



## LEBANON THIS WEEK

### In This Issue

**Economic Indicators.....1**

**Capital Markets.....1**

**Lebanon in the News.....2**

Lebanon ranks 89th globally, 11th among Arab countries in global competitiveness

Lebanon's external debt posts 28th highest returns in emerging markets, fifth best in the Middle East & Africa

Balance of payments posts deficit of \$787m in first seven months of 2011

Proposed minimum wage increase to harm Lebanese economy and hurt targeted segments

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

Net public debt at \$46bn at end-July 2011

Trade deficit up 4% to \$8.4bn in the first 7 months of 2011, volume of non-hydrocarbon imports down 1%

Customs receipts down 23% to \$874m in first 7 months of 2011

Governor Salamé named one of the world's best central bankers

Cabinet approves amended version of electricity plan

**Corporate Highlights .....7**

Commercial banks' assets reach \$137bn at end-July 2011

Kafalat loan guarantees down 6.4% year-on-year to \$114m in first eight months of 2011

Central Bank approves SGBL acquisition of LCB assets and liabilities

CMA CGM's ratings downgraded on poor results, outlook negative

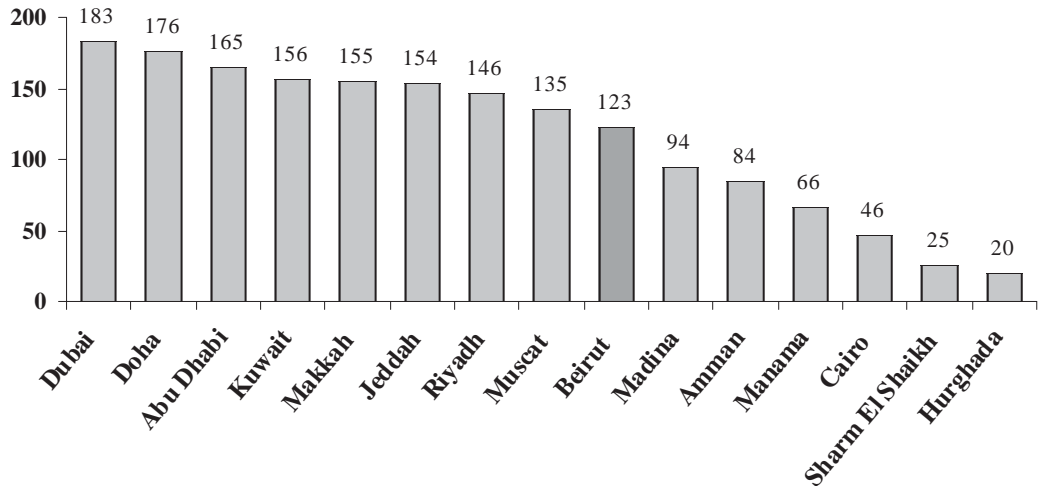
**Ratio Highlights.....9**

**Risk Outlook.....9**

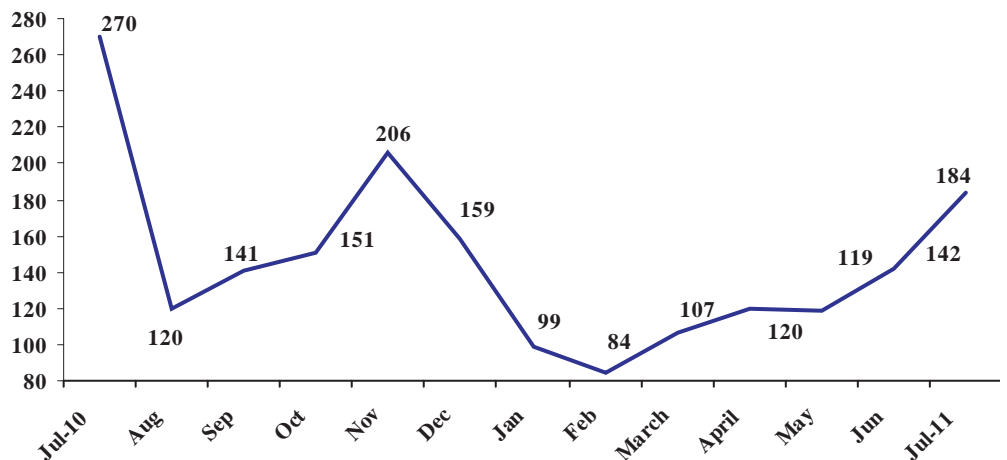
**Ratings & Outlook.....9**

### Charts of the Week

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



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



Source: Ernst & Young, Byblos Research

### Quote to Note

"The ratings may be adversely affected should severe political tensions spill over from Syria, weakening deposit inflows into the banking system."

*Merrill Lynch, on the potential impact of regional turmoil on Lebanon's sovereign ratings*

### Number of the Week

**9.23%:** Weighted average rate on Certificates of Deposits issued by the Central Bank at end-July 2011

## Economic Indicators

<b>\$m (unless otherwise mentioned)</b>	<b>2009</b>	<b>June 10</b>	<b>2010</b>	<b>Apr 11</b>	<b>May 11</b>	<b>June 11</b>	<b>% Change*</b>
Exports	3,486	385	4,256	375	377	411	6.75
Imports	16,241	1,449	17,956	1,501	1,578	1,571	8.42
Trade Balance	(12,755)	(1,064)	(13,700)	(1,126)	(1,201)	(1,160)	9.02
Balance of Payments	7,899	106	3,326	(199)	(445)	564	432.08
Checks Cleared in LBP	11,122	1,674	13,519	1,160	1,145	1,156	(30.94)
Checks Cleared in FC	45,270	4,609	53,925	4,485	4,495	4,716	2.32
Total Checks Cleared	56,392	6,283	67,444	5,645	5,640	5,872	(6.54)
Budget Deficit/Surplus	(2,960)	(52)	(2,892)	(301)	183	350	(773.08)
Primary Balance	1,078	279	1,232	163	455	459	64.52
Airport Passengers	4,986,544	497,647	5,552,260	466,640	420,133	517,860	4.06
<b>\$bn (unless otherwise mentioned)</b>	<b>Dec 2009</b>	<b>June 10</b>	<b>Mar 11</b>	<b>Apr 11</b>	<b>May 11</b>	<b>June 11</b>	<b>% Change*</b>
BdL FX Reserves	25.66	27.42	28.54	28.76	28.44	28.33	3.32
<i>In months of Imports</i>	18.6	18.92	17.40	19.16	18.02	18.03	(4.70)
Public Debt	51.09	51.00	52.59	52.61	52.72	52.52	2.98
Net Public Debt	44.11	44.13	45.61	45.72	45.70	45.6	3.33
Bank Assets	115.25	121.68	132.49	133.80	134.04	135.43	11.30
Bank Deposits (Private Sector)	95.77	100.12	108.15	109.93	110.47	111.48	11.35
Bank Loans to Private Sector	28.37	31.71	36.43	36.81	37.45	37.26	17.50
Money Supply M2	34.16	38.02	37.14	37.48	37.22	36.61	(3.71)
Money Supply M3	82.08	86.74	92.76	94.20	94.11	94.23	8.64
LBP Lending Rate (%)	9.04	8.37	7.73	7.73	7.67	7.59	(78b.p.)
LBP Deposit Rate (%)	6.75	5.83	5.63	5.64	5.64	5.62	(21b.p.)
USD Lending Rate (%)	7.28	7.03	7.24	7.05	7.04	6.98	(5b.p.)
USD Deposit Rate (%)	3.05	2.75	2.82	2.84	2.84	2.81	6b.p.
%* Change in CPI**	4.20	3.98	6.94	6.56	7.30	6.16	218b.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>	<b>Sovereign Eurobonds</b>	<b>Coupon %</b>	<b>Mid Price \$</b>	<b>Mid Yield %</b>
Solidere "A"	15.62	(0.57)	148,552	14.20%	Mar. 2012	7.500	102.00	3.54
Solidere "B"	15.42	(1.85)	107,872	9.11%	Sep. 2012	7.750	104.44	3.12
Byblos Common	1.64	(4.09)	85,573	5.36%	June 2013	8.625	109.00	3.33
Byblos Pref. 08	100.00	(0.50)	300	1.82%	Apr. 2014	7.375	108.88	3.74
Byblos Pref. 09	100.00	0.00	17,790	1.82%	Jan. 2015	10.00	105.38	4.13
BLOM GDR	8.17	(4.00)	24,161	5.49%	Apr. 2015	8.500	119.75	4.06
BLOM Listed	8.19	(0.12)	85,470	16.00%	Jan. 2016	9.000	115.63	4.50
Audi GDR	6.97	(2.52)	31,000	6.24%	Mar. 2017	5.150	119.25	4.97
Audi Listed	6.70	(1.18)	22,710	21.22%	Nov. 2018	8.250	99.43	5.25
HOLCIM	16.75	(0.30)	3,010	2.97%	Apr. 2021	6.100	117.38	5.85

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

Source: Byblos Capital Markets

	<b>September 5-10</b>	<b>Aug 29- Sep2</b>	<b>% Change</b>	<b>August 2011</b>	<b>August 2010</b>	<b>% Change</b>
<b>Total Shares Traded</b>	567,306	642,760	(11.74)	4,130,284	2,924,222	41.24
<b>Total Value Traded</b>	\$7,588,906	\$5,126,038	48.05	\$42,508,858	\$35,867,053	18.52
<b>Market Capitalization</b>	\$11.00bn	\$11.13bn	(1.19)	\$11.08bn	\$12.19bn	(9.06)

Source: Beirut Stock Exchange (BSE)



### Lebanon ranks 89th globally, 11th among Arab countries in global competitiveness

The World Economic Forum ranked Lebanon in 89th place among 142 countries globally and in 11th place among 15 Arab countries on its Global Competitiveness Index for 2011-12. It also ranked Lebanon in 27th place among 33 upper-middle income countries (UMICs) included in the survey. Lebanon came in 92nd place globally, in 12th place regionally, and in 26th place among UMICs in the 2010-11 survey. The index measures national competitiveness and highlights its micro and macroeconomic foundation. It measures a country's and its enterprises' ability to compete in global markets, based on the supporting institutions, infrastructure, economic policies and education and healthcare systems; the country's capacity for innovation; as well as the sophistication of domestic markets and local business practices. The index is based on 12 pillars that are grouped in three sub-indices that measure Basic Requirements, Efficiency & Innovation, and Sophistication.

Globally, Lebanon tied with Georgia, ranked ahead of Greece, El Salvador, Armenia and Moldova and came behind Algeria, Honduras and Argentina. It also ranked ahead of Serbia and Bosnia & Herzegovina, and came behind Algeria and Argentina among UMICs. Lebanon received a score of 3.95 points, up from 3.89 points in last year's survey, and lower than the global average of 4.2 points, the UMICs' average of 4.15 points and the Arab average of 4.25 points. The World Economic Forum said Lebanon ranked well in assessments of health and primary education, higher education & training, financial market development, and business sophistication. However, it continues to rank poorly in terms of infrastructure, macroeconomic stability, the supporting institutional environment, and innovation.

Lebanon ranked ahead of the Dominican Republic and Nicaragua and came behind Cambodia and Benin on the Basic Requirements Sub-Index, which covers institutions, infrastructure, macroeconomic stability and health & primary education. Lebanon's global rank regressed by three spots and its score was unchanged on the sub-index from last year's survey. Further, Lebanon ranked ahead of the Dominican Republic and Jamaica and behind Bosnia & Herzegovina and Romania among UMICs. Regionally, it came ahead of Mauritania and Yemen and trailed Egypt and Syria.

Also, Lebanon ranked ahead of Kuwait and Vietnam and behind Montenegro, Romania and Costa Rica on the Efficiency Sub-Index that covers higher education, labor market efficiency, financial market development, and overall market efficiency. Lebanon's global rank improved by four spots and its score was unchanged on the sub-index from last year's survey. Also, Lebanon ranked ahead of Mauritius and Uruguay and behind Romania and Montenegro among UMICs, and came ahead of Kuwait and Jordan and behind Tunisia and Oman in the Arab world.

Further, Lebanon tied with Argentina, ranked ahead of Morocco and Zambia and came behind Vietnam and Trinidad & Tobacco on the Innovation & Sophistication Sub-Index that covers business sophistication and innovation. Lebanon's worldwide rank regressed by four spots and its score was unchanged on the sub-index from last year's survey. Lebanon ranked ahead of Iran and Jamaica and behind Uruguay and Azerbaijan among UMICs, and came ahead of Morocco and Egypt and behind Jordan and Kuwait in the Arab world.

The rankings of seven Arab countries regressed, six improved year-on-year, and one remained unchanged. Also, the scores of eight Arab countries increased, three declined and three were unchanged from last year's survey. Globally, Switzerland had the most competitive economy with a score of 5.74 points, while Chad was the least competitive country in the world and received a score of 2.87 points.

#### Global Competitiveness Index 2011-12

	Overall Score	Arab Rank	Global Rank
Qatar	5.24	1	14
Saudi Arabia	5.17	2	17
UAE	4.89	3	27
Oman	4.64	4	32
Kuwait	4.62	5	34
Bahrain	4.54	6	37
Tunisia	4.47	7	40
Jordan	4.19	8	71
Morocco	4.16	9	73
Algeria	3.96	10	87
<b>Lebanon</b>	<b>3.95</b>	<b>11</b>	<b>89</b>
Egypt	3.88	12	94
Syria	3.85	13	98
Mauritania	3.20	14	137
Yemen	3.06	15	138

Source: World Economic Forum, Byblos Research

#### Components of the Global Competitiveness Index

Category	Global Rank	Arab Rank	UMIC Rank	Lebanon Score	Global Average Score	Arab Average Score	UMIC Average Score
Basic Requirements	109	13	30	3.97	4.57	4.79	4.50
Efficiency	64	7	16	4.06	4.05	3.96	4.00
Innovation & Sophistication	78	9	15	3.43	3.67	3.57	3.43

Source: World Economic Forum, Byblos Research



### Lebanon's external debt posts 28th highest returns in emerging markets, fifth best in the Middle East & Africa

Figures issued by Merrill Lynch indicate that Lebanon's external debt posted returns of 4.5% in the first eight months of 2011, constituting the 13th highest return among 28 markets in the Eastern Europe, the Middle East & Africa (EMEA) region as well as the 28th best return among the 51 emerging markets included in Merrill Lynch's Sovereign Plus Debt Index. Lebanon underperformed the EMEA region's returns of 4.78%, and the overall emerging markets returns of 6.63% year-to-August. Also, Lebanon's external debt underperformed the 6.7% returns posted by similarly-rated sovereigns.

Further, Lebanon's external debt posted the fifth highest returns among 12 countries in the Middle East & Africa region in the first eight months 2011, ahead of Bahrain (3.83%), Senegal (2.43%), Jordan (2.13%), Iraq (1.44%), Tunisia (1.06%), Egypt (-0.42%) and Morocco (-1.62%). But it was outperformed by Nigeria with 11.35%, South Africa with 7.78%, Ghana with 6%, and Gabon with 4.82%. In US dollar terms, Lebanon's external debt posted returns of 4.47% in the first eight months of 2011, coming in 12th place in the EMEA region and in 27th place among emerging markets.

In parallel, Lebanon's external debt posted returns of 0.55% in August, similar to Latvia's returns, and constituting the sixth highest return in the EMEA region and the 17th highest return in emerging markets during the covered month. It outperformed the EMEA returns of 0.22% and the emerging markets returns of 0.52%, but it tied with the 0.55% returns of similarly-rated sovereigns for the same month. Regionally, it underperformed South Africa (2.55%), Senegal (1.15%) and Tunisia (0.63%); but it outperformed Gabon (0.39%), Egypt (0.34%), Bahrain (-0.92%), Nigeria (-0.06%), Morocco (-0.13%), Jordan (-0.26%), and Iraq (-2.1%).

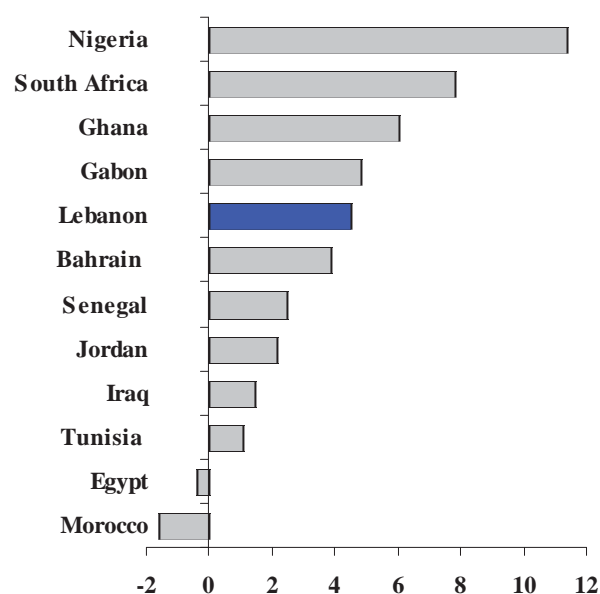
Merrill Lynch said the spread on Lebanese Eurobonds ended August 2011 at 385 basis points, similar to Egypt's spread, and constituting the 12th narrowest in the EMEA region and 23rd narrowest among emerging markets. It was wider than the EMEA spread of 344 basis points and the emerging markets overall spread of 346 basis points at end-August 2011.

Lebanon has a weight of 3.53% on Merrill Lynch's Sovereign Plus Debt Index, fourth highest in the EMEA universe behind Turkey (11.1%), Russia (8.64%) and Hungary (4.58%), and ninth highest among emerging markets. Lebanon accounted for 8.2% of the index allocations for the EMEA region.

### Balance of payments posts deficit of \$787m in first seven months of 2011

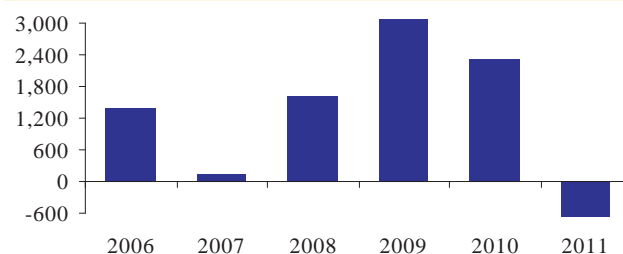
Central Bank figures show that Lebanon's balance of payments posted a deficit of \$786.5m in the first seven months of 2011 compared to a surplus of \$2.3bn in the same period last year. The balance of payments posted a deficit of \$307.3m in July compared to surplus of \$563.8m in June 2011 and a surplus of \$993.7m in July 2010. The July 2011 deficit was caused by a deficit of \$910m in the net foreign assets of banks and financial institutions and a surplus of \$602.8m in those of the Central Bank. The cumulative deficit over the first seven months of 2011 was caused by a surplus of \$158.7m in the Central Bank's net foreign assets and a deficit of \$945m in those of banks and financial institutions. The balance of payments posted cumulative surpluses of \$3.3bn in 2010, \$7.9bn in 2009 and \$3.5bn in 2008.

### External Debt Performance in Middle East & Africa in first eight months of 2011 (%)



Source: Merrill Lynch, Byblos Research

### Balance of Payments\* (\$m)



\* in first seven months of the year

Source: Central Bank

### Proposed minimum wage increase to harm Lebanese economy and hurt targeted segments

A study issued by actuarial firm i.e. Muhanna & co indicated that raising the minimum wage in Lebanon by 150% as requested by the General Labor Confederation (GLC) would result in negative consequences for the economy. Last July, the GLC asked the Lebanese government to increase the minimum wage by LBP750,000 to LBP1,250,000. The report stated that such a large and ad hoc increase in the minimum wage will result in negative repercussions on the economy, leading to more unemployment, higher inflation, and consequently more poverty. In turn, this would harm the very segment of the population that the raise is supposed to help. More specifically, the study said that the GLC-suggested raise would result in layoffs and higher unemployment among the low-paid and low-skilled workers in the formal sector, as employers will resort to reducing staff or working hours. It added that the proposed increase would lead to the closure of some companies, a non-competitive exporting environment and an increase in the cost of living, which would push vulnerable workers and families into poverty. Further, it would prevent businesses from implementing their planned compensation policies. The study noted that the proposed adjustment in the minimum wage is expected to increase the average salary of employees in Lebanon by 52%. But, due to disparities in salary levels, the increase in labor cost would be as high as 99% in the agriculture & livestock sector and as low as 24% in the banking & insurance sector. Also, the additional operating expenses incurred by businesses as a result of the minimum wage increase would be as low as 2% in the energy & water sector, and as high as 36% in the education & health sector.

In parallel, the study said that the ratio of the minimum wage-to-the average wage in Lebanon is currently 40%. It noted that a high ratio is better for workers earning the minimum wage, but has worse consequences on employment and the economy. According to the World Bank's scale, Lebanon's current minimum wage places it in the "Medium High" to "High" category. However, a 150% rise in the minimum wage would increase Lebanon's ratio to around 60%, which would place it in the "Very High" category. This means that a high minimum wage level would lead to a concentration of salaries within a narrow range above the minimum, which will create disincentives for experienced and efficient employees as they will be earning a salary close to that of the unskilled and inefficient workers.

The report stressed that any increase in the statutory minimum wage must be properly planned and supported by independent and regular studies that are based on credible data. As such, the decision to raise the minimum wage should be based on employer- or household-based income and expenditure surveys, a study of labor market conditions, and national and regional wage distributions; all of which are either not available or have not been updated in Lebanon.

Impact of 150% increase in the minimum wage		
	% increase in labor cost	% increase in operating costs
Agriculture & Livestock	99	15
Construction	72	15
Education & Health	72	36
Industry	67	11
Trade	64	26
Market Services	49	29
Transport & Communication	44	9
Energy & Water	32	2
Banking & Insurance	24	12
Other	59	34

Source: i.e. Muhanna & co 2011

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

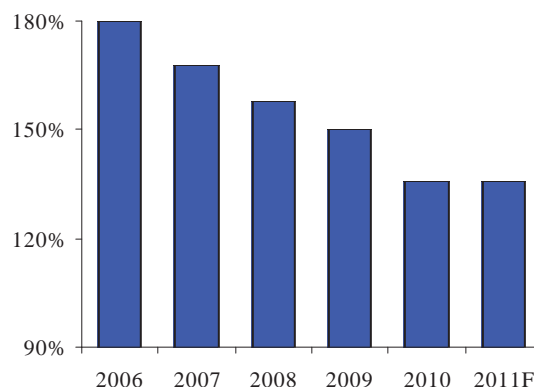
The Association of Banks in Lebanon (ABL) recommended to its member banks to increase the Beirut Reference Rate in US dollars to 4.75% from 4.71% previously starting in October 2011. The rate, considered as the reference rate for lending in foreign currency, replaced in 2009 the London Inter-Bank Offering Rate (LIBOR) since the ABL considered that the LIBOR no longer accurately reflects the cost of funding and lending in Lebanon. Additionally, the ABL recommended to its member banks to increase the Beirut Reference Rate in Lebanese pounds to 7.24% from 7.21% previously. The Beirut Reference Rate in US dollars and Lebanese pounds were adopted in March and May 2009, respectively. The ABL indicated that the BRR does not replace the Beirut Prime Lending Rate in each currency, but constitutes the basis to calculate the prime rate after adding the cost of liquidity and refinancing, credit risks, and the profitability of banks to the prime lending rate.

### Net public debt at \$46bn at end-July 2011

Lebanon's gross public debt reached \$52.8bn at the end of July 2011, up 0.4% end-2010, and constituting an increase of 4% from end-July 2010. Domestic debt increased by 7.7% to \$32bn, while external debt decreased by 1.2% annually to \$20.8bn. Local currency debt accounted for 60.7% of gross public debt at end-July 2011 compared to 58.6% a year earlier, while foreign currency-denominated debt represented 39.3% of the total at the end of July relative to 41.4% a year earlier. The weighted interest rate on outstanding Treasury bills was 7.13%, while the weighted interest rate on Eurobonds was 7.21% at the end of July. Further, the weighted life on Eurobonds was 4.93 years, while that on Treasury bills was 854 days.

Commercial banks accounted for 48.7% of the local public debt at the end of July 2011 compared to 61.7% a year earlier. They were followed by the Central Bank with 34.8%, up from 21.6% at end-July 2010; while public agencies, financial institutions and the general public accounted for 15.9% of local debt, compared to 16.8% in July 2010. 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 5.1%, and Paris II loans with 1.2%. 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 \$45.5bn. In parallel, the gross market debt accounted for about 63% 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.

### Total Government Debt (% of GDP)



Source: Institute of International Finance

### Trade deficit up 4% to \$8.4bn in the first 7 months of 2011, volume of non-hydrocarbon imports down 1%

Total imports reached \$10.9bn in the first 7 months of 2011 and aggregate exports stood at \$2.5bn, constituting an increase of 5% each from the same period last year and leading to a trade deficit of \$8.4bn, up 4% year-on-year. This trade deficit constituted the highest deficit in five years, in terms of value. Imports of oil and mineral fuels decreased by 3% year-on-year to \$2bn, and non-hydrocarbon imports grew by 6.6% to \$8.9bn. In volume terms, imports reached 7.8 million tons in the first 7 months of 2011, constituting a decrease of 11% from the same period last year; while exports remained flat at \$1.7bn in the same period, leading to a trade deficit of 6.06 million tons, down 13% year-on-year. Imports of oil and mineral fuels decreased by 26% year-on-year to 2.6 million tons, while non-hydrocarbon imports dropped by 1% annually to 5.2 million tons. The increase in non-oil imports was mostly due to a rise in the value of Lebanon's imported products that are highly affected by international prices, such as a 52% rise in the prices of unwrought gold, un-mounted diamond & precious metals and a 19% increase in the prices of pharmaceutical products. The trade deficit was \$1.3bn in July 2011, down 18% from the same month last year. Imports averaged \$1.56bn and exports averaged \$362m on a monthly basis year-to-July, resulting in an average monthly trade deficit of \$1.2bn during the covered period. The coverage ratio reached 23.22% in the first 7 months compared to 23.16% in the same period last year, while it reached 24.7% in July 2011 relative to 16.4% in July last year.

Italy was the main source of imports with \$1.06bn or 10% of the total, followed by the United States, with \$946m (9%), China with \$930m (9%), France with \$853m (8%) and Germany with \$655m (6%). Imports from Italy rose by 30% year-on-year and from France by 22%; while imports from the U.S. dropped by 15%, from Germany by 11%, and from China by 3% during the covered period. Switzerland was the main export destination with \$271m or 11% of the total, followed by the UAE with \$190m (8%), Saudi Arabia with \$189m (7%), Turkey with \$179m (7%), Iraq with \$136m (5%) and Syria \$117m (5%). Exports to Turkey rose by 33% and to Saudi Arabia by 32%, while exports to the UAE dropped by 22%, exports to Iraq regressed by 13%, exports to Syria contracted by 9% and exports to Switzerland decreased by 7%. Lebanon's main export was jewelry at \$863m or 34% of the total, followed by base metals with \$366m (14%), machinery & mechanical appliances with \$321m (13%), prepared foodstuff with \$216m (9%) and chemical products with \$203m (8%). Re-exports totaled \$395m in the first 7 months, compared to \$80m in the same period last year.

### Customs receipts down 23% to \$874m in first 7 months of 2011

Figures released by the Customs Directorate indicated that customs revenues reached \$874m in the first 7 months of 2011, down 22.6% from \$1.1bn in the same period last year. Customs revenues totaled \$132m in July 2011, up by a marginal 0.3% from the previous month but down 27% from \$181m in July 2010. The Port of Beirut continues to be the main point of customs receipts, as it accounted for 86.6% of the total during the first 7 months of the year, and was followed by the Hariri International Airport with 7.1%, the Port of Tripoli with 3%, and the Masnaa crossing point with 2.3% of the total. Customs receipts from the value-added tax totaled \$836.6m year-to-July. The Port of Beirut accounted for 80% of such receipts, and was followed by the Hariri International Airport with 8.8%, the Port of Tripoli with 6.7% and the Masnaa crossing point with 6.3%. As such, overall customs receipts reached \$1.7bn year-to-July, with the Port of Beirut accounting for 81.4% of the total, and was followed by the Hariri International Airport with 8%, the Port of Tripoli with 4.8%, and the Masnaa crossing point with 4.2% of the total. In addition, other entry points accounted for the balance, with the port of Saida for 1.1%, the crossing point of Abboudieh for 0.4%, and the port of Tyre for 0.2%. Overall customs receipts reached \$264.3m in July 2011 when including revenues from the value-added tax that totaled \$132m in the same period.

### Governor Salamé named one of the world's best central bankers

*Global Finance* magazine named Central Bank Governor Riad Salamé as one of the World's Best Central Bankers in 2010. The magazine graded the Central Bank governors of 36 key countries, as well as that of the European Central Bank, on a scale ranging from 'A' to 'F' in areas such as inflation control, economic growth goals, currency stability, and interest rate management. It added that its assessment included the determination of Central Bankers to stand up to political interference, and their efforts at influencing their governments on such issues as spending and economic openness to foreign investment and financial services. *Global Finance* gave Governor Salamé a top 'A' grade, along with the the Central Bank governors of Australia, Israel, Malaysia, Philippines and Taiwan. It said that central bankers around the world were tested as never before in 2010, which constituted one of the toughest years on record.

Last July, the Council of Ministers renewed the mandate of Governor 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. 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.

### Cabinet approves amended version of electricity plan

The Council of Ministers approved an amended version of an electricity plan that would raise electricity production by 700 Megawatts during the 2011-14 period. The plan stipulates the allocation of LBP 1,773bn, or \$1.18bn to finance the production, transport and distribution of 700 Megawatts during the covered period. The amount includes \$850.4m to build production plants, \$247m for five transportation lines, \$38.5m for 30 distribution lines, and \$40m to be spent on studies and consulting. Further, the plan stipulates that \$276m will be spent in 2011, \$308m in 2012, \$345m in 2013, and \$254m in 2014. The amendments include the disbursement of the \$1.2bn over four years, instead of a lump sum payment, the Finance Ministry providing \$600m to cover the first two years of the project, reducing the 2012 payments and spreading the reduction to 2013 and 2014 to ease the pressure on next year's budget, and approaching regional and international development funds to finance parts of the plan. The amendments also included the formation of a ministerial committee headed by the Prime Minister to revise and introduce necessary amendments to Law 462 in order to establish an independent regulatory authority prior to the start of the plan's implementation, appointing a new board of directors to Electricité du Liban within two months, and conducting tenders under the authority of the tenders administration and according to due process. The plan still requires the approval of Parliament to go into effect. The plan expects power production to reach 4,000 Megawatts by 2014 and 5,000 Megawatts starting in 2015, with round-the-clock electricity supply by 2014. It also stipulates improving the transmission and distribution network, restructuring tariffs, and reducing technical losses.

### Commercial banks' assets reach \$137bn at end-July 2011

The consolidated balance sheet of commercial banks operating in Lebanon shows that total assets reached \$136.9bn at the end of July 2011, constituting an increase of 6.2% from end-2010 and a rise of 10.3% from end-July 2010. Private sector deposits totaled \$112.1bn, increasing by 4.6% from end-2010 and rising by 10% from a year earlier. Deposits in Lebanese pounds reached \$37.3bn, down 5.5% from end-2010 and 1.5% year-on-year, while deposits in foreign currencies reached \$74.8bn and rose by 10.5% from the end of last year and by 16.9% from end-July 2010. Non-resident foreign currency deposits totaled \$17.7bn at end-July 2011, up by 13.5% from end-2010 and by 19.6% year-on-year. Total private sector deposits decreased by \$1.1bn in January, and rose by \$673m in February, \$1.34bn in March, \$1.79bn in April, \$539m in May, \$1bn in June and \$656m in July 2011. In parallel, deposits of non-resident banks reached \$6.2bn, an increase of 37.6% from end-2010 and of 21.9% year-on-year. The dollarization rate of deposits reached 66.7% at the end of July relative to 63.2% at end-2010 and 62.9% at end-July 2010. Further, the average deposit rate in Lebanese pounds reached 5.59% in July compared to 5.79% a year earlier, while the same rate in US dollars was 2.86%, up from 2.8% from July 2010.

Loans to the private sector totaled \$38.3bn at end-July, constituting an increase of 9.8% from end-2010 and up 16.7% year-on-year. Lending to the non-resident private sector reached \$5.6bn and rose by 20.4% from end-2010. The dollarization rate in private sector lending reached 79.4%, marginally down from 80.3% at end-2010 and compared to 81.7% a year earlier. The average lending rate in Lebanese pounds was 7.33% in July 2011 compared to 8.09% a year earlier, while the same average in US dollars was 7.03% compared to 7.05% in July 2010. In addition, claims on non-resident banks reached \$16.9bn at end-July, posting an increase of 6.8% from end-2010. Claims on the public sector stood at \$27.3bn, down 6.6% year-on-year and 6.8% from end-2010, and accounted for 41.6% of the banking sector's total claims. The ratio of private sector loans to deposits in foreign currencies stood at 40.7%, well below the Central Bank's limit of 70%, and below the ratio of 41.9% a year earlier. In parallel, the same ratio in Lebanese pounds was 21.2%, up from 15.9% a year earlier. The ratio of total private sector loans to deposits was 34.2% compared to 32.2% a year earlier. The banks' aggregate capital base stood at \$10.5bn, up by 14% from end-2010 and 16.8% from \$9bn in July 2010.

### Kafalat loan guarantees down 6.4% year-on-year to \$114m in first eight months of 2011

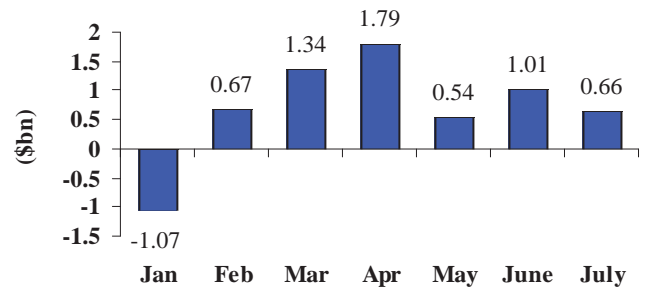
Figures released by the Kafalat Corporation show that loans extended to small- and medium-sized companies under the guarantee of Kafalat reached \$106.8m in the first eight months of 2011, down 6.4% from \$114.1m in the same period last year. The number of loan guarantees totaled 828 year-to-August compared to 966 in the same period last year. The average loan size reached \$128,952 compared to \$118,106 in the first eight months of 2010. Mount Lebanon accounted for 42% of guarantees, followed by the South & Nabatieh with 18.8%, the Bekaa with 18.2%, the North with 14.7% and Beirut with 6.2%. Agriculture accounted for 40.2% of total guarantees, followed by the industrial sector with 39.1%, tourism with 17.3%, handicraft with 1.8% and specialized technologies with 1.6%. Kafalat is a state-sponsored organization that provides financial guarantees for loans up to \$400,000 earmarked for the set up and expansion of small and medium-sized companies in productive sectors. It guarantees up to 75% of the loan amount and a similar percentage of the interest that accrues during the grace period.

### Central Bank approves SGBL acquisition of LCB assets and liabilities

Société Générale de Banque au Liban sal (SGBL) announced that the Central Bank approved its acquisition of certain assets and liabilities of the Lebanese Canadian Bank (LCB). Last June, SGBL announced that its Board of Directors unanimously approved the transaction. It added that SGBL, the Banking Control Commission, as well as three international audit firms proceeded with a preliminary review process of accounts and transactions. It said that such process aims to ensure that the acquired assets and liabilities conform to international standards and to the compliance rules of SGBL and Société Générale SA. It noted also that the reviewing process will continue in coordination with local and international authorities.

Last March, the Central Bank announced that SGBL has won the bid to acquire the LCB for an undisclosed amount. SGBL was the smallest among four banks that bid for LCB, and is smaller than its new acquisition by assets, loans & advances, deposits, and shareholders' equity. The decision to sell LCB came after the U.S. Department of the Treasury identified the bank and its subsidiaries as a financial institution of primary money laundering concerns in April, due to its alleged role in facilitating the money laundering activities of an international narcotics trafficking and money laundering network. The U.S. Treasury added that the network has used accounts at the bank to launder hundreds of millions of dollars monthly. Also, the U.S. Treasury's Financial Crimes Enforcement Network (FinCEN) filed a proposal to prohibit U.S. financial institutions from opening or maintaining correspondent or payable-through accounts for LCB. The bank denied at the time any involvement and affirmed it would fully cooperate with authorities.

### Private sector deposit change in first 7 months of 2011



Source: Association of Banks in Lebanon

## Corporate Highlights

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### **CMA CGM's ratings downgraded on poor results, outlook negative**

Moody's Investors Service downgraded the corporate family and probability of default ratings of the Lebanese-owned and France-based container shipping group CMA CGM to 'B1' from 'Ba3' and changed the outlook to 'negative'. It also downgraded to 'B3' from 'B2' the company's \$325m and \$475m worth of senior unsecured notes that mature in 2019 and 2017, respectively. It attributed the downgrades to the combined effect of several negative factors that have emerged in recent months and that are affecting CMA CGM's credit profile, and which may have prolonged negative implications.

The agency said the firm's second-quarter results reflect a financial performance that is materially below expectations despite growth in volumes and revenues year-on-year. It added that CMA CGM's lackluster performance in recent months was due to intense competition between market players, which limited the company's capability to recover the increase in bunker costs incurred by container shipping operators during the second quarter. As such, Moody's anticipates that CMA CGM will be unable to maintain financial metrics that are in line with its 'Ba3' rating by the end of the 2011.

The agency added that the 'negative' outlook reflects concerns that the container market operating conditions will remain difficult in the next few quarters, and therefore CMA CGM's performance may remain under pressure. Also, the firm could find it challenging to remain within the required covenants of its bank loans by the end of the current financial year. It expressed concerns that the deteriorating global economic environment increases the probability that traffic volumes will decline compared with the current trend and previous expectations. It noted that lower demand could exert both immediate and long-term pressure on CMA CGM and the overall industry. Moody's did not anticipate an upgrade of the company's ratings in the short term. But it noted that the company has a strong business profile with solid market shares globally, as well as a distinctive position in certain lanes that are more profitable. CMA CGM posted net profits of \$237m in the first half of 2011, constituting a decline of 72% from the same period last year. It is the third-largest container shipping company in the world with a total capacity of 1.283 million twenty-foot equivalent units. The firm owns 97 ships, charters-in 297 others, and employs 17,500 people.

## 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	May 2010	Apr 2011	May 2011	Change*	Risk Level
Political Risk Rating	58.5	55.5	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	58.2	58.2	▼	High

Regional Average	May 2010	Apr 2011	May 2011	Change*	Risk Level
Political Risk Rating	64.8	60.5	60.3	▼	Moderate
Financial Risk Rating	41.7	41.8	41.8	▲	Very Low
Economic Risk Rating	38.3	37.5	36.8	▼	Low
Composite Risk Rating	71.9	69.9	69.5	▼	Moderate

\*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-		Negative
EIU		B	Stable

Source: Rating agencies



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**Economic Research & Analysis Department**  
**Byblos Bank Group**  
**P.O. Box 11-5605**  
**Beirut – Lebanon**  
**Tel: (961) 1 338 100**  
**Fax: (961) 1 217 774**  
**E-mail: [research@byblosbank.com.lb](mailto:research@byblosbank.com.lb)**  
**[www.byblosbank.com](http://www.byblosbank.com)**

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# BYBLOS BANK GROUP

## LEBANON

---

Byblos Bank S.A.L  
Achrafieh - Beirut  
Elias Sarkis Avenue - Byblos Bank Tower  
P.O.Box: 11-5605  
Riad El Solh - Beirut 1107 2811 - Lebanon  
Phone: (+ 961) 1 335200  
Fax: (+ 961) 1 339436

## SYRIA

---

Byblos Bank Syria S.A  
Abu Roummaneh Head Office  
Al Chaalan - Amine Loutfi Hafez Str.  
P.O.Box: 5424 Damascus - Syria  
Phone: (+ 963) 11 9292 - 3348240 / 1 / 2 / 3 / 4  
Fax: (+ 963) 11 3348207  
E-mail: byblosbanksyria@byblosbank.com

## IRAQ

---

Erbil Branch, Kurdistan, Iraq  
Street 60,  
Near Sports Stadium  
P.O.Box: 34 - 0383 Erbil - Iraq  
Phone: (+ 964) 66 2233457 / 9  
Fax: (+ 964) 66 2233458  
E-mail: iraqbranch@byblosbank.com.lb

Baghdad Branch, Iraq  
Karada - Salman Faeq Street  
Facing Al Sheruk Building  
P.O.Box: 3085 Al Elweyah - Iraq  
Phone: (+ 964) 1 7177493  
(+ 964) 1 7177294  
E-mail: aabdelkader@byblosbank.com

## UNITED ARAB EMIRATES

---

Byblos Bank Abu Dhabi Representative Office  
Intersection of Muroor and Electra Streets  
P.O.Box: 73893 Abu Dhabi - UAE  
Phone: (+ 971) 2 6336400  
Fax: (+ 971) 2 6338400  
E-mail: byblosbankuae@byblosbank.com

## ARMENIA

---

Byblos Bank Armenia CJSC  
18/3 Amiryan Street  
Yerevan, 37500 - Republic of Armenia  
Phone: (+ 374) 10 530 362  
Fax: (+ 374) 10 535 296

## CYPRUS

---

Limassol Branch  
1, Arch. Kyprianou / St. Andrew Street  
P.O.Box 50218  
3602 Limassol - Cyprus  
Phone: (+ 357) 25 341433 / 4 / 5  
Fax: (+ 357) 25 367139  
E-mail: bybloscyprus@byblosbank.com

## BELGIUM

---

Byblos Bank Europe S.A  
European Head Office  
10, Rue Montoyer  
B-1000 Brussels - Belgium  
Phone: (+ 32) 2 551 00 20  
Fax: (+ 32) 2 513 05 26  
E-mail: byblos.europe@byblosbankeur.com

## UNITED KINGDOM

---

London Branch  
Berkeley Square House - Suite 5  
Berkeley Sq.  
GB - London W1J 6BS - United Kingdom  
Phone: (+ 44) 207 493 35 37  
Fax: (+ 44) 207 493 12 33  
E-mail: byblos.europe@byblosbankeur.com

## FRANCE

---

Paris Branch  
15 Rue Lord Byron  
F- 75008 Paris - France  
Phone: (+ 33) 1 45 63 10 01  
Fax: (+ 33) 1 45 61 15 77  
E-mail: byblos.europe@byblosbankeur.com

## SUDAN

---

Byblos Bank Africa Ltd.  
Khartoum - Sudan  
El Amarat -Street 21  
P.O.Box: 8121 El Amarat - Khartoum - Sudan  
Phone: (+ 249) 183 566 444  
Fax: (+ 249) 183 566 454  
E-mail: byblosbankafrica@byblosbank.com

## NIGERIA

---

Byblos Bank Nigeria Representative Office  
10-14 Bourdillon Road  
Ikoyi, Lagos - Nigeria  
Phone: (+ 234) 1 6653633  
(+ 234) 1 8990799  
E-mail: nigeriarepresentativeoffice@byblosbank.com.lb

## DEMOCRATIC REPUBLIC OF CONGO

---

Byblos Bank RDC  
4, Avenue du Marche  
C/Gombe, Kinshasa, Democratic Republic of Congo  
Phone: (+ 243) 817 070701  
(+ 243) 991 009001  
E-mail: melamm@byblosbank.com.lb

## ADIR INSURANCE

---

Dora Highway - Aya Commercial Center  
P.O.Box: 90-1446  
Jdeidet El Metn - 1202 2119 Lebanon  
Phone: (+ 961) 1 256290  
Fax: (+ 961) 1 256293