments to the Central Fund for the Displaced. It added that capital expenditures would be financed through soft loans. It noted that increasing the primary surplus and containing the public debt during 2012-14 would contribute to reducing the fiscal deficit and related borrowing needs. In turn, this would put the debt-to-GDP ratio on a declining and sustainable path. The ministry stressed that its projections do not include any economic or development reforms, as such reforms are the prerogative of the new Cabinet that has yet to be formed.

Primary Balance (% of GDP)



Fiscal Balance (% of GDP)



Source: Ministry of Finance

The ministry based its budget draft for 2012 on real GDP growth of 4% in 2012 and inflation of 4% at the end of the year. It also projected real GDP growth at 4% in each of 2013 and 2014, while it forecast inflation at 2.2% at the end of each of 2013 and 2014. Further, it estimated nominal GDP at $45.4bn in 2012, $48.3bn in 2013 and $51.3bn in 2014.

Fruits account for 48% of farming in Lebanon

The Ministry of Agriculture unveiled preliminary results of a survey that covered 157,000 farmers living in 1,350 towns across Lebanon. It indicated that 20% of surveyed famers are located in the Bekaa region, 31% in the North and Akkar, 19% in Mount Lebanon, 14% in Nabatiyeh and 11% in the South. It added that 76% of surveyed farmers exploit 82% of harvested land in Lebanon, while only 54% of farming properties in the country are irrigated, of which 49% by groundwater. It noted that males account for 91% of farming land owners, while the average age of owners exceeds 45 years. It indicated that 48% of farming lands are cultivated with fruit trees, 46% provide seasonal crops, and 1% contains greenhouses, while the remaining 5% are fallow. The survey noted that around 76% of Lebanon's farmers are not covered by any social protection services or health insurance. The ministry said the survey covered only 75% of the country's farmers due to bureaucratic constraints. The survey was financed by the U.N. Food and Agriculture Organization (FAO) and the Italian government. The last agricultural survey in Lebanon was conducted by FAO in 1998-99, but the survey did not include the actual size of the sector in Lebanon or the number of farmers.

Energy Ministry to tender construction of storage facilities in Tripoli

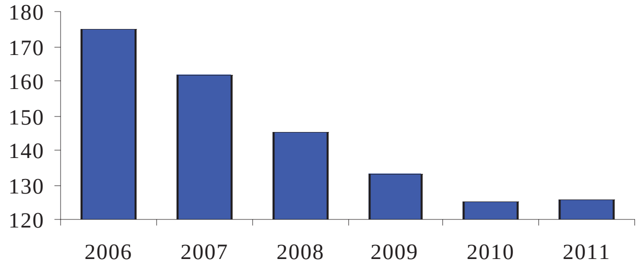
The Ministry of Energy & Water announced a tender offer for the construction of 14 oil storage facilities in Tripoli with total storage capacity of 428,000 cubic meters. The tender constitutes the first phase of a global plan that aims to increase Lebanon's oil storage capacity from 0.35 million cubic meters currently to 1.5 million cubic meters through the restoration and upgrade of the Zahrani and Tripoli oil storage facilities, and the building of new storage facilities at the two locations. It added that the restoration of Zahrani's storage facilities would increase Lebanon's storage capacity to 0.9 million cubic meters. It estimated the project's cost at $60m, which would be financed in part by the government and in part by the multinational firms that would win the tender. It estimated annual revenues from the new facilities at $50m, with a payback period of 14 months for the project. It considered that storage capacity can be further increased at a later stage to reach two or three million cubic meters. The ministry said the expanded capacity aims to meet demand for oil storage by multinational firms, given the strategic location of Lebanon.

Lebanon in the News

Net public debt at $46bn at end-March 2011

Lebanon's gross public debt reached $52.6bn at the end of March 2011, unchanged from end-2010, and constituting an increase of 2.2% from end-March 2010. Domestic debt increased by 4.8% to $31.7bn, while external debt decreased by 1.6% annually to $20.9bn. Local currency debt accounted for 60.3% of gross public debt at end-March 2011 compared to 58.8% a year earlier, while foreign currency-denominated debt represented 39.7% of the total at the end of March relative to 41.2% a year earlier. The weighted interest rate on outstanding Treasury bills was 7.38%, while the weighted interest rate on Eurobonds was 7.29% at the end of March. Further, the weighted life on Eurobonds was 4.7 years, while that on Treasury bills was 733 days.

Net Public debt (% of GDP)



Source: International Monetary Fund

Commercial banks accounted for 53.1% of the local public debt at the end of March 2011 compared to 60.8% a year earlier. They were followed by the Central Bank with 30.5%, up from 22.8% at end-March 2010; while public agencies, financial institutions and the general public accounted for 16.4% of local debt, compared to 16.4% a year earlier. Eurobond holders, foreign private sector loans and special T-bills in foreign currencies accounted for 86.5% of the external debt, followed by multilateral institutions with 7.3%, foreign governments with 4.8%, and Paris II loans with 1.4%. 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 2.7% to $45.6bn. In parallel, the gross market debt accounted for about 65% 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.

Treasury transfers to Electricité du Liban unchanged year-on-year the first quarter

Figures released by the Finance Ministry show that Treasury transfers to Electricité du Liban totaled $334m in the first quarter of 2011, unchanged from the same period last year. The ministry said that reimbursements to the Kuwait Petroleum Corporation (KPC) and to Algerian energy conglomerate Sonatrach accounted for $323m, or 96.6% of transfers in the covered period, while EdL's debt servicing represented $11m or 3.4% of the total. The ministry said that transfers remained unchanged as a result of a 23% drop in debt service and a 1% increase in total reimbursements. It noted that payments reflect a 21% drop in the volume of imported gas and a 1% contraction in the quantities of imported fuel oil compared to the same period of 2010. It attributed the drop in imported quantities to the import from Egypt of commercial quantities of natural gas, a substitute for KPC and Sonatrach's gasoil, to the Deir Ammar-Beddawi power plant. It said, however, that the average oil prices according to which the 2011 payments were made are 13% higher compared to 2010. It added that EdL contributed to just 5.4% of repayments to the two oil suppliers in the first quarter of the year. EdL transfers accounted for 17% of primary expenditures in the first quarter of the year relative to 20% in the same period last year, as primary expenditures were lower in the first quarter of 2010. EdL transfers constitute the third largest expenditures item after debt servicing and salaries & wages in overall fiscal spending. Transfers to EdL were equivalent to 3% of GDP in 2010 compared to 4.3% of GDP in 2009 and to 5.4% of GDP in 2008.

Economic activity picks up in March, overall slowdown trend continues

The Central Bank's Coincident Indicator, an index of economic activity in Lebanon, reached 252.9 points in March 2011 compared to 243.2 in February 2011 and 264.5 in March 2010. The Coincident Indicator, an average of 8 weighted economic indicators, grew by 4% in March but regressed by 4.4% year-on-year. The indicator averaged 249.2 in the 12-months ending March 2011 compared to 250.13 in the 12-months ending February 2011 and to 235.5 in the 12-months ending March 2010. As a result, the average coincident indicator decreased marginally by 0.4% month-on-month and rose by 5.8% year-on-year. The indicator posted its first improvement this year after regressing for two consecutive months, as it declined by 4.4% in February and 0.4% in January. The indicator peaked at an all-time high of 266.7 last November but has been on the decline since then. Further, the month-to-month increase in March constituted the fourth best improvement ever for the indicator for the covered month. In parallel, the indicator improved 10 times and regressed 9 times in the month of March since 1993. The indicator averaged 249.5 in 2010 and 225.9 in 2009.

Industrial exports stagnate at $790m in first quarter of 2011, imports down 9%

Figures released by the Ministry of Industry show that industrial exports totaled $790m in the first three months of 2011, constituting a marginal decrease of 0.3% from $792m in the same period last year. Industrial exports reached $288.7m in March 2011, up by 9.6% from February 2011 but down 4.1% from March 2010. Pearls & precious or semi-precious stones accounted for $110m, or 20.1%, of total industrial exports in the first quarter of the year, followed by base metals & articles of base metals with $97.4m (18.6%), and machinery and mechanical appliances with $84.8m (16.2%). Arab countries accounted for 42.6% of total industrial exports in March, followed by European countries with 22%. In parallel, industrial imports reached $52.8m in the first quarter of the year, down 8.7% from the same period in 2010. Italy was the main source of such imports and accounted for 30.2% of total. It was followed by China with 19.6% and the U.S. with 10%. Further, imports of industrial equipment and machinery reached $17.3m in March, down 16.6% year-on-year. Italy was the main source of imports of industrial equipments, accounting for 34% of total, followed by China with 19.3% and Germany with 10.8%.

Commercial activity retreats in fourth quarter of 2010

The Central Bank's quarterly business survey of opinions indicated that the volume of commercial sales decreased during the fourth quarter of 2010, with the balance of opinion standing at zero, compared to +16 during the preceding quarter and +32 during the same quarter of 2009. The business survey reflects the opinions of enterprise managers on their business activity in order to depict the evolution of a number of key economic variables. The balance of opinion for inventory levels in all commercial sub-sectors recorded at +10 in the fourth quarter of the year unchanged from +10 in the same quarter last year. The balance of opinion is the difference between the proportions of managers out of those surveyed who estimate that there has been an improvement in a particular variable and the proportion of those who reported a decline in the variable.

Commercial Activity: year-on-year evolution of opinions

Aggregate results	**Q4-07**	**Q4-08**	**Q4-09**	**Q4-10**
Sales volume	16	37	32	0
Inventories of finished goods	-3	9	10	10
Q4-10 Regional results	**Beirut / Mount Lebanon**	**North**	**South**	**Bekaa**
Sales volume	7	-7	-36	17
Inventories of finished goods	18	11	-26	0

Source: Central Bank Business Survey in fourth quarter 2010

Overdrafts account for 31% of bank credits, share of trade & services at 36% of utilized credits at end-2010

Figures issued by the Central Bank about the distribution of bank credits by type show that overdrafts accounted for $11.8bn, or 30.5% of total private sector credits at the end of 2010. They were followed by advances against real estate with $9.9bn (25.5%), advances against personal guarantees $6.8bn (17.5%), advances against cash collateral or bank guarantees $5.7bn (14.6%), advances against other real guarantees $2.7bn (7%), and advances against financial values $1.9bn (5%). In parallel, utilized credits by the private sector totaled $38.5bn at the end of 2010, with the trade & services sector accounting for $14bn, or 36% of such credits. It was followed by personal credits with $9.1bn (23.5%), construction with $6.3bn (16.3%), industry with $4.35bn (11.3%), financial intermediaries with $3.3bn (8.5%) and agriculture with $367m (1%), while other sectors accounted for the remaining $1.35bn (3.5%). Also, wholesale trade represented 43.7% of trade & services credits, followed by real estate services with 20%, retail with 15.3%, transport & storage with 11%, hotels & restaurants with 7% and educational services with 3%.

Personal credits accounted for 77.7% of loan beneficiaries, followed by trade & services with 12.1% of beneficiaries, industry with 3.3%, construction with 1.5%, and financial intermediaries and agriculture with 0.8% each, while other sectors accounted for 3.8%. Further, the aggregate number of loan beneficiaries grew by 59.5% year-on-year to 356,532, while 84% of beneficiaries had loans ranging from LBP5m to LBP100m by end-2010. Beirut and its suburbs accounted for 80.6% of bank credits and for 56.4% of beneficiaries. It was followed by Mount Lebanon with 8.4% of credits and 15.8% of beneficiaries; South Lebanon with 4% of credits and 8.4% of beneficiaries; North Lebanon with 4% of credits and 13% of beneficiaries; and the Bekaa with 3.1% of deposits and 6.3% of beneficiaries.

Subsidized interest loans at $775m in 2010

Figures released by the Central Bank show that the amount of subsidized interest loans to productive sectors in Lebanon reached $774.7m at the end of 2010. The industrial sector accounted for $475.8m, or (61.4%) of the total, followed by tourism with $208m (26.9%), agriculture with $73.4m (9.5%) and specialized technology with $17.45m (2.1%). Subsidized interest loans extended in 2009 totaled $543.7m relative to $464.1m in 2008 and $244.2m in 2007. The cumulative amount of subsidized interest loans to productive sectors in Lebanon reached $3.61bn between 1997 and 2010.

Subsidized medium & long-term loans reached $590.6m in 2010, equivalent to 76.2% of the total at end-2010. Industry accounted for 64.3% of total subsidized medium & long-term loans, followed by tourism with 28.6%, agriculture with 4.9% and specialized technologies with 2.2%. The program was established in the first quarter of 1997 and consists of a 5% to 7% subsidy on the interest for loans extended in foreign currencies to productive sectors. Also, subsidized interest loans guaranteed by the Kafalat Corporation totaled $171m, or 22% of the total. Industry accounted for 48.4% of Kafalat-backed subsidies, followed by agriculture with 25.9%, tourism with 22.9% and special technologies with 2.8%. Kafalat provides financial guarantees for loans of up to $400,000 for small and medium-sized enterprises in productive sectors.

Further, subsidized interest loans granted by leasing companies totaled $10.15m at end-2010, or 1.3% of the total. In addition, interest subsidized under the protocol signed with the European Investment Bank totaled $1.2m, or 0.2% of the total while subsidized interest loans granted by the International Finance Corporation totaled $0.86m, or 0.1% of the total. The latte three subsidized interest loans were extended in total to the industry sector.

Corporate Highlights

Launch of first governance institute in Lebanon

The Lebanese Transparency Association (LTA), in collaboration with the International Finance Corporation (IFC) and the Center for International Private Enterprise (CIPE), launched officially the Institute of Directors, the first governance organization in Lebanon. The Institute aims at promoting good governance through engaging and enabling board members and senior managers to apply best practices in governance, transparency, accountability, and integrity. The Institute intends to disseminate good governance principles through awareness and advocacy campaigns, training and development, advisory and consultancy, as well as research and publications. Its services include providing corporate governance audits and assessments to companies in Lebanon, offering governance training courses, and developing corporate governance guidelines, codes, and toolkits for companies and institutions. The Institute will start six one-day corporate governance awareness-raising events for this year, which will target business owners, board members, and directors. It also plans to launch a manual on corporate governance guidelines for state-owned enterprises in July. In parallel, the Institute has developed, with the cooperation and support of the IFC, training courses for the banking sector; family-owned enterprises; state-owned enterprises; as well as auditors, lawyers and consultants.

Lebanon bans imports of uncertified products from Japan

The Ministry of Economy & Trade issued a decree that temporarily prohibits the import of all products from Japan. It noted that it will only allow the import of Japanese products upon the presentation of a quality certification by an internationally-recognized quality inspector that shows that the products are free from nuclear contamination. It added that Japanese products shipped before the March 11 nuclear reactor meltdown in Fukushima are not subject to the ban. Lebanon imported $622m worth of goods from Japan in 2010, which accounted for 3% of total imports last year.

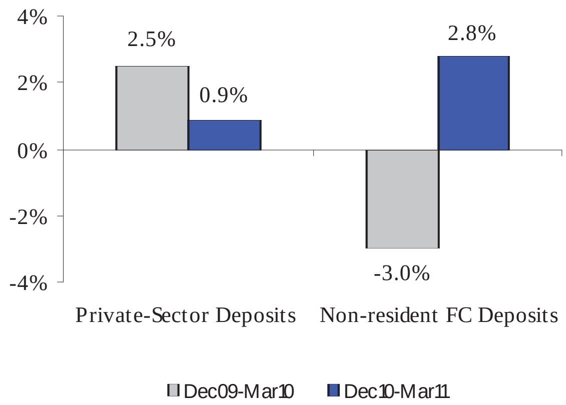
BLC Bank announces dividends for 2010

BLC Bank sal announced that its Ordinary General Assembly held on April 8, 2011 approved the distribution of $17.7m in dividends for 2010, equivalent to a 38.4% payout ratio and LBP 175 per share. It said the dividends were determined after taking into consideration the 10% legal reserve requirements, the $3.55m in reserves against various banking risks, as well as $1.74m in provisions covering repossessed real estate collateral, and $7.1m in free reserves to cover debt provisions. BLC Bank, one of Lebanon's listed banks, announced unaudited net profits of $45.3m in 2010, up 32.6% from the same period last year. Total assets reached $3.1bn at end-2010 up 19.6% from end-2009, while loans & advances to customers increased by 44.6% to $687m. Customer deposits totaled $2.6bn, an increase of 14.5% from end-2009.

Commercial banks' assets reach $133bn at end-March 2011

The consolidated balance sheet of commercial banks operating in Lebanon shows that total assets reached $132.5bn at the end of March 2011, constituting an increase of 2.8% from end-2010 and a rise of 10.5% from end-March 2010. Private sector deposits totaled $108.1bn, increasing by 0.9% from end-2010 and rising by 10.2% from a year earlier. Deposits in Lebanese pounds reached $36.9bn, down 6.4% from end-2010 but up 2.5% year-on-year, while deposits in foreign currencies reached $71.2bn and rose by 5.1% from the end of last year and by 14.7% from end-March 2010. Non-resident foreign currency deposits totaled $16bn at end-March 2011, up 2.8% from end-2010 and up 16.3% year-on-year. Total private sector deposits decreased by $1.1bn in January, rose by $673m in February and grew by $1.34bn in March 2011. In parallel, deposits of non-resident banks reached $6.5bn, up 44.1% from end-2010 and 17.7% year-on-year. The dollarization rate of deposits reached 65.9% at the end of March, up from 63.2% at end-2010 and 63.3% a year earlier. Further, the average deposit rate in Lebanese pounds reached 5.63% in March compared to 6.11% a year earlier, while the same rate in US dollars was 2.82%, down from 2.86% in March 2010.

Growth in Private Sector Deposits (%)



Source: Association of Banks in Lebanon

Loans to the private sector totaled $36.4bn, constituting an increase of 4.3% from end-2010 and up 18.6% year-on-year. Lending to the non-resident private sector reached $5.5bn and rose by 18.9% from end-2010. The dollarization rate in private sector lending reached 80.3%, unchanged from end-2010 and compared to 83.5% a year earlier. The average lending rate in Lebanese pounds was 7.73% in March 2011 compared to 8.69% a year earlier, while the same average in US dollars was 7.24% compared to 7.01% in March 2010. In addition, claims on non-resident banks reached $16.7bn at end-March, posting an increase of 8.5% from end-2010. Claims on the public sector stood at $28.2bn, down 4.3% year-on-year and 3.7% from end-2010, and accounted for 43.7% of the banking sector's total claims. The ratio of private sector loans to deposits in foreign currencies stood at 41.1%, well below the Central Bank's limit of 70%, and slightly above the ratio of 41.3% a year earlier. In parallel, the same ratio in Lebanese pounds was 19.5%, up from 14.1% a year earlier. The ratio of total private sector loans to deposits stood at 33.7% compared to 31.3% a year earlier. The banks' aggregate capital base stood at $9.5bn, up by 3.2% from end-2010 and 20.4% from $7.9bn in March 2010.

Corporate Highlights

Launch of new mechanism for insurance policies on housing loans

The Ministry of Social Affairs launched a new mechanism for insurance contracts on housing loans extended by the Public Corporation for Housing (PCH) in order to encourage competition between insurance companies. It said that since the PCH does not have the material resources that allow it to cover the insurance cost on behalf of the borrower, then its Board of Directors will set the particular terms to seek offers to cover the risks of death and total default according to the protocol of cooperation signed with the Association of Banks in Lebanon. The ministry said the new mechanism will divide the insurance contract into two timeframes. The bank will be the sole beneficiary in the event of death or default of the insured during the first half of the life of the loan, while the PCH will be the sole beneficiary during the second half of the loan's term. It added that this procedure is expected reduce the cost to the borrower by about 25% of the total cost.

Balance sheet of financial institutions posts 11% increase in 2010

Figures released by the Central Bank show that the consolidated balance sheet of financial institutions in Lebanon reached LBP 1,605bn, or $1.06bn, at the end of 2010, constituting an increase of 11% from end-2009. Liabilities to the private sector reached $260m, up 41% from the end of 2009. Further, commitments to the financial sector reached $585.5m at the end of 2010, representing a growth of 9% from a year earlier.

On the assets' side, financial institutions' operations with commercial banks reached $404m at end-2010, up 26% year-on-year. Lending to the private sector reached $538m, constituting an increase of 16% from end-2009. Also, investments in government securities totaled $101.2m at end-2010, down 26.6% from a year earlier. Further, the aggregate capital account of financial institutions reached $261.2m at the end of 2010, rising by 0.8% from the end-2009. There were 50 financial institutions operating in Lebanon at the end of 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	Jan 2010	Dec 2010	Jan 2011	Change*	Risk Level
Political Risk Rating	57.0	58.5	56.5	▼	High
Financial Risk Rating	28.0	28.5	28.5	▲	High
Economic Risk Rating	35.5	32.5	32.5	▼	Moderate
Composite Risk Rating	60.2	59.7	58.7	▼	High

Regional Average	Jan 2010	Nov 2010	Jan 2011	Change*	Risk Level
Political Risk Rating	64.8	64.5	63.6	▼	Moderate
Financial Risk Rating	42.0	42.2	42.3	▲	Very Low
Economic Risk Rating	35.3	38.0	38.1	▲	Low
Composite Risk Rating	71.0	72.3	72.0	▲	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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