

## LEBANON THIS WEEK

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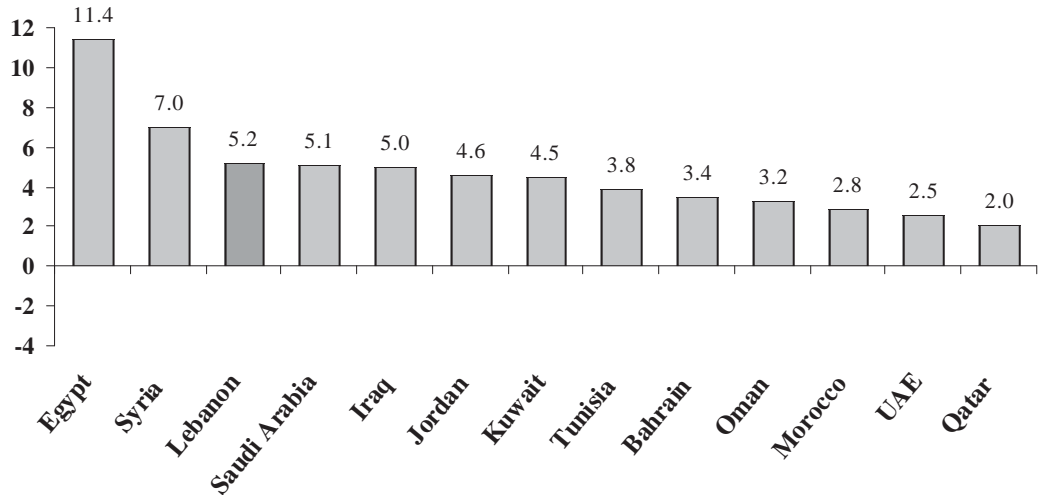
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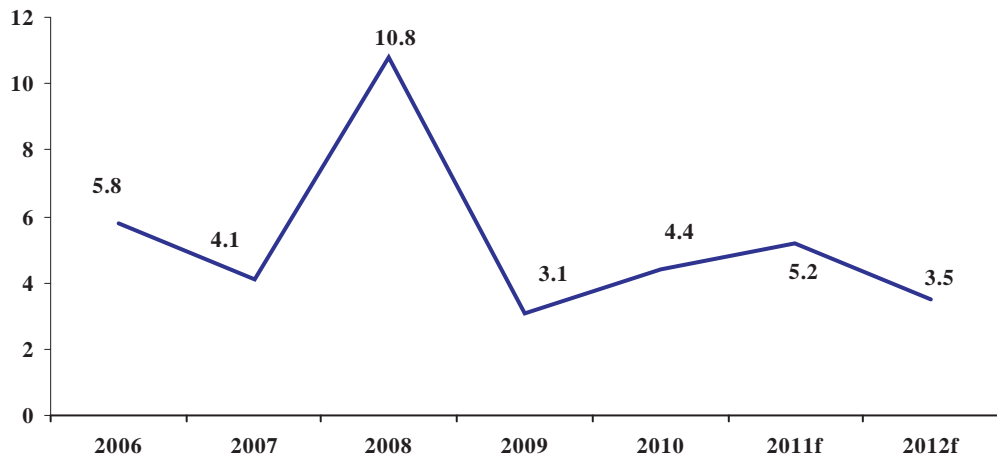
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### Charts of the Week

Projected Consumer Price Inflation in Arab Countries for 2011 (% Change, Average)



Consumer Price Inflation in Lebanon (% Change, Average)



Source: Barclays Capital, Institute of International Finance, Byblos Research

### Quote to Note

"Lebanon cannot afford populist policies advocated by some ministers in the new Cabinet, given the country's debt burden and large fiscal deficits."

*The Institute of International Finance, on the urgent need to implement structural reforms to reduce public finance imbalances*

### Number of the Week

**51:** Lebanon's rank among 125 countries in terms of innovation-related human capital and research, according to the World Economic Forum

## Economic Indicators

<b>\$m (unless otherwise mentioned)</b>	<b>2009</b>	<b>Apr 10</b>	<b>2010</b>	<b>Feb 11</b>	<b>Mar 11</b>	<b>Apr 11</b>	<b>% Change*</b>
Exports	3,486	328	4,256	304	354	375	14.33
Imports	16,241	1,377	17,956	1,218	1,631	1,501	9.01
Trade Balance	(12,755)	(1,049)	(13,700)	(914)	(1,277)	(1,126)	7.34
Balance of Payments	7,899	424	3,326	104	270	(199)	(146.93)
Checks Cleared in LBP	11,122	1,058	13,519	1,172	1,301	1,160	9.64
Checks Cleared in FC	45,270	4,615	53,925	4,094	4,798	4,485	(2.82)
Total Checks Cleared	56,392	5,673	67,444	5,266	6,099	5,645	(0.49)
Budget Deficit/Surplus	(2,960)	(110)	(2,892)	(501)	(548)	(301)	173.64
Primary Balance	1,078	291	1,232	(266)	(120)	163	(43.99)
Airport Passengers	4,986,544	438,328	5,552,260	307,134	347,795	466,640	6.46
<b>\$bn (unless otherwise mentioned)</b>	<b>Dec 2009</b>	<b>Apr 10</b>	<b>Dec 10</b>	<b>Feb 11</b>	<b>Mar 11</b>	<b>Apr 11</b>	<b>% Change*</b>
BdL FX Reserves	25.66	27.32	28.60	28.42	28.54	28.76	5.27
<i>In months of Imports</i>	<i>18.6</i>	<i>14.04</i>	<i>19.4</i>	<i>23.33</i>	<i>17.40</i>	<i>19.16</i>	<i>36.47</i>
Public Debt	51.09	51.49	52.59	52.08	52.59	52.61	2.18
Net Public Debt	44.11	44.34	45.01	45.31	45.61	45.72	3.11
Bank Assets	115.25	120.64	128.93	130.06	132.49	133.80	10.91
Bank Deposits (Private Sector)	95.77	99.13	107.20	106.80	108.15	109.93	10.89
Bank Loans to Private Sector	28.37	31.04	34.93	35.70	36.43	36.81	18.59
Money Supply M2	34.16	36.72	39.40	37.03	37.14	37.48	2.07
Money Supply M3	82.08	85.75	92.15	92.01	92.76	94.20	9.85
LBP Lending Rate (%)	9.04	8.48	7.91	7.71	7.73	7.73	(75b.p.)
LBP Deposit Rate (%)	6.75	6.00	5.68	5.63	5.63	5.64	(36b.p.)
USD Lending Rate (%)	7.28	7.10	6.74	7.01	7.24	7.05	(5b.p.)
USD Deposit Rate (%)	3.05	2.84	2.80	2.90	2.82	2.84	0b.p.
%* Change in CPI**	4.20	4.46	6.19	5.09	6.94	6.56	210b.p.

\* Year-on-Year; \*\* Consumer Price Index

Note: b.p. i.e. basis point

Sources: ABL, BdL

## Capital Markets

<b>Most Traded Stocks on BSE</b>	<b>Last Price (\$)</b>	<b>% Change*</b>	<b>Total Volume</b>	<b>Weight in Market Capitalization</b>
Solidere "A"	16.54	(2.59)	577,219	14.73%
Solidere "B"	16.42	(2.90)	119,199	9.50%
Byblos Common	1.74	2.96	81,610	5.57%
Byblos Pref. 08	100.10	0.10	5,000	1.78%
Byblos Pref. 09	100.00	0.00	1,966	1.78%
BLOM GDR	8.68	2.60	43,900	5.71%
BLOM Listed	8.46	(0.24)	1,000	16.20%
Audi GDR	7.35	(0.68)	12,000	6.45%
Audi Listed	6.97	0.43	41,000	21.63%
HOLCIM	16.00	(0.37)	8,700	2.78%

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

<b>Sovereign Eurobonds</b>	<b>Coupon %</b>	<b>Mid Price \$</b>	<b>Mid Yield %</b>
Aug. 2011	7.500	100.23	3.13
Mar. 2012	7.500	103.13	2.84
Sep. 2012	7.750	105.00	3.28
June 2013	8.625	109.13	3.70
Apr. 2014	7.375	108.88	3.94
Apr. 2015	10.00	117.63	4.84
Jan. 2016	8.500	114.25	4.94
Mar. 2017	9.000	117.56	5.37
Nov. 2018	5.150	98.25	5.44
Apr. 2021	8.250	115.88	6.07

Source: Byblos Capital Markets

	<b>July 11-15</b>	<b>July 4-8</b>	<b>% Change</b>	<b>June 2011</b>	<b>June 2010</b>	<b>% Change</b>
<b>Total Shares Traded</b>	905,494	1,115,273	(18.81)	2,792,846	5,167,659	(45.96)
<b>Total Value Traded</b>	\$13,320,553	\$8,055,094	65.37	\$34,880,478	\$47,678,154	(26.84)
<b>Market Capitalization</b>	\$11.23bn	\$11.26bn	(0.28)	\$11.33bn	\$12.50bn	(9.37)

Source: Beirut Stock Exchange (BSE)



### Beirut is 75th most expensive city in the world, fourth most expensive among Arab cities

The annual survey on the cost of living in 214 cities around the world by Mercer Human Resource Consulting ranked Beirut as the 75th most expensive city worldwide and the fourth most expensive among 20 Arab cities surveyed in 2011. It also considered Beirut to be the 15th most expensive city among the Upper Middle Income Countries (UMICs) included in the survey. Beirut was the 80th most expensive city worldwide and the fourth most expensive in the Arab world in 2010. The study measures the comparative cost of over 200 items in each location, including the cost of housing, food, clothing and household goods, as well as transportation and entertainment. It compares the cost of high-end items that are important to expatriates and their employers such as upscale residential areas and entertainment venues. New York is used as the base city for the index and all cities are compared against it. The survey is conducted annually to help multinational companies determine compensation allowances for their expatriate workers.

On a global basis, Beirut was considered to be as expensive as Santiago in Chile and more costly than Los Angeles, Munich and Montreal; while it was less expensive than Cotonou in Benin, Frankfurt, and Luxembourg. Among UMICs, Beirut tied with Santiago, was considered more expensive than Almaty in Kazakhstan, Kuala Lumpur in Malaysia and Port Louis in Mauritius; while it ranked behind Istanbul, Bogota in Colombia, and Havana in Cuba. Regionally, Abu Dhabi, Khartoum and Djibouti were the only Arab cities to be more expensive than Beirut.

Mercer said that the rankings of four Arab cities increased in 2011, while those of the remaining 16 cities dropped. It attributed the decline in the rankings to the continuing fall in accommodation costs across most of the region, which is reducing the overall cost of living for expatriates. Djibouti is the most expensive Arab city in 2011, while Tunis remains the least costly. Also, Djibouti and Khartoum ranked among the top 50 most expensive cities in the world. The survey included four non-Arab cities from the region, as Tel Aviv ranked in 24th place globally, Istanbul came in 70th place, Limassol was in 119th place and Tehran ranked in 130th place. Luanda in Angola remained the world's most expensive city, and Karachi in Pakistan maintained its status as the least costly city globally.

### Growth forecast revised downward, near term outlook driven by political uncertainties

HSBC Bank revised downward its economic growth forecast for Lebanon to 2.4% for 2011 from an earlier forecast of 3.2%. It said the data shows a clear and broad-based slowdown since the start of the year, with exports down by 2% over the first four months of the year, construction permits declining by 20%, and airport passenger arrivals down 5% year-on-year over the first quarter, among others. It added that cyclical factors and the ongoing downturn in the real estate market have also affected activity, while unrest in the region has hurt tourist flows. It noted that tourist arrivals will likely pick up from this year's lows, but could struggle to return to their previous growth rates as long as headlines in the region remain negative.

It considered that Lebanon faces its own particular set of political challenges compared to the rest of the Arab world. It noted that Prime Minister Najib Mikati announced the formation of a Cabinet in mid-June 2011, five months after the collapse of the Hariri government. But it cautioned about high expectations that the new Cabinet would revive economic activity, as was the case following the formation of the Cabinet in June 2008, given that political uncertainties from the regional unrest and the ruling of the UN Special Tribunal for Lebanon complicate the near-term outlook.

HSBC indicated that private consumption looks relatively resilient so far, as reflected by point-of-sales and ATM withdrawal data, but stressed that the new government may have to be the primary driver of growth this year. It warned that government-driven growth will come at a high price, given that the rise in public expenditures and the drop in government revenues year-to-date have widened the fiscal deficit. Further, it did not expect the new government to implement the long-promised structural reforms that would help to redress the fiscal imbalance, such as privatizing the state-owned and money-losing firms like Electricité de Liban. As a result, it forecast the fiscal deficit to widen to 8.2% of GDP in 2011 from 7.5% of GDP last year, and the current account deficit to remain high at 21.4% of GDP this year.

### Cost of Living Rankings 2011

City	Arab Rank	Global Rank
Djibouti	1	39
Khartoum	2	44
Abu Dhabi	3	67
<b>Beirut</b>	<b>4</b>	<b>75</b>
Dubai	5	81
Amman	6	103
Casablanca	7	120
Damascus	8	123
Cairo	9	128
Algiers	10	132
Riyadh	11	135
Manama	12	157
Kuwait City	13	159
Doha	14	164
Rabat	15	166
Muscat	16	184
Jeddah	17	185
Tripoli	18	190
Nouakchott	19	205
Tunis	20	207

Source: Mercer Consulting, Byblos Research

### Lebanon's CDS spreads widen by 1% in second quarter

Figures released by CDS and bond pricing firm CMA Datavision show that spreads on 5-year credit default swaps (CDS) for Lebanon ended the second quarter of 2011 at 351 basis points, widening by 3.3bps from 347.7bps at the end of the first quarter of the year and by 52.9bps from 298.1bps at end-2010. Lebanon's CDS spreads widened during the first quarter and remained high in the second quarter due to the deterioration of political conditions in the country since last January as well as to the turmoil across the Middle East & North Africa. Lebanon's 5-year CDS spreads widened by 28.5bps between end-2009 and end-2010, reflecting market stability last year. The firm said that Lebanon's CDS spreads widened by just 0.95%, compared to the worst performers during the quarter such as Greece that posted a 102.5% change, followed by Slovenia with 42.6%, Portugal with 38%, Hong Kong with 34.6%, and Slovakia with 30.8%. In parallel, CMA noted that the best performers in the second quarter were dominated by the Middle East as the unrest subsided, with Bahrain being the top performer posting a tightening in spreads by 27.4% change, followed by Saudi Arabia with 20.2%, Costa Rica with 18.1%, Dubai with 16.7%, and Abu Dhabi with 13.7%.

Further, CMA Datavision indicated that Lebanon ended the second quarter of 2011 with a five-year cumulative probability of default (CPD) of 22.2%, deteriorating from 21.9% at the end of the first quarter of 2011 and 20.5% at the end of June 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-June shows that Lebanese debt was less risky than that of Ukraine (28.6%), Argentina (34.9%), Pakistan (44.9%), Ireland (47.2%), Portugal (47.6%), Venezuela (51.4%) and Greece (80.6%). Norway, Sweden and Finland had the lowest CPDs among the 67 sovereigns covered in the survey, with rates of 1.9%, 2.4% and 3.1%, respectively.

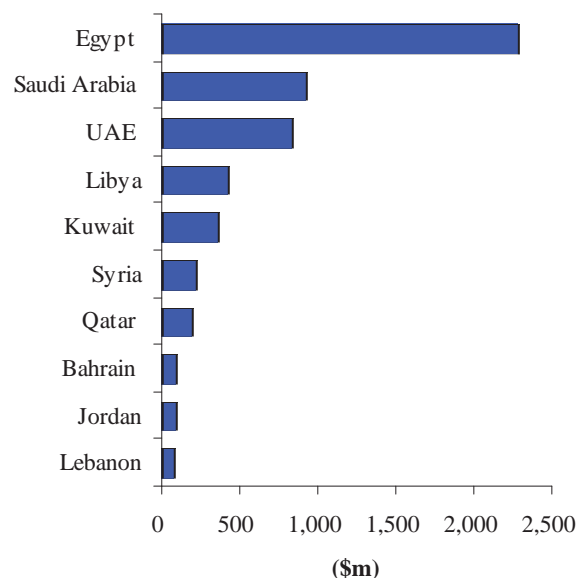
The firm maintained Lebanon's rating of 'CMA\_bb-' in the second quarter of 2011, which is based on its proprietary CMA Implied Ratings methodology. It also maintained the ratings of Egypt, Iraq and Saudi Arabia in the region, while it downgraded the ratings of Turkey, Tunisia, Morocco, Israel, Qatar and Abu Dhabi. Dubai and Bahrain were the only two sovereigns in the region upgraded by the firm during the quarter.

### Lebanon is 10th largest source of inter-Arab investments in 2010, Sudan is main destination

Figures released by the Arab Investment & Export Guarantee Corporation (AIEGC) show that investments from Lebanon in Arab countries reached \$73m in 2010 compared to \$725.5m in 2009. The AIEGC said the figures may be underestimated as only six Arab countries submitted data about capital flows in 2010. Lebanon was the 10th largest source of inter-Arab investments in 2010 compared to the seventh largest source in 2009. Also, Lebanon accounted for 1.3% of aggregate inter-Arab investments in 2010 relative to 3.8% in 2009. Sudan was the largest destination of Lebanese direct investments, as it received \$55.3m last year, accounting for 75.8% of total Lebanese investments in the Arab world. It was followed by Egypt with \$14.4m, or 19.7% of the total, Morocco with \$2.6m (3.6%), and Yemen with \$0.8m (1.1%). In comparison, Saudi Arabia was the largest destination of Lebanese direct investments in 2009, as it received \$414m and accounted for 57% of total Lebanese investments in the Arab world during the year.

In parallel, aggregate Arab investments in Lebanon totaled \$14.8bn during the 1995-2010 period, making Lebanon the third largest destination of inter-Arab investments during the covered period, after Saudi Arabia and Sudan. As such, Lebanon accounted for 9% of inter-Arab investments during the 16 years. But the aggregate figure of \$14.8bn for Lebanon did not cover 2009 and 2010, as Lebanese authorities did not submit figures for the two years to the AIEGC.

### Top 10 sources of Inter-Arab Investments in 2010



Source: AIEGC, Byblos Research

### Central Bank projects deposit growth at about 7% and lending growth at 15% this year

Central Bank Governor Riad Salamé indicated that the level of the public debt in Lebanon is sustainable, but stressed on the need to reduce the fiscal deficit and to raise the economy's growth rates in order to reduce public finance vulnerabilities. He added that the Central Bank intends to discuss with fiscal authorities the financing of the public debt from the markets, including through 7-year Treasury bonds denominated in Lebanese pounds. He noted that the currency market is stable with a balance between supply and demand of foreign currencies, while interest rates are also stable. In parallel, Governor Salamé categorically refuted rumors about any Lebanese bank being under the scrutiny of any foreign government.

In parallel, the governor forecast bank deposits growth at between 5% and 7% in 2011, adding that it constitutes a positive trend in light of the prevailing conditions in Lebanon, the region and the world. Further, he expected private sector lending to grow by 15% this year, driven in part by housing loans that might increase by \$1.3bn. He added that each bank is aware of and determines the level of risks and exposure it wants to take in the real estate market. He noted that the Central Council will study the possibility of raising the level of exemptions from reserve requirements on loans from 90% to 100%, as per the request of some banks that might have reached their limit. He noted, however, that there might be some imbalance between approvals and utilization of exempted reserves, as the actual usage does not exceed 63% of the reserves authorized for utilization; which means that banks in general still have the capacity to lend 37% of exempted reserve requirements or about \$2bn, despite the decline of deposits in Lebanese pounds and the increase in the dollarization rate.

Separately, Governor Salamé stressed on the need to abide by the circulars recently issued by the Central Bank about the operations of money dealers, specifically regarding opening bank accounts in the name of the company that are separate from personal accounts; as well as on the need to avoid conducting any bank operation for third parties.

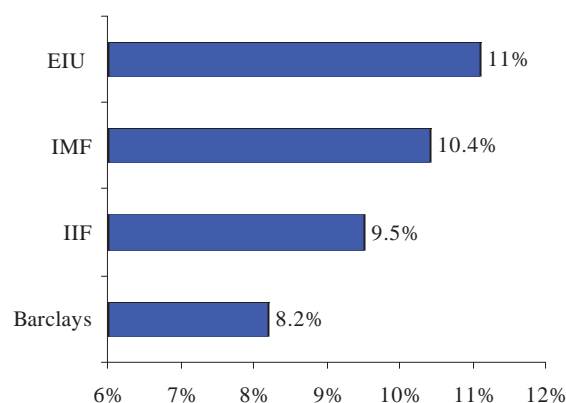
### Fiscal deficit up 41% to \$1.2bn in first five months of 2011

Figures released by the Finance Ministry show that the fiscal deficit reached \$1.22bn in the first five months of 2011, up 40.7% from \$864m in the same period last year. The deficit was equivalent to 25.5% of total budget and Treasury expenditures compared to 19.5% in the same period of 2010. Overall government expenditures reached \$4.77bn, up 7.6% year-on-year, while total revenues decreased by 0.4% to \$3.56bn. Budgetary expenditures rose by 10% to \$4.47bn and included \$628m in transfers to Electricité du Liban and \$603m in outlays from previous years, while budget revenues contracted by 1% to \$3.36bn. Tax revenues increased by 6% year-on-year to \$3bn, of which 30%, or \$897m, were in VAT receipts that were unchanged from the same period last year. Tax revenues accounted for 90% of budgetary revenues and for 85% of total Treasury and budget receipts.

The distribution of other tax revenues shows that customs revenues declined by 21.1% year-on-year to \$582.3m, income & capital gains tax receipts grew by 86% to \$677.2m, revenues from property taxes decreased by 2% to \$300m, and other tax receipts, mainly stamp fees, regressed by 1% to \$127m. Further, the distribution of income tax revenues shows that taxes on profits accounted for 58% of total income tax receipts, followed by the tax on interest deposits with 18%, taxes on wages & salaries with 15%, and capital gains tax with 8%. Revenues from taxes on profits increased by 100.3% year-on-year, income from the tax on interest rose by 5.4%, tax receipts on wages & salaries improved by 18%, and income from capital gains tax grew by 22%. Also, the distribution of property taxes shows that revenues from real estate registration fees regressed by 9.5% to \$209m, built property taxes increased by 1.8% to \$55.8m, and revenues from inheritance tax grew by 68% to \$36m. In parallel, non-tax budgetary revenues dropped by 37% to \$346m, with revenues from government properties falling by 56% to \$166.4m, while administrative fees & charges were unchanged at \$143.6m. There were no receipts from telecommunications services in the first five months of the year.

Debt servicing decreased by 1.8% year-on-year to \$1.6bn, and accounted for 33.6% of total expenditures and for 36% of budgetary spending. It absorbed 45.1% of overall revenues and 47.8% of budgetary receipts. Interest payment on domestic debt declined by 4.2% to \$972.3m, while interest disbursement on foreign debt grew by 2.2% to \$632m. Repayment of principal on foreign debt increased by 86% to \$84.5m. Excluding debt servicing, the primary balance posted a surplus of \$873m, or 12.8% of budget expenditures compared to a surplus of \$1bn, or 24.6% of budget spending in the same period last year. The overall primary balance posted a surplus of \$473m, or 10% of spending, relative to a surplus of \$814.3m or 18.4% of total expenditures in the first five months of 2010.

### Projected Fiscal Deficit in 2011 (% of GDP)



Source: Byblos Research

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

The Association of Banks in Lebanon (ABL) recommended to its member banks to amend the Beirut Reference Rate (BRR) in US dollars to 4.71% starting August 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 did not accurately reflect the cost of funding and lending in Lebanon. Additionally, the ABL recommended to its member banks to adopt the BRR in Lebanese pounds at 7.21%. The BRR in US dollars and Lebanese pounds was 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.

### **Trade deficit up 7% to \$7.7bn in first five months of 2011, volume of non-hydrocarbon imports down 2%**

Total imports reached \$7.7bn in the first five months of 2011, constituting an increase of 7% from the same period last year, while aggregate exports decreased by 1% to \$1.7bn, leading to a trade deficit of \$6bn, up 10% year-on-year. Imports of oil and mineral fuels increased by 7% year-on-year to nearly \$1.5bn, while non-hydrocarbon imports grew by 7.4% to \$6.2bn. In volume terms, imports reached 5.6 million tons in the first five months of 2011, constituting a decrease of 5% from the same period last year, while exports contracted by 1% to 1.25 million tons in the same period, leading to a trade deficit of 4.35 million tons, down 7% year-on-year. Imports of oil and mineral fuels decreased by 12% year-on-year to nearly 2 million tons, while non-hydrocarbon imports dropped by 1.6% annually to 3.6 million tons. The rise in the value of oil imports was mainly driven by higher international oil prices; while the increase in non-oil imports was mainly driven by a rise in the value of Lebanon's main imported products, such as a 49% rise in the value of unwrought & semi-manufactured gold, precious stones & metals; a 19% increase in the value of pharmaceutical imports, as well as a rise in the value of imported food products. The trade deficit was \$1.2bn in May 2011, up 20.3% from the same month last year. Imports averaged \$1.5bn and exports averaged \$341m on a monthly basis year-to-May, resulting in an average monthly trade deficit of \$1.2bn during the covered period. The coverage ratio reached 22.3% in the first five months compared to 24.2% in the same period last year, while it reached 23.9% in May 2011 relative to 27.1% in May last year.

Italy was the main source of imports with \$763m or 10% of the total, followed by the United States, with \$727m (9%), China with \$643m (8%), France with \$582m (8%) and Germany with \$464m (6%). Imports from Italy rose by 31% year-on-year and from France by 17%; while imports from Germany dropped by 12%, from the U.S. by 9% and from China by 6% during the covered period. Switzerland was the main export destination with \$173m or 10% of the total, followed by the UAE with \$144m (8%), Saudi Arabia with \$127m (7%), Turkey with \$119m (7%), Iraq with \$103m (6%) and Syria \$77m (4%). Exports to Saudi Arabia and Turkey rose by 24% each, while exports to Switzerland, the UAE and Syria declined by 17% each, and exports to Iraq regressed by 7%. Lebanon's main export was jewelry at \$559m or 33% of total exports, followed by base metals with \$250m (15%), machinery and mechanical appliances with \$220m (13%), prepared foodstuff with \$150m (9%) and chemical products with \$134m (8%). Re-exports totaled \$319m in the first five months, compared to \$60m in the same period last year.

### **Customs receipts down 21% to \$610m in first five months of 2011**

Figures released by the Customs Directorate indicated that customs revenues reached \$610m in the first five months of 2011, down 20.6% from \$1.2bn in the same period last year. Customs revenues totaled \$119m in May 2011, unchanged from the previous month but down from \$155m in May 2010. The Port of Beirut continues to be the main point of customs receipts, accounting for 85.8% of the total during the first five months, and was followed by the Hariri International Airport with 7.4%, the Port of Tripoli with 3.3%, and the Masnaa crossing point with 2.3% of the total. Customs receipts from the value added tax totaled \$580m year-to-May. The Port of Beirut accounted for 74.7% of such receipts, and was followed by the Hariri International Airport with 9.2%, the Port of Tripoli with 7.1%, the Masnaa crossing point with 6.5% and the Port of Saida with 2.2% of the total. As such, overall customs receipts reached \$1.2bn year-to-May, with the Port of Beirut accounting for 80.4% of the total, and was followed by the Hariri International Airport with 8.3%, the Port of Tripoli with 5.1%, and the Masnaa crossing point with 4.1% of the total. In addition, other entry points accounted for the balance, with the port of Saida for 1.3%, the crossing point of Abboudieh for 0.4%, and the port of Tyre and crossing points of Arida and Kaa for 0.2%. Overall customs receipts reached \$247.6m in May 2011 when including revenues from the value-added tax that totaled \$128.4m in the same period.

### **Agriculture Ministry aims to raise sector's output to 8% of GDP**

The Ministry of Agriculture indicated that it aims to raise the sector's contribution to economic output in Lebanon to 8% of GDP in the medium-term from 5% of GDP currently. It stated that one of its objectives is to reduce the trade deficit in agricultural and food products that stands at 80% currently, as well as to help create between 10,000 and 15,000 jobs in the sector, in addition to improving food security and food safety. It added that the cost of agricultural production in Lebanon is high compared to Arab countries, which is a driver to adopt a dynamic policy of support that would include reducing the costs of energy, agricultural inputs and labor. Also, the ministry intends to submit to the Council of Ministers a set of projects to support the sector, with the aim of raising the budget of the Agriculture Ministry to LBP100bn in 2012.

### Lebanon ranks 43rd globally, fifth in the MENA region on Failed States Index

The 2011 Fund for Peace/*Foreign Policy Magazine* Failed States Index ranked Lebanon in 43rd place among 177 countries globally and in fifth place among 20 countries in the Middle East and North Africa region. It also ranked Lebanon in second place among 41 upper-middle income countries (UMICs) included in the survey. Lebanon came in 34th place globally and in fourth place regionally in the 2010 survey. The index ranks countries by their vulnerability to violent internal conflict and deteriorating conditions where Somalia, which ranked first globally, represents the country with the highest risk of failure; and Finland, that ranked last, represents the country with the lowest risk of failure. The index is based on 12 political, social and economic indicators. Lebanon received a score of 87.7 points, improving from 90.9 points in 2010 but still worse than the global average of 71.1 points, the MENA average of 75.5 points and the UMICs' average of 68 points. Globally, Lebanon had a lower risk of state failure than Uzbekistan, Mauritania and Equatorial Guinea and a higher risk level than Colombia, Egypt and Laos. It had a higher risk than Colombia, Azerbaijan and Fiji and lower risk than Iran among UMICs.

The global rankings of Libya, Qatar and Syria were unchanged while the rankings of Algeria, Iran, Iraq, Jordan, Kuwait, Lebanon, Mauritania, Saudi Arabia, Turkey and the UAE improved and those of Bahrain, Egypt, Israel, Morocco, Oman, Tunisia and Yemen regressed.

Failed States Index 2011			
	Score	MENA Rank	Global Rank
Iraq	104.8	1	9
Yemen	100.3	2	13
Iran	90.2	3	35
Mauritania	88.0	4	40
<b>Lebanon</b>	<b>87.7</b>	<b>5</b>	<b>43</b>
Egypt	86.8	6	45
Syria	85.9	7	48
Israel	84.4	8	53
Algeria	78.0	9	81
Morocco	76.3	10	87
Saudi Arabia	75.2	11	93
Jordan	74.5	12	95
Turkey	71.5	13	103
Tunisia	70.1	14	108
Libya	68.7	15	111
Kuwait	59.5	16	128
Bahrain	59.0	17	129
UAE	50.4	18	138
Qatar	49.5	19	139
Oman	49.3	20	141

Source: Fund for Peace, *Foreign Policy Magazine*, Byblos Research

Failed States Index Select Indicators for Lebanon							
	Global Rank	MENA Rank	UMIC Rank	Lebanon Score	Global Avge Score	MENA Avge Score	UMIC Avge Score
Uneven Development	90	12	19	6.8	6.6	6.7	6.7
Factionalized Elites	20	4	3	8.8	6.2	7.3	5.8
Poverty & Decline	96	8	15	5.7	5.8	5.2	5.4
Public Services	88	9	8	5.8	5.7	5.4	5.1
External Intervention	33	3	2	8.0	6.0	6.0	5.8

Source: Fund for Peace, *Foreign Policy Magazine*, Byblos Research

## Corporate Highlights

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### **Council of Ministers renews Central Bank Governor's term**

The Council of Ministers renewed the mandate of Central Bank Governor Riad Salamé for a six-year term starting August 1, 2011, constituting the Governor's fourth consecutive term. Governor Salamé was first appointed to his current post in 1993, and his mandate was renewed in 1999 and in 2005. The governor manages all aspects of the Central Bank of Lebanon and is assisted by four Vice-Governors and by the Central Council. He is entrusted with the enforcement of the Code of Money and Credit, and the implementation of the Central Council's resolutions, among others. The current four Vice-Governors were appointed in July 2009 for a five-year term. Governor Salamé is widely credited for his financial and monetary decision-making that maintained the stability of the Lebanese pound and helped the country overcome major financial and political crises. He has received numerous awards, including the 2006 Euromoney Award as the best Central Bank Governor in the World and *The Banker Magazine's* Central Banker of the Year award in 2009.

### **Central Bank approves establishment of Cedrus Invest Bank**

The Central Bank of Lebanon granted its final approval for the establishment of Cedrus Invest Bank, a new bank in Lebanon. The bank's share capital amounts to \$44m and is expected to be raised to \$50m. The bank's general assembly held in June 2011, elected Dr. Ghassan Ayyash, a former Vice Governor of the Central Bank, as Chairman of its Board of Directors. Cedrus Invest Bank aims to establish a Multi Family Office for high net worth individuals and families. The bank aims to meet the demand in Lebanon for this type of niche service by providing a variety of related services. Cedrus Invest Bank also plans to extend its operations to Syria, Iraq, the GCC countries, as well as to countries with a large Lebanese Diaspora.

## Ratio Highlights

(in % unless specified)	2007	2008	2009	Change*
Nominal GDP <sup>(1)</sup> (\$bn)	25.0	29.9	34.9	
External Debt / GDP	84.9	70.7	60.9	(980)
Local Debt / GDP	83.2	86.5	85.5	(100)
Total Debt / GDP	168.1	157.3	146.4	(1,090)
Total External Debt / GDP	194	172	169.2	(280)
Trade Balance / GDP	(36.0)	(42.3)	(36.5)	580
Exports / Imports	23.8	21.6	21.5	(10)
Budget Revenues / GDP	23.2	21.7	22.9	120
Budget Expenditures / GDP	33.4	24.5	24.8	30
Budget Balance / GDP	(10.2)	(2.7)	(1.9)	80
Primary Balance / GDP	2.9	2.0	3.1	110
BdL FX Reserves / M2	59.4	67.5	71.2	370
M3 / GDP	239.3	229.6	235.2	560
Bank Assets / GDP	329.0	315.2	330.2	1,500
Bank Deposits / GDP	269.1	260.1	274.4	1,430
Private Sector Loans / GDP	81.7	83.7	81.3	(240)
Dollarization of Deposits	77.3	69.6	64.5	(510)
Dollarization of Loans	86.4	86.6	84.0	(260)

\* Change in basis points 08/09

(1) Based on Ministry of Finance Estimations and the International Monetary Fund

Source: Association of Banks in Lebanon, Byblos Research Calculations

Note: M2 includes money in circulation and deposits in LBP, M3 includes M2 plus Deposits in FC and bonds

## Risk Outlook

Lebanon	Mar 2010	Feb 2011	Mar 2011	Change*	Risk Level
Political Risk Rating	58.5	56.5	55.5	▼	High
Financial Risk Rating	28.0	28.5	28.5	▲	High
Economic Risk Rating	35.5	32.5	32.5	▼	Moderate
Composite Risk Rating	61.0	58.7	58.2	▼	High

Regional Average	Mar 2010	Feb 2011	Mar 2011	Change*	Risk Level
Political Risk Rating	64.9	62.6	60.7	▼	Moderate
Financial Risk Rating	42.2	42.2	41.9	▼	Very Low
Economic Risk Rating	36.8	38.0	37.6	▲	Low
Composite Risk Rating	71.9	71.4	70.1	▼	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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