

LEBANON THIS WEEK

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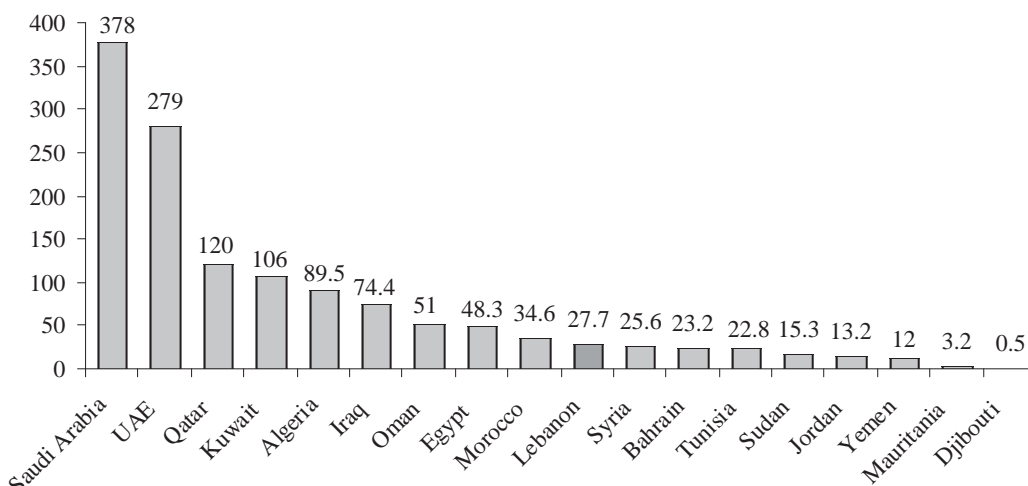
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Beirut bourse approves listing of additional bank shares

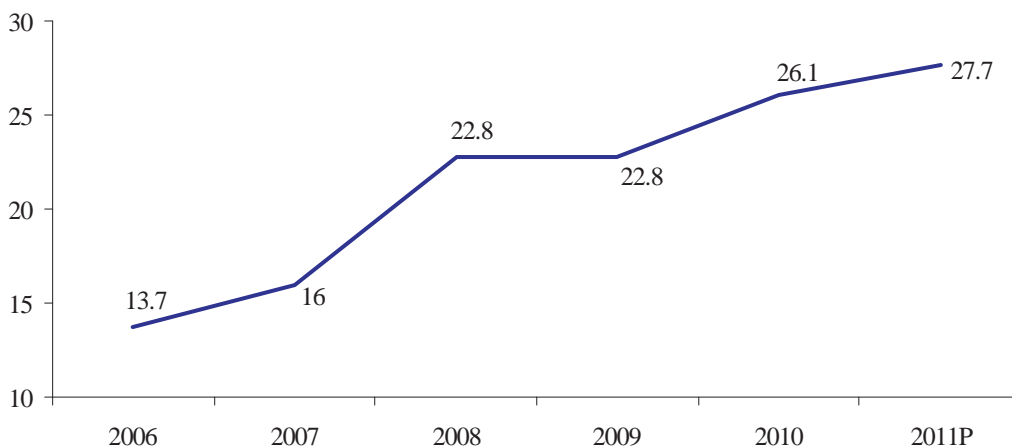
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Charts of the Week

Projected Value of Exports of Goods & Services from Arab Countries in 2011 (US\$bn)



Projected Value of Imports of Goods & Services from Lebanon (US\$bn)



Source: International Monetary Fund, Byblos Research

Quote to Note

"Syria's crisis has not registered in the statistics yet."

Independent research firm Capital Economics, on the lag between developments in Syria and their impact on economic indicators in Lebanon

Number of the Week

\$28.5bn: The Central Bank of Lebanon's gross foreign currency reserves at the end of March 2011, as estimated by the Association of Banks in Lebanon

Economic Indicators

\$m (unless otherwise mentioned)	2009	Mar 10	2010	Jan 11	Feb 11	Mar 11	% Change*
Exports	3,486	374	4,256	297	304	354	(5.35)
Imports	16,241	1,934	17,956	1,729	1,218	1,631	(15.67)
Trade Balance	(12,755)	(1,560)	(13,700)	(1,432)	(914)	(1,277)	(18.14)
Balance of Payments	7,899	264	3,326	(772)	104	270	2.27
Checks Cleared in LBP	11,122	1,187	13,519	1,206	1,172	1,301	9.60
Checks Cleared in FC	45,270	5,302	53,925	4,404	4,094	4,798	(9.51)
Total Checks Cleared	56,392	6,489	67,444	5,610	5,266	6,099	(6.01)
Budget Deficit/Surplus	(2,960)	(377)	(2,892)	(48)	(501)	(548)	45.36
Primary Balance	1,078	62	1,232	202	(266)	(120)	(293.55)
Airport Passengers	4,986,544	363,742	5,552,260	369,735	307,134	247,795	(4.38)
\$bn (unless otherwise mentioned)	Dec 2009	Mar 10	Dec 10	Jan 11	Feb 11	Mar 11	% Change*
BdL FX Reserves	25.66	27.17	28.60	28.30	28.42	28.54	5.04
<i>In months of Imports</i>	18.6	14.04	19.4	16.3	23.33	17.40	23.93
Public Debt	51.09	51.46	52.59	52.29	52.08	52.59	2.20
Net Public Debt	44.11	44.40	45.01	44.95	45.31	45.61	2.73
Bank Assets	115.25	119.91	128.93	128.41	130.06	132.49	10.49
Bank Deposits (Private Sector)	95.77	98.14	107.20	106.13	106.80	108.15	10.20
Bank Loans to Private Sector	28.37	30.71	34.93	35.31	35.70	36.43	18.63
Money Supply M2	34.16	36.23	39.40	37.12	37.03	37.14	4.55
Money Supply M3	82.08	84.96	92.15	91.57	92.01	92.76	9.86
LBP Lending Rate (%)	9.04	8.69	7.91	7.71	7.71	7.73	(96b.p.)
LBP Deposit Rate (%)	6.75	6.11	5.68	5.63	5.63	5.63	(48b.p.)
USD Lending Rate (%)	7.28	7.01	6.74	7.14	7.01	7.24	23b.p.
USD Deposit Rate (%)	3.05	2.86	2.80	2.84	2.90	2.82	(4b.p.)
%* Change in CPI**	4.20	5.04	6.19	6.92	5.09	6.94	190b.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"	18.28	(3.13)	142,414	15.38%
Solidere "B"	18.25	(2.20)	63,433	9.98%
Byblos Common	1.80	(1.64)	808,827	5.44%
Byblos Pref. 08	100.10	0.10	4,400	1.68%
Byblos Pref. 09	100.00	0.00	2,550	1.68%
BLOM GDR	9.10	(3.19)	12,785	5.66%
BLOM Listed	8.85	0.57	17,800	16.01%
Audi GDR	7.50	(0.13)	23,822	6.22%
Audi Listed	6.98	(0.29)	75,607	20.46%
HOLCIM	17.25	(1.15)	35,772	2.83%

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

Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
Aug. 2011	7.500	100.94	2.52
Mar. 2012	7.500	103.50	3.13
Sep. 2012	7.750	104.94	3.75
June 2013	8.625	108.82	4.12
Apr. 2014	7.375	108.75	4.12
Apr. 2015	10.00	117.00	5.13
Jan. 2016	8.500	112.88	5.32
Mar. 2017	9.000	116.88	5.57
Nov. 2018	5.150	96.75	5.70
Apr. 2021	8.250	114.75	6.22

Source: Byblos Capital Markets

	May 16-20	May 9-13	% Change	April 2011	April 2010	% Change
Total Shares Traded	1,208,005	1,066,704	13.25	18,453,479	26,726,767	(30.96)
Total Value Traded	\$7,835,108	\$5,959,719	31.47	\$94,089,158	\$84,719,626	11.06
Market Capitalization	\$11.87bn	\$11.97bn	(0.80)	\$11.91bn	\$13.01bn	(8.44)

Source: Beirut Stock Exchange (BSE)



U.S. maintains Lebanon on Watch List of intellectual property rights protection

In its annual Special 301 review of the state of intellectual property rights (IPR) protection and enforcement around the world, the Office of the United States Trade Representative (USTR) maintained Lebanon on the Watch List, along with 29 other countries and jurisdictions. The USTR placed Lebanon on the Watch List in 1999 and then downgraded it to the more critical Priority Watch List in 2001 where it remained till 2007. It then upgraded Lebanon to the Watch List in 2008. The USTR also included 12 countries this year on its Priority Watch List. Countries from the Middle East & Africa on the 2011 Watch List include Egypt, Kuwait, Lebanon and Turkey, while Algeria and Israel remained on the more critical Priority Watch List.

The USTR indicated that Lebanon continued to work on improving its IPR legislative framework in 2010. It said the Lebanese Parliament ratified the WIPO Internet Treaties, and began work on amendments to the Patent Law to provide an effective system for protecting against unfair commercial use, as well as unauthorized disclosure, of undisclosed test and other data generated to obtain marketing approval for pharmaceutical products. It added that the Judicial Training Institute will include for the first time IPR courses in its training program for new judges, starting in the fall of 2011. The USTR expressed hope that this will help increase judicial awareness about the importance of effective protection and enforcement of IPR. The USTR noted, however, that several other necessary legislative measures concerning IPR remain pending. It said that the Cyber Crime and Intellectual Property Rights Bureau of the police department still lacks *ex officio* authority, even though it tried to improve its enforcement efforts. Further, rights holders must file a complaint before the Bureau may initiate a criminal investigation, which presents a hurdle to effective IPR enforcement. It encouraged Lebanese authorities to increase efforts to combat piracy and counterfeiting effectively, including the counterfeiting of medicines. It also pledged to continue working with Lebanon to strengthen its IPR laws and improve its enforcement regime through Lebanon's WTO accession process and other bilateral areas.

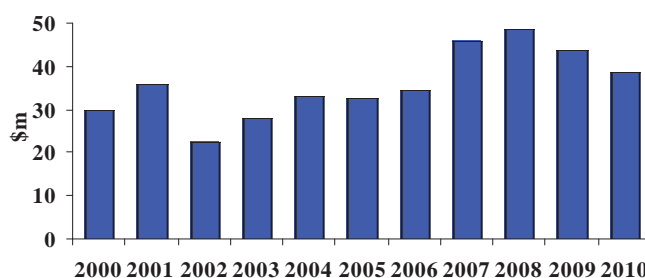
In parallel, the USTR said the statute of the U.S. Generalized System of Preferences (GSP) trade program has expired at the end of 2010. The GSP provided unilateral duty-free access of goods from Lebanon and other developing countries to the U.S. market based on "the adequate and effective protection of intellectual property rights". Lebanon exported \$38.4m worth of duty-free products to the United States in 2010, equivalent to 45.7% of its total exports to the U.S. last year, compared to \$43.6m, or 56.5% of total exports to the U.S. in 2009. The USTR 'accepted for review' in September 2003 a petition from the International Intellectual Property Alliance (IIPA) to have the U.S. government evaluate whether to suspend some or all of Lebanon's benefits under the GSP trade program for failure to adequately protect copyrights. The IIPA said that if the U.S. Congress reauthorizes the GSP statute, its petition to review whether Lebanon should continue to receive duty-free treatment for many of its goods exported to the U.S. should remain in place.

Balance sheet of investment banks posts 2% growth in 2010

Figures released by the Central Bank show that the consolidated balance sheet of investment banks in Lebanon reached LBP 7,893bn, or \$5.2bn, at the end of 2010, constituting an increase of 2% from end-2009. Liabilities to the private sector reached \$3.24bn, down 0.4% from end-2009. Commitments to the financial sector reached \$565m at the end of 2010, representing a decrease of 24.2% from end-2009.

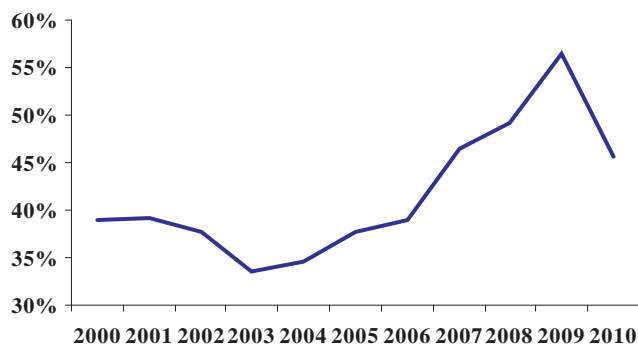
On the assets' side, investment banks' operations with commercial banks reached \$2.76bn at end-2010, up 0.8% from end-2009. Lending to the private sector reached \$1.08bn, constituting an increase of 7% from end-2009. Investments in government securities totaled \$1.02bn at end-2010, down by 7.4% from end-2009. Further, the aggregate capital account of investment banks reached \$716.4m at the end of 2010, up 14% from end-2009.

Lebanese exports to the U.S. under the GSP program in US\$m



Source: IIPA, Byblos Research

Percentage of Lebanese exports to the U.S. under the GSP program



Source: IIPA, Byblos Research

Successful placement of new \$1bn Eurobond

The Ministry of Finance issued a \$1bn dual-tranche Eurobond under the Republic of Lebanon's Global Medium Term Note Program in order to refinance a \$1bn bond that matures this month. The first tranche consists of an 8-year \$650m bond that matures in May 2019 and carries a coupon rate of 6% paid semi-annually. The second tranche consists of an 11-year \$350m bond that matures in October 2022 and carries a coupon rate of 6.1% paid semi-annually. Byblos Bank sal, along with Fransabank sal and HSBC Bank, jointly lead-managed the Eurobond issue. The government has \$2.1bn in maturing Eurobonds this year, including a \$750m bond that matures in August.

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 Eurobonds was 7.29% and the weighted interest rate on outstanding Treasury bills was 7.38% at the end of March. Further, the weighted life of Eurobonds was 4.7 years, while that of Treasury bills was 733 days.

Occupancy at Beirut hotels at 50%, room yields down 44% in first four months

Ernst & Young's benchmark survey of the Middle East hotel sector indicated that the average occupancy rate at hotels in Beirut was 50% in the first four months of 2011 compared to 72% in the same period last year. The occupancy rate at Beirut hotels was the 7th lowest among 21 markets in the region, unchanged from the first four months last year. The survey said the average rate per room at Beirut hotels was \$203 in the first four months of 2011, ranking the capital's hotels as the 11th most expensive in the region.

The average rate per room at Beirut hotels decreased by 19.5% year-on-year and posted the steepest decline among all markets in the region. The average rate per room in Beirut came above the regional average of \$193, which decreased marginally by 0.8% from \$194.5 in the first four months last year. Occupancy rates at Beirut hotels were 44% in January, 42% in February, 53% in March and 61% in April. Beirut hotels had occupancy rates of 64% in January, 76% in February, 68% in March and 79% in April 2010.

Further, revenues per available room (RevPAR) were \$103 in Beirut in the first four months of 2011, down from \$182 in the same period last year, and ranking it in 13th place in the region. Beirut's RevPAR was down 43.6% year-on-year, compared to a 16% decrease across the region. Beirut posted RevPARs of \$99 in January, \$84 in February, \$107 in March and \$120 in April 2011 compared to RevPARs of \$160 in January, \$209 in February, \$155 in March and \$208 in April of last year. Dubai-Beach posted the highest average room rate in the region at \$396 and the highest RevPAR at \$344, while Dubai-Apartments posted the highest occupancy rate at 88% in the first four months of 2011.

Rehabilitation of waste dumps to cost \$52m

The Ministry of the Environment and the United Nations Development Program estimated the cost of rehabilitating or closing Lebanon's 670 illegal dumps at around \$51.7m. The Environment Ministry stated that one third of all solid municipal waste, estimated at around 410,000 to 510,000 tons, is ending up in illegal open-air dumps. Under the proposed action plan, the top 20 municipal solid waste dumps will be rehabilitated at a cost of about \$34m. It identified the Sidon site as the most urgent and costly dump in Lebanon, given that it holds over 1.2 million cubic meters of garbage.

Hotel Performance in first four months of 2011			
	Occupancy Rate (%)	RevPAR (US\$)	RevPAR % change
Dubai - Apartments	88	106	0.5
Dubai - Beach	86	344	11.1
Dubai - Overall	85	221	7.3
Dubai - City	84	165	3.6
Abu Dhabi	81	201	(1.2)
Makkah	80	165	10.3
Muscat	73	158	(1.2)
Al Ain	73	123	(10.7)
Doha	72	200	(7.8)
Jeddah	70	147	(3.1)
Riyadh	65	158	8.9
Madina	65	95	(0.1)
Kuwait	60	171	6.7
Amman	54	79	(11.9)
Beirut	50	103	(43.6)
Cairo - Pyramids	48	66	(27.3)
Sharm El Shaikh	43	26	(52.7)
Hurghada	43	18	(52.3)
Cairo - Overall	36	47	(47.3)
Cairo - City	34	45	(50.2)
Manama	26	67	(64.6)

Source: Ernst & Young, Byblos Research

Central Bank rules out increase in interest rates, draft law against international tax evasion under way

Central Bank Governor Riad Salamé indicated that banks' subscriptions to Treasury bills continue to register deficits that are being covered by the Central Bank. He added that the dollarization rate of deposits increased to 66% at the end of March from 63% at the end of last year, which has increased liquidity in foreign currency at commercial banks and facilitated the issuance of the new Eurobond. He considered that annual deposit growth in the range of 5% to 6% is sufficient to meet the economy's financing needs. He noted that lending activity is pointing towards growth of 10% so far, of which 29% is in housing loans. He expected pressure on the balance of payments to continue given the high global oil and food prices. He also anticipated interest rates to remain stable and ruled out an increase in rates, adding that subscriptions to the new Eurobond reflect the stability of rates. He stressed that raising interest rates would not generate commensurate returns and would negatively affect the state, the economy, and the banks.

In parallel, Governor Salamé said that the Central Bank's amendments to the circulars related to the functioning of foreign exchange bureaus and their dealings with commercial banks are meant to deter their usage for money laundering and terrorist financing and to preserve their reputation. He noted that the amendments stipulate that forex bureaus can open accounts at banks as long as personal accounts remain separate from the firm's accounts and that they are open at different banks, which would facilitate identifying the sources of funds deposited in personal accounts through Know Your Customer procedures. Also, the new amendments prohibit foreign exchange bureaus from conducting operations for third parties, from opening accounts for others, and from making cash payments in excess of \$1,500. They also prohibit financial institutions clients from covering their margins in cash, or from making investments using cash. It added that banks need to verify the identity of third parties that receive funds from financial institutions.

Further, Governor Salamé indicated that fiscal and monetary authorities are preparing a draft law about the exchange of tax information between Lebanon and other countries, in line with the recommendations by the Group of 20 on fighting international tax evasion. He added that the Group of 20 mandated the Organization of Economic Cooperation and Development (OECD) to evaluate anti tax-evasion systems around the world, including in Lebanon, as a prelude to identify countries that have inadequate systems for the exchange of tax information. He previously noted that an OECD delegation was supposed to visit Lebanon earlier this year for this purpose, but postponed its trip after the resignation of the Lebanese government. The draft law stipulates that requests for information addressed to the Ministry of Finance have to be based on a court decision and be accompanied by the account numbers under scrutiny. It also specifies that the investigation has to be conducted only by the Special Investigation Commission against money laundering and terrorism financing. Further, it preserves the right of the persons under investigation to appeal in court within a specified period of time. He stressed that the draft law would provide a regulatory framework to fight tax evasion that would be acceptable to the international community, similar to what happened in Switzerland and Luxembourg.

Most categories of tourism spending in Lebanon regress in first four 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 four months of 2011, accounting for 20% of total tourists' spending. They were followed by visitors from the UAE with 12%, Kuwait with 9%, Syria with 8% and Egypt with 6%. Spending by visitors from the UAE rose by 5% and posted the only growth in the covered period, while spending by visitors from Egypt contracted by 29%, followed by visitors from Jordan (-18%), Saudi Arabia (-15%), Qatar (-8%), Kuwait (-4%), and France and Syria (-1% each). Beirut attracted 85% of total spending over the covered period, followed by the Metn area with 11%, the Keserwan region with 2% and Baabda with 1%. Fashion & clothing accounted for 69% of total spending, followed by watches with 10%, perfumes & cosmetics with 5%, home & garden products with 4%, department stores and souvenirs & gifts with 3% each and electronics & IT and consumer electronics & household appliances with 2% each. Spending on perfumes & cosmetics increased by 17% in the first four months of 2011, followed by fashion & clothing with a 3% growth. Spending on electronics & IT decreased by 15% in the covered period, followed by watches with a 14% drop, souvenirs & gifts with a 13% contraction, department stores with a 5% decline and home & garden and consumer electronics & household appliances with a 3% fall.

Construction permits down 2% in first quarter of 2011

Figures released by the Association of Engineers of Beirut & Tripoli show that construction permits reached 3.7 million square meters in the first quarter of 2011, constituting a decrease of 2.2% from 3.8 million square meters in the same period last year. Construction permits totaled 1.6 million square meters in March 2011, down 20% year-on-year from 2 million square meters in March 2010. In parallel, cement deliveries reached one million tons in the first three months of 2011, a decrease of 6.8% from 1.1 million tons in the same period last year. Cement deliveries reached 399,000 tons in March 2011, down 14.2% from 465,000 tons in March 2010.

Credit and debit cards reach 1.7 million cards, ATMs total 1,308 at end-March 2011

Figures released by the Central Bank of Lebanon show that the number of credit and debit cards issued in Lebanon reached 1,704,884 cards at the end of March 2011, constituting a 1.7% increase from end-2010, and a 7.1% rise on a yearly basis. Resident cardholders accounted for 97.2% of total cards issued in Lebanon. The distribution of payment cards by type shows that debit cards with residents accounted for 64% of the total, followed by credit cards with residents (23.2%), charge cards with residents (7.6%), resident prepaid cards (2.4%), non-resident debit cards (2.1%), non-resident charge cards (0.4%), non-resident credit cards (0.2%), and non-resident prepaid cards (0.1%). The number of ATMs rose by 1.8% to 1,308 machines on a quarterly basis and by 6.7% from 1,226 ATMs at the end of March 2010. The Greater Beirut area had 638 ATMs, accounting for 48.8% of the total, followed by Mount Lebanon with 306 (23.4%), the North with 130 (9.9%), the South with 113 (8.6%), the Bekaa with 97 (7.4%), and Nabatiyeh with 24 (1.8%). Further, the aggregate number of point of sales accepting payment cards reached 49,074 by the end of March 2011, increasing by 1% on a quarterly basis and by 3.8% annually.

The average monthly domestic payment by residents totaled \$120m in the first quarter of 2011, declining by 4.9% quarter-to-quarter and rising by 20.7% from the first quarter of 2010, while the average monthly payment and cash withdrawal abroad by residents decreased by 13.1% to \$69.4m from the last quarter of 2010 and increased by 14.3% from the first quarter of 2010.

Further, the average monthly value of cash withdrawals by residents using ATMs decreased quarterly by 8.6% and rose by 12.7% from the same quarter of the previous year to \$423.2m, while average monthly withdrawals by non-residents regressed by 10.6% to \$5.8m quarter-to-quarter and rose by 6.2% from the same period last year. Also, the average monthly purchases in Lebanon by non-residents regressed by 7.3% quarter-to-quarter and increased by 7.7% annually to \$1.8m. Domestic card payments in Lebanese pounds accounted for 12.7% of aggregate payments in all currencies, while local currency withdrawals represented 67.1% of the total in the first quarter of 2011.

Number and Usage of Payment Cards in Lebanon (for the quarters ending March 2011 and March 2010)			
	March-11	March-10	Change
Cards			
With residents	1,657,842	1,544,276	7.4%
With non-residents	47,042	47,322	-0.6%
Total	1,704,884	1,591,598	7.1%
ATMs	1,308	1,226	6.7%
Points of Sales	49,074	47,277	3.8%
Purchases (in US\$m)			
by residents in Lebanon	360.1	298.3	20.7%
<i>% in Lebanese pounds</i>	<i>12.7%</i>	<i>10.9%</i>	
by non-residents in Lebanon	5.5	5.1	7.7%
by residents outside Lebanon	208.2	182.1	14.3%
Cash withdrawal (in US\$m)			
by residents in Lebanon	1,269.7	1,126.5	12.7%
<i>% in Lebanese pounds</i>	<i>67.1%</i>	<i>66.4%</i>	
by non-residents in Lebanon	17.3	16.2	6.2%

Source: Central Bank of Lebanon, Byblos Research

Term savings attract 87% of customer deposits

Figures issued by the Central Bank about the distribution of bank deposits showed that term savings in the private sector deposits was the preferred type of account for resident and non-resident bank clients in Lebanese pounds as well as in foreign currencies at the end of December 2010. Term saving deposits accounted for \$42.4bn, or 81.2%, of resident deposits in foreign currencies and were followed by checking and current accounts with \$8bn (15.3%), sight saving accounts with \$1.4bn (2.8%) and other creditor accounts with \$406m (0.8%). Further, term saving accounts attracted \$34bn, or 93.3%, of resident deposits in Lebanese pounds, followed by checking and current accounts with \$2bn (5.4%) and sight saving accounts with \$487.7m (1.3%). Non-residents also favored term saving accounts, which accounted for \$13.6bn, or 87.2%, of their foreign currency deposits and for \$2.9bn, or 98.3%, of their Lebanese pound deposits. Term saving deposits in all currencies totaled \$92.9bn at the end of 2010, accounting for 86.6% of deposits in Lebanese pounds and foreign currencies.

In parallel, Beirut and its suburbs accounted for 69.3% of private sector deposits and for 49.5% of depositors. It was followed by Mount Lebanon with 12.8% of deposits and 17.3% of beneficiaries; South Lebanon with 6.7% of deposits and 11.8% of beneficiaries; North Lebanon with 6.2% of deposits and 13.6% of depositors; and the Bekaa with 5% of deposits and 7.9% of beneficiaries.

Public-sector salaries and benefits up 21% in first two months of 2011

Figures issued by the Ministry of Finance show that salaries, wages and related benefits paid to public-sector employees totaled \$404.6m in the first two months of 2011, constituting an increase of 20.6% from the same period last year. They represented the largest component of total primary spending and accounted for 32% of such expenditures during the covered period. The figures include basic salaries, indemnities, allowances, contributions to the civil servants cooperatives, as well as contributions to other mutual funds providing health insurance for specific categories of civil servants, mainly judges, religious judges, and Parliament employees. The payments exclude retirement and end-of-service indemnities as well as salaries, wages and benefits of employees at public institutions.

Salaries and benefits of military personnel totaled \$282m and accounted for 70% of the total, followed by salaries of educational personnel with \$74.3m or 18.4% of the total, civil staff with \$43.4m (11%), and customs employees with \$4m (1%). Also, the Lebanese Army's salaries totaled \$200m year-to-February and represented 70.6% of military personnel salaries and benefits. It was followed by salaries of the Internal Security Forces with \$66m (23.3%), General Security Forces with \$13.3m (4.7%), and State Security Forces with \$4m (1.4%).

The ministry attributed the rise in the first two months of the year to a 13.5% increase in basic salaries, a 13.3% rise in indemnities, and a 90% jump in allowances. It said basic salaries increased by \$35.2m to \$296.5m due to a rise of \$33m in payments to military personnel and an \$8.6m increase to public education personnel, which were partially offset by a \$6.6m decrease in payments to civil staff. It added that indemnities increased by \$2.7m to \$20m due to an increase of \$2m in payments to civil staff and of \$0.7m to education personnel. Salaries, wages and related benefits paid to public sector employees totaled \$2.2bn and accounted for 26% of current expenditures in 2010.

Construction and public work activity down in fourth quarter of 2010

The Central Bank's quarterly business survey indicated that construction decreased during the fourth quarter of 2010, with a balance of opinion standing at +5, compared to +29 during the same quarter of 2009. The business survey reflects the opinions of enterprise managers on the evolution of their businesses, in order to depict the evolution of a number of key economic variables. For public work, the balance of opinion stood at -19 in the fourth quarter of 2010 compared to -2 in the same quarter of 2009. The balance of opinion for the general activity decreased to -2 during the fourth quarter of 2010, compared to +29 during the same quarter of 2009. The balance of opinion for construction costs reached +46, unchanged from +46 in the same period of 2009. The balance of opinion is the difference between the proportion of managers out of total surveyed managers estimating that there has been an improvement in the said variable and the proportion of those who have reported a decline in the variable.

Construction and Public Work Activity: Year-on-year evolution of opinions				
Aggregate results	Q4-07	Q4-08	Q4-09	Q4-10
General activity	-6	2	29	-2
Construction	5	6	29	5
Public work	-25	-21	-2	-19
Portfolio of projects	-17	-6	10	-2
Construction costs	63	32	46	46
Investments (% of yes)	32%	33%	37%	39%

Source: Central Bank Business Survey in fourth quarter 2010

Foreign investments of financial sector at \$6.3bn at end-2010, commercial banks account for 52% of debt securities and for 51% of equity investments

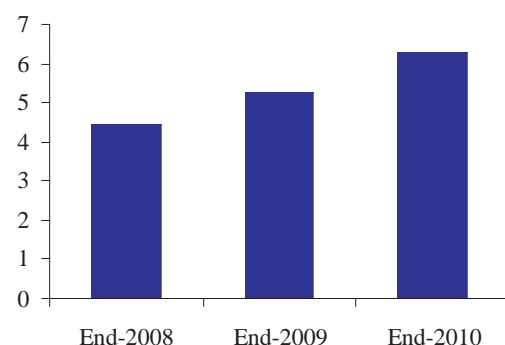
Figures issued by the Central Bank show that the net investment portfolio of Lebanese banks and financial institutions in foreign debt and equity securities totaled \$6.29bn at end-2010, constituting an increase of 19.3% from \$5.27bn at end-2009. Investments in long-term debt securities totaled \$4.6bn at end-2010, accounting for 72.6% of the total, followed by investments in equities with \$1.64bn, or 26.1% of the total, while short-term debt securities accounted for \$86.5m or 1.37% of the total. According to the Central Bank, the figures cover the net assets of resident financial institutions in tradable debt and equity instruments of non-resident issuers. They help provide a clearer picture about the flow of funds from Lebanon and, therefore, about balance of payments data.

The distribution of investments by institutions indicates that commercial banks' net portfolio in foreign long-term debt securities totaled \$2.3bn, accounting for 50.5% of total investments in such securities at end-2010. The figure includes banks' investment for their own account, on behalf of their clients and on a custodial basis. They were followed by financial intermediaries banks with \$1.44bn (31.5%), medium and long-term banks with \$600.9m (13.2%), financial institutions with \$217.8m (4.8%) and insurance firms with \$2.45m (0.05%). Commercial banks also represented 98% of investments in short-term debt securities, followed distantly by medium and long-term banks with 1.8%.

In parallel, commercial banks' net assets in equity securities totaled \$840.1m, accounting for 51.3% of total investments in such securities. They were followed by medium and long-term banks with \$494.9m (30.2%), financial institutions with \$243.1m (14.8%), insurance firms with \$37.2m (2.3%) and financial intermediaries with \$22.6m (1.4%).

The distribution of investments by destination shows that the United States was the leading recipient of equity investments by financial institutions operating in Lebanon, reaching \$457m and accounting for 27.9% of the total at end-2010. It was followed by the United Kingdom with \$329.4m (20.1%), Bahrain with \$150.8m (9.2%), France with \$138.3m (8.4%) and Jordan with \$91m (5.6%), while other countries accounted for the remaining 28.8%. In parallel, the United States accounted \$1.58bn, or 34.7% of investments in long term debt securities, followed by the United Kingdom with \$718.9m (15.8%), France with \$673.7m (14.8%), the UAE with \$270m (5.9%), and Qatar with \$213.7m (4.7%), while other countries accounted for the remaining 24.1%. Further, the United Kingdom accounted for 25.9% of investments in short-term debt securities, followed by the United States with 18.6% and Switzerland with 18.3%.

Foreign Investments of Financial Sector (\$bn)



Source: Central Bank, Byblos Research

Car sales down 1.7% in first four months of 2011

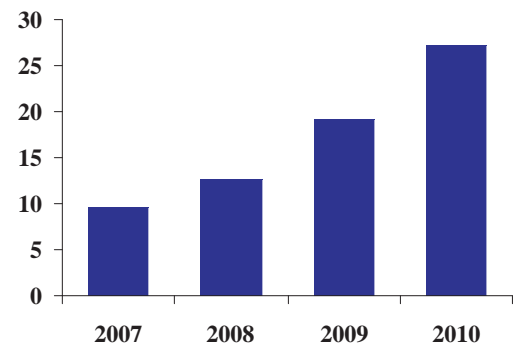
Figures released by the Association of Automobile Importers in Lebanon indicate that a total of 9,068 new passenger cars were sold in the first four months of 2011, constituting a decrease of 1.7% from the 9,221 cars sold in the same period last year. Korean cars accounted for 42% of total car sales, followed by Japanese cars with a 28.9% share, European automobiles with 22.7%, American vehicles with 5.8%, and Chinese cars with 0.7%. The number of Korean cars sold grew by 40.7% year-on-year. In parallel, the number of Chinese cars sold posted a drop of 49.2% year-on-year, followed by Japanese cars with a 22.4% decrease, American cars with a 21% decline and European cars with a 12.8% retreat. Kia is the leading brand in the Lebanese market with 1,712 cars sold in the first four months of 2011, followed by Hyundai with 1,511, Nissan with 1,377 cars sold, Toyota with 442, Chevrolet with 367 cars sold, Renault with 306, and Peugeot with 285 cars.

Zain's profits in Lebanon up 42% to \$27m on revenues of \$107m in 2010

Figures issued by regional cellular firm Zain Group, formerly Mobile Telecommunications Company, indicate that it generated net income of \$27.1m in 2010 from its Lebanese operation MTC Touch, constituting an increase of 42% from \$19.1m in 2009. The firm posted net profits of \$12.6m in 2008 and \$9.5m in 2007 in Lebanon. Further, Zain's revenues in Lebanon rose by 18% to \$106.7m in 2010 and its EBITDA margin was 30% last year compared to 25% in 2009, 20% in 2008 and 17% in 2007. The firm had 1.5 million customers in Lebanon at the end of 2010, up 14% from 1.31 million at end-2009; with prepaid customers accounting for 84% of the total. It had 836,000 clients in 2008 and 630,000 in 2007. Lebanon accounted for 4% of Zain's overall customer base, 2.7% of its aggregate operating profits, and 2% of its total revenues last year. The firm said mobile penetration in Lebanon increased from 56% in 2009 to 67% in 2010.

In June 2004, Zain won a four-year management contract to operate one of Lebanon's two government-owned GSM networks. In May 2010, the agreement was extended for three months from July 31, 2010 to October 2010 and was renewed for another three months until the end of January 2011. Last February, the contract was renewed for a 12-month period. Terms of the contract were modified in January 2010 to a management fee of \$2.5m per month and 8.5% of revenues, while the previous contract included a management fee and revenues of \$6.75 per subscriber. Zain is preparing the launch of hi-speed 3G internet services, but private sector telecom companies have questioned the legality of the move, and claim that the government-owned networks do not have licenses from the Council of Ministers and did not receive licensed frequencies from the Telecommunications Regulatory Authority to implement and offer 3G services. The Zain Group is also present in Kuwait, Saudi Arabia, Bahrain, Iraq, Jordan and Sudan.

Zain's Annual Net Income from Lebanon (US\$m)



Source: Zain Group

Banks' ratings affirmed

Capital Intelligence affirmed the long- and short-term foreign currency ratings of BBAC, Crédit Libanais and Bank Audi at 'B' and 'B', respectively. It also affirmed the financial strength rating (FSR) of both BBAC and Crédit Libanais at 'BB+' and that of Bank Audi at 'BBB-'. It said the outlook on all the ratings is 'stable'. The agency indicated that BBAC's FSR reflects its comfortable liquidity, adequate capital position and limited market share of assets and deposits; while Crédit Libanais' FSR reflects its improved loan quality, capital adequacy and profitability. It added that the banks' ratings remain constrained by ongoing asset concentrations, significant interest rate risk exposure, and earning concentrations due to investment in Lebanese government securities. It also noted that both banks' ratings remain affected by a challenging domestic and regional political environment. It said that the quality of Bank Audi's credit portfolio is satisfactory despite an increase in non-performing loans (NPLs) and a decline in loan-loss reserve coverage. The agency noted that a significant share of Audi's liquidity remains invested in Lebanese government paper and certificates of deposit issued by the Central Bank of Lebanon. It expressed concern about this relative concentration of assets due to the substantial size of Lebanon's debt burden and the authorities' slow progress on economic reform. Further, it noted that the bank's capital adequacy remains satisfactory, but that a stronger capital adequacy ratio would provide a buffer to the bank given the current domestic and regional uncertainties.

Beirut bourse approves listing of additional bank shares

The Beirut Stock Exchange (BSE) approved the listing of 133,333 additional common shares of BLC Bank, starting on May 23, 2011. Accordingly, a total of 51,033,333 shares, equivalent to one third of the bank's total common shares, will be listed on the bourse. The Extraordinary General Assembly of BLC Bank held on July 7, 2010 approved the listing of the 133,333 shares on the bourse. The bank's capital is composed of 153.1 million shares that include 101,666,667 unlisted common shares, 400,000 unlisted Series A Preferred Shares, and 51,033,333 listed common shares. In parallel, the BSE approved the listing of 4,983,576 additional Global Depository Receipts (GDRs) of Bank Audi, bringing the bank's listed GDRs to 98,581,430. The GDRs started to trade on May 19, 2011.

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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