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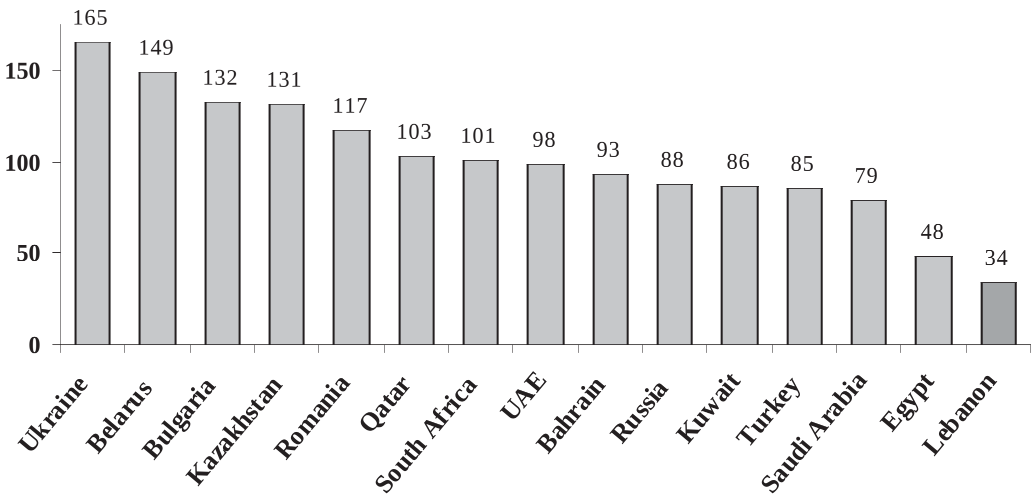
Economic Research & Analysis Department

LEBANON THIS WEEK

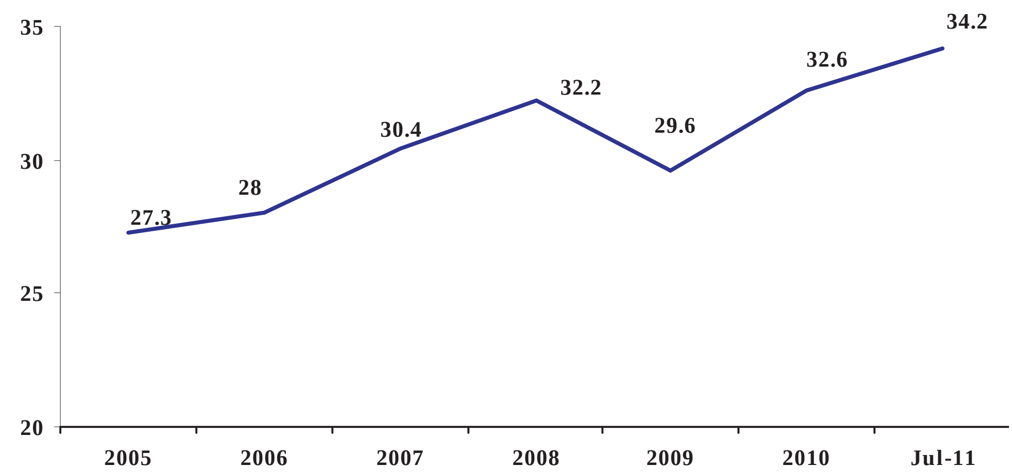
In This Issue

Charts of the Week

Private Sector Loans-to-Deposits Ratio in Selected Emerging Markets (latest available data, %)



Private Sector Loans-to-Deposits Ratio in Lebanon (%)



Source: Merrill Lynch, Central Banks, Association of Banks in Lebanon, Byblos Research

Quote to Note

"The Central Bank has become the central pillar of economic management in Lebanon."

The Economist Intelligence Unit, on the impact of political paralysis and decision-making in the country in recent years

Number of the Week

140: Lebanon's rank out of 142 countries in terms of the public's trust in politicians, according to the World Economic Forum's Global Competitivenss Index

Economic Indicators

$m *(unless otherwise mentioned)*	2009	June 10	2010	Apr 11	May 11	June 11	% Change*
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

$bn *(unless otherwise mentioned)*	Dec 2009	June 10	Mar 11	Apr 11	May 11	June 11	% Change*
BdL FX Reserves	25.66	27.42	28.54	28.76	28.44	28.33	3.32
In months of Imports	*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

Most Traded Stocks on BSE	Last Price ($)	% Change*	Total Volume	Weight in Market Capitalization
Solidere "A"	15.12	(3.01)	140,880	14.10%
Solidere "B"	15.30	(0.78)	18,727	9.25%
Byblos Common	1.65	0.61	437,000	5.52%
Byblos Pref. 08	100.00	0.00	0	1.86%
Byblos Pref. 09	100.00	0.00	13,739	1.86%
BLOM GDR	8.17	0.00	16,600	5.62%
BLOM Listed	8.19	0.00	0	16.38%
Audi GDR	6.82	(2.15)	386,575	6.26%
Audi Listed	6.20	(7.46)	9,685	20.10%
HOLCIM	16.70	(0.30)	42	3.03%

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

Sovereign Eurobonds	Coupon %	Mid Price $	Mid Yield %
Mar. 2012	7.500	102.00	3.41
Sep. 2012	7.750	104.44	3.04
June 2013	8.625	109.00	3.29
Apr. 2014	7.375	108.88	3.72
Jan. 2015	10.00	105.50	4.08
Apr. 2015	8.500	119.75	4.04
Jan. 2016	9.000	115.63	4.10
Mar. 2017	5.150	119.88	4.86
Nov. 2018	8.250	99.45	5.24
Apr. 2021	6.100	117.75	5.80

Source: Byblos Capital Markets

	September 12-16	September 5-9	% Change	August 2011	August 2010	% Change
Total Shares Traded	1,091,446	567,306	92.39	4,130,284	2,924,222	41.24
Total Value Traded	$8,672,747	$7,588,906	14.28	$42,508,858	$35,867,053	18.52
Market Capitalization	$11.75bn	$11.00bn	(2.32)	$11.08bn	$12.19bn	(9.06)

Source: Beirut Stock Exchange (BSE)

EIU forecasts growth at 1.3% in 2011, rules out structural reforms in the short-term

The Economist Intelligence Unit projected economic growth in Lebanon at 1.3% in 2011, down from an April forecast of 4.6%, and maintained its growth estimate at 3.6% for 2012. It attributed the weak growth outlook for this year to the domestic political unrest that gripped the country in the first half of the year and to the social and political upheaval across the Arab world. It said Lebanon's economy is dependent on the services sector that, in turn, depends on political stability in the country. It expected private consumption to be slower than in 2007-10, as businesses will be less likely to invest in expanding their operations given weaker consumer confidence in the economy.

The EIU expected that long-stalled economic reforms will proceed but at a slow pace, given the formation of a new, more politically homogenous, government in mid-June. It noted, however, that corruption and patronage permeate the political system, and many politicians have their own interests in maintaining a bloated public sector. It considered that privatizing state-owned enterprises will remain a sensitive issue due to ideological differences and vested interests, as well as to questions about the likely transparency of any sale of state assets. More specifically, it indicated that the long-discussed plans to sell the two state-owned mobile phone operators and restructure the heavily subsidized state-owned Electricité du Liban will be deferred beyond 2012. It added that the large investment program in the electricity sector is proving controversial, as it would allocate a significant amount of funds to one ministry.

The EIU anticipated the fiscal deficit to remain large, which would increase the debt burden. It expected the ad hoc spending of ministries to continue for the remainder of the year in the absence of a 2011 budget, which will add to the deficit; while declines in customs revenues and tourism receipts, and lower business activity will reduce public revenues. Overall, it forecast the deficit to widen to 10% of GDP this year from 7.4% of GDP last year, and to remain large at 9% of GDP in 2012. Also, it forecast the current account deficit to remain wide and to average 25% of GDP in 2011-12. It estimated that the import bill will increase in 2011 from high oil prices, as Lebanon imports all of its energy needs; while the ongoing unrest in Arab countries will reduce exports to regional markets, which will worsen the trade deficit. It added that tourism receipts and remittances will help to moderate the widening current account deficit, but expected both sources of foreign currency to decline due to the regional unrest. It expressed concern about the risk of substantial capital flight in the event of a political shock, which could create financing difficulties.

Country Forecast Summary

	2009	2010	2011F	2012F
Real GDP Growth (%)	8.5	7.2	1.3	3.6
Consumer prices (end of period, %)	3.4	4.6	3.4	3.2
Consumer prices (avge, %)	1.2	4.0	5.2	3.3
Fiscal balance (% of GDP)	(8.6)	(7.4)	(9.9)	(9.0)
Current account balance ($bn)	(7.2)	(8.8)	(11.8)	(10.3)
Current account balance (% of GDP)	(21.0)	(22.4)	(28.5)	(21.8)
External debt (% of GDP)	89	77	85	77.7
Public debt (% of GDP)	148	134	137	129.3
Foreign reserves ($bn)	29.1	31.5	33.6	35.3
Months of import cover	15.7	17.4	16.3	17.1
Exchange rate (LP:US$, avge)	1,508	1,508	1,508	1,508
Exchange rate (LP:€, avge)	2,100	2,001	2,121	2,054

Source: Economist Intelligence Unit, September 2011

Lebanon and Uruguay sign cooperation agreement

The Chamber of Commerce, Industry & Agriculture of Beirut and Mount Lebanon signed a cooperation agreement with the Union of Exporters of Uruguay to strengthen bilateral cooperation and develop economic collaboration between the two countries. The two entities agreed to continuously assess the development of bilateral economic and trade relations; to exchange information about the economic and legal environment as well as investment conditions in each country; to improve the level of economic and trade cooperation between companies in both countries and encourage joint investments; as well as to promote exhibitions, seminars and exchange visits by delegations of businessmen. Further, the Chamber encouraged Uruguayan businesses to invest in Lebanon due to its free market economy and legal framework that are favorable for foreign investments. Lebanon's imports from Uruguay totaled $41.5m in 2010 compared to $58.1m in 2009, while Lebanese exports to Uruguay reached $92,649 in 2010 relative to $67,165 in 2009.

Lebanon ranks 99th globally, 12th in Arab region in credit ratings

In its semi-annual survey on the creditworthiness of 178 countries, *Institutional Investor* magazine ranked Lebanon in 99th place worldwide and in 12th place among 19 Arab countries in the September 2011 survey. Lebanon ranked in 105th place globally and in 13th place regionally in March 2011, as well as in 112th place globally and in 13th place regionally in the September 2010 report. The survey rates the creditworthiness of countries on a scale of 0 to 100, with 100 representing countries with the least chance of debt default. The ratings are based on input provided by senior economists and sovereign risk analysts at leading global banks and money management and securities firms.

On a global basis, Lebanon ranked ahead of Sri Lanka, Lesotho and Uganda, and came behind Suriname, Georgia and Senegal. Lebanon received a score of 35.7 points, compared to scores of 34.3 points in March 2011 and 32.5 points in September 2010. Lebanon's score was below the global average of 45.9 points as well as lower than the Arab average of 45.6 points. Its score improved by 1.4 points, or 4.1% from March 2011, constituting the second best improvement in the Arab region both numerically and in percentage terms. The rankings of 4 Arab countries improved, 8 regressed and 7 remained unchanged; while the scores of 3 countries improved and 16 declined from March 2011.

Institutional Investor said that countries in Western Europe have posted sizeable declines in their credit scores as a result of the debt crisis, and that credit ratings in the Middle East & North Africa also regressed significantly due to the political uprisings across the region. It noted that the United States and most of trade-dependent Asia posted modest declines on average. In parallel, Latin America/Caribbean and Eastern Europe/Central Asia were the only regions to post considerable increases in their average credit ratings. Overall, the global average score dropped to 45.9 points in September from 46.5 points in March. Norway remained the country with the best creditworthiness in the world while North Korea had the highest probability of default worldwide.

Arab Countries Rankings & Scores

Country	Credit Rating	Arab Rank	Global Rank
Qatar	77.9	1	25
Kuwait	74.8	2	30
Saudi Arabia	73.8	3	31
UAE	73.2	4	33
Oman	68.7	5	40
Bahrain	60.3	6	54
Morocco	53.9	7	65
Tunisia	52.4	8	68
Algeria	50.2	9	71
Egypt	45.7	10	78
Jordan	42.4	11	82
Lebanon	**35.7**	**12**	**99**
Libya	31.5	13	112
Syria	27.9	14	124
Iraq	22.8	15	144
Mauritania	22.2	16	144
Djibouti	20.9	17	151
Yemen	20.1	18	152
Sudan	11.8	19	174

Source: Institutional Investor, Byblos Research

Growth forecast reduced to 1.5% for 2011 on political uncertainties

Standard Chartered Bank revised downward its growth projection for Lebanon to 1.5% in 2011 from an earlier forecast of 3%, and kept its estimate at 5% for 2012. Lebanon's projected growth rate in 2011 would make it the third-slowest growing economy in the Middle East and North Africa region, ahead of only Egypt at 1.4% and Tunisia at -0.5%; and the fourth slowest among 46 emerging markets. It forecast Lebanon's inflation rate to reach 6% in 2011 and 5.4% in 2012 compared to 5% in 2010. Further, it expected Lebanon's current account deficit to widen to 29% of GDP in 2011 and 23% of GDP in 2012 from a deficit of 22% of GDP in 2010.

It said the protracted domestic and regional political instability triggered a general slowdown in economic activity in the first half of the year, as 2011 began with the collapse of the Hariri government, which led to five months of political paralysis with no Cabinet in place. It added that most of the proxy indicators of economic activity have substantially declined and various public finance indicators have significantly deteriorated in the first half of the year, which translated into real GDP growth of less than 1% in the six months of 2011 on an annualized basis. It noted that the domestic political stalemate has been resolved for the time being with the formation of the new government, but added that risks to the current growth scenario include the degree of further destabilization in Syria and the possible deterioration of the country's relations with the Western community in case of serious violations of the UN Special Tribunal for Lebanon's indictments procedure. It noted that Electricité du Liban still represents a substantial fiscal drag, as about 14% of of public expenditures in the first half of the year went to the money-losing state-owned company. Also, the transfer of profits from the state-owned mobile phone companies to the budget had been on hold due to political bickering in the previous Cabinet, but expected transfers to resume even though there is no timetable.

Standard Chartered considered that a combination of higher fiscal deficit and much lower growth will prevent the debt-to-GDP ratio from improving for the first time in years, but the ratio should remain stable at around 135% of GDP this year. It noted, however, that Lebanon had no problem refinancing a Eurobond that matured in August, and did not expect any pressures to lead to a removal of the peg to the US dollar any time soon, as markets were reassured by the renewal of Riad Salamé's term as Central Bank Governor for another six years.

Lebanon in the News

Central Bank issues new measures for money dealers, brokerage firms and financial institutions

The Central Bank of Lebanon issued a new set of circulars about the operations of money dealers in Lebanon in order to deter their usage for money laundering and terrorism financing, and to preserve the reputation of the sector.

Intermediary Circular 10787 modified Basic Circular 7933 dated September 27, 2001. The modifications state that all money dealer institutions to be established after May 18, 2011 must certify that all shareholders, the chairman and all members of the board of directors, and all persons involved in the direct or indirect management of the firm must have successfully passed training courses administered or approved by the Bank on anti-money laundering and terrorism financing (AML/TF). It added that this procedure applies whenever there is a change of the above personnel at any money dealer, irrespective of the date of its establishment.

The circular also mandates money dealers to promptly notify banks about any check they issue that was drawn on that bank or about any banking transaction that was carried out through the bank, on behalf of their clients, in case the amount exceeds $10,000 or its equivalent. The notification should include information related to whether the transaction was carried out in exchange for cash or not, in addition to information about the source and destination of funds, as well as the identity of both the beneficiary and the beneficial owner. Also, money dealers must provide the same information about any money transfers through the bank to third parties in Lebanon resulting from an exchange operation or the shipment of bank notes and/or precious metals regardless of the amount transferred. It also detailed new procedures when receiving cash or precious metals from a client. There were 393 money dealers in Lebanon at the end of 2009, according to the latest available figures from the Central Bank. There were 393 money dealers in Lebanon at the end of 2009, according to the latest available figures from the Central Bank.

In parallel, Intermediary Circular 10788 modified Basic Circular 6213 dated June 28, 1996 and Intermediary Circular 10789 modified Basic Circular 7136 dated October 22, 1998. The modifications prohibit brokerage firms and financial institutions from engaging in any activity that is not directly related to their core business, including shipping bank notes, metal alloys and parts, and coins. Also, they ban brokerage firms and financial institutions from receiving money from their clients except through checks or transfers, including for the purpose of covering margins. The circular authorizes financial institutions to receive cash totaling $10,000 per client per month in order for the client to pay dues or loans extended by the financial institutions, including factoring, or to conduct secondary services that do not include financial intermediation. Further, brokerage firms and financial institutions are prohibited from transferring money in excess of $1,500 on behalf of their clients to third parties, whether to, from or within Lebanon.

Treasury transfers to Electricité du Liban up 22% in first half of 2011

Figures released by the Finance Ministry show that Treasury transfers to Electricité du Liban totaled $684m in the first half of 2011, constituting an increase of 22% from the same period last year. The ministry said that reimbursements to the Kuwait Petroleum Corporation (KPC) and to Algerian energy conglomerate Sonatrach accounted for $620m, or 90.6% of transfers in the covered period, reimbursements to the Egyptian Natural Gas Holding Company (Egas) accounted for $36.4m or 5.3% of transfers, while EdL's debt servicing represented $28m or 4.1% of the total. The ministry attributed the increase in transfers to a $121m rise in payments for fuel and gas oil purchases and to the payments to Egas. It said that higher payments for fuel and gas oil purchases reflect a 14% increase in average oil prices according to which the payments were made, and to a 10% growth in quantities of imported fuel oil. It indicated that EdL contributed to just 8% of the total oil bill in the first half of the year compared to 11% in the same period last year. EdL transfers accounted for 18.8% of primary expenditures in the first half of the year relative to 17.3% in the same period last year, as transfers to EdL were lower in the first half of 2010. EdL transfers constitute the third largest expenditures item after debt servicing and salaries & wages in overall fiscal spending. Transfers to EdL were equivalent to 3% of GDP in 2010 compared to 4.3% of GDP in 2009 and to 5.4% of GDP in 2008.

Number of tourists down 25% in first 7 months of 2011

The number of incoming tourists to Lebanon totaled 993,867 in the first 7 months of 2011, constituting a decrease of 25% from 1,326,001 tourists in the same period last year, driven by annual declines in tourist arrivals of 39.3% in July, 23.1% in June, 29.1% in May, 20.4% in April, 14.3% in March, 17% in February and 7.6% in January. Arab tourists accounted for 33% of total visitors in the first 7 months of the year, and were followed by visitors from Europe with 29.2%, Asia with 17.5%, the Americas with 13.7%, Africa with 3.4%, and Oceania with 3.1%. Tourists from Jordan accounted for 7.82% of total visitors in the first 7 months of 2011, followed by visitors from France with 7.76%, Iraq with 6.9%, the U.S. with 6.75%, and Saudi Arabia with 6.4%. The number of tourists reached 219,653 in July 2011 compared to 361,934 in July 2010. Incoming tourists totaled 2.17 million in 2010, up 17% year-on-year.

World Bank grants $1.8m to national poverty program

The Ministry of Finance and the World Bank signed a $1.8m grant agreement for the Second Emergency Social Protection Implementation Support Project. The agreement aims to support the government in implementing its National Poverty Targeting Program for the delivery of social transfers and services to improve the living standards of the poor and vulnerable segments of the population. The ministry indicated that the funds were provided by the Canadian International Development Agency according to an agreement signed between the agency and the World Bank. It added that the grant was approved by the Cabinet on July 2011 and became effective on September 2011.

Central Bank affirms safety of Lebanese banking sector, encourages banks to raise reserves

In its monthly meeting with the Association of Banks in Lebanon, Central Bank Governor Riad Salamé encouraged commercial banks to distribute a lower share of profits in dividends and advised banks to limit dividend distribution to 25% of profits in order to strengthen their capital base and increase their reserves, given the turmoil in global financial markets. He said that parts of the profits should be allocated to free reserves in order to cover unspecified risks in the future. He indicated that, given the turmoil in the Euro zone, it is important for banks not to invest in markets with an unclear outlook, be it their private funds or customer deposits, unless clients request their money to be invested in these markets. He considered that shareholders would prefer to see lower dividend distribution over the short term in order to preserve the solidity and financial health of their investment. He urged banks to remain cautious, even at the expense of profits, in order to preserve the good standing of the banking sector. He added that this will help banks grow in a better way, even if it takes a longer period of time.

Governor Salamé also encouraged banks to subscribe to the 7-year Treasury bond carrying a 7.5% rate that the Ministry of Finance is issuing, adding that banks can subscribe in cash or through exchanging their holdings of Certificates of Deposits. He noted that this operation would provide financing to the Treasury directly from the market instead of through the Central Bank. He also stressed on the need to maintain interest rates at their current level.

In parallel, Governor Salamé affirmed that there is no indication of a trend towards imposing any sanctions or restrictions on any bank in Lebanon. He noted that sanctions on Syria targeted state-owned entities in Syria and not the private banks. He added that private banks operating in Syria or elsewhere have the duty to be very familiar with their long-time and new clients, and to detect any attempt at fronting. He said that the banks in Syria can conduct their transactions in euro or other currencies, given that transactions with the US dollar are no longer possible; and that states that imposed sanctions on Syrian entities are monitoring bank operations through the SWIFT system or indirectly.

Further, the Governor indicated that the Central Bank did not receive any concerns from correspondent banks about Lebanon or Lebanese banks, and that it did not get from any regulatory authority any similar concerns about the country or its banking sector. He noted that correspondent banks may take precautionary measures, irrespective of decisions taken by their governments, as sometimes a compliance officer may decide not to deal with a certain client or country. He added that Lebanese banks can reassess their relationship with the correspondent bank in such a hypothetical case, and can find alternative institutions to deal with if this serves their interest.

Insurance Control Commission launches complaint unit

The Insurance Commission Control (ICC) announced that it has established a specialized unit to receive and deal with complaints from insured residents. It said that the main goal of the four-member unit is to try to settle claims cordially between insurance firms and the insured, adding that the unit does not have the legal power to compel the insurer to reimburse the insured. It noted that in case mediation fails, the claim will be settled through the judicial system, with the Insurance Board of Referees dealing with car accidents and hospitalization claims of less than LBP 75m or $50,000. Further, it said the unit will help the ICC monitor market activity, as it has the power to impose sanctions and revoke the licenses of insurance companies that do not comply with their contractual and legal obligations. It said that the launch of the unit was delayed due to efficiency testing and lack of legislation related to such a unit.

Industrial exports increase by 6% to $1.9bn in first 7 months of 2011, imports up by 4% to $141m

Figures released by the Ministry of Industry show that industrial exports totaled $2.04bn in the first 7 months of 2011, constituting an increase of 5.9% from $1.9bn in the same period last year. Industrial exports reached $333m in July 2011, up 5.9% from $314.3m in June 2011 and 23.3% from July 2010. Pearls & precious or semi-precious stones accounted for $476.6m, or 23.3% of total industrial exports in the first 7 months of the year, followed by base metals & articles of base metals with $366m (18%), and machinery and mechanical appliances with $320.7m (15.7%). Arab countries accounted for 36.2% of total industrial exports in July, followed by European countries with 24%. In parallel, industrial imports reached $141.1m in the first 7 months of the year, up 4.1% from the same period in 2010. Italy was the main source of such imports and accounted for 31.7% of total. It was followed by China with 14.7% and Germany with 11.9%. Further, imports of industrial equipment and machinery reached $18m in July 2011, decreasing by 19.5% year-on-year. Italy was the main source of imports of industrial equipments, accounting for 28.3% of total, followed by Germany with 15.1% and China with 14.5%.

Lebanon ranks 79th globally, 7th in Arab world on ICT Development Index

The International Telecommunication Union's 2011 Information & Communication Technology (ICT) Development Index in 152 countries ranked Lebanon in 79th place worldwide and in 7th place among 15 Arab countries. Lebanon also ranked in 27th place among 39 upper middle income countries (UMICs) included in the survey. Lebanon ranked in 77th place globally, in 7th place regionally and in 25th place among UMICs in the previous survey. The index quantifies and tracks the digital divide among economies and measures a country's progress toward becoming an information society. The index is a composite of 11 indicators covering the level of access, usage and skills of ICT in a country.

Lebanon received a score of 3.57 points, up 14.4% from the previous survey and constituting the 11th highest growth rate among Arab countries. Its score came below the global average of 4.1 points, the UMICs' average of 4 points, and the Arab average of 3.7 points. On a global basis, Lebanon ranked ahead of China, Vietnam and Suriname and came behind Albania, Georgia and Colombia. It also ranked ahead of Peru and Suriname and behind Albania and Mexico among UMICs, as well as ahead of Tunisia and Morocco, and behind Jordan and Oman in the Arab world.

ICT Development Index 2011

	Score	Arab Rank	Global Rank
UAE	6.19	1	32
Qatar	5.60	2	44
Bahrain	5.57	3	45
Saudi Arabia	5.42	4	46
Oman	4.38	5	60
Jordan	3.83	6	73
Lebanon	**3.57**	**7**	**79**
Tunisia	3.43	8	84
Morocco	3.29	9	90
Egypt	3.28	10	91
Syria	3.05	11	96
Algeria	2.82	12	103
Yemen	1.72	13	127
Djibouti	1.66	14	129
Mauritania	1.58	15	131

Source: ITU, Byblos Research

Globally, Lebanon ranked ahead of China and behind Colombia on the ICT Access Sub-Index. This category measures the access to fixed telephone lines, mobile cellular subscriptions, international Internet bandwidth users, the proportion of households with a computer, and the proportion of households with Internet access. Also, Lebanon ranked ahead of Venezuela and behind Colombia among UMICs and came ahead of Tunisia and behind Syria in the region. Further, Lebanon ranked globally ahead of Suriname and behind Ukraine on the ICT Use Sub-Index. This category reflects the number of Internet users, fixed broadband Internet subscribers, and mobile broadband subscribers. Lebanon came ahead of Suriname and behind Jamaica among UMICs and ranked ahead of Egypt and behind Tunisia among Arab countries. In addition, Lebanon ranked ahead of Costa Rica and behind Jordan on the ICT Skills Sub-Category. This category reflects the adult literacy rate, and the secondary and tertiary gross enrolment ratios. Regionally, Lebanon ranked ahead of Saudi Arabia and behind Jordan, while it came ahead of Costa Rica and behind Colombia among UMICs.

Components of the ICT Development Index for Lebanon

Sub-Index	Global Rank	Arab Rank	UMIC Rank	Lebanon Score	Global Average Score	Arab Average Score	UMIC Average Score
Access	84	10	29	3.89	4.53	4.37	4.53
Use	87	9	30	1.29	2.37	1.87	1.91
Skills	62	3	17	7.47	6.6	6.0	7.36

Source: International Telecommunication Union, Byblos Research

Corporate Highlights

Car sales down 5.2% in first 8 months of 2011

Figures released by the Association of Automobile Importers in Lebanon indicate that a total of 21,383 new passenger cars were sold in the first 8 months of 2011, constituting a decrease of 5.2% from the 22,545 cars sold in the same period last year. Korean cars accounted for 42% of total car sales, followed by Japanese cars with a 30% share, European automobiles with 21.3%, American vehicles with 6%, and Chinese cars with 0.7%. The number of Korean cars sold grew by 29 % year-on-year. In parallel, the number of Japanese cars sold posted a drop of 25.5% year-on-year, followed by Chinese autos with a 19.2% decline, European cars with a 15% retreat, and American vehicles with a 9.2% decrease. Kia is the leading brand in the Lebanese market with 5,479 cars sold in the first 8 months of 2011, followed by Nissan with 3,772 cars sold, Hyundai with 3,486, Toyota with 945, Chevrolet with 892 cars sold, Renault with 790, and Peugeot with 641 cars. In parallel, a total of 1,403 new commercial vehicles were sold in the first 8 months of 2011, down 28.2% from the 1,953 commercial vehicles sold in the same period last year.

Middle East Venture Partners to manage Bader fund

The Beirut-based venture capital firm Middle East Venture Partners (MEVP) announced that it has signed a management agreement with Bader's Building Block Equity Fund (BBF), making MEVP the official manager of the fund. It said that BBF will target investments in new technologies such as mobile applications, online games and digital media. It added that BBF's investments will be exclusively dedicated to Lebanese companies and will be equally divided between start-ups and companies that already have stable sources of income. It noted that the fund will invest between $0.5m and $1m per firm over a period of three years. Further, it said that it has to find Lebanese investors to compensate for the exit of two European investors that contributed to 46.7% in the initial fund but that withdrew from BBF as a result of the management agreement with MEVP. It added that it plans to raise $2m for the fund to reach $10m.

Bader's Building Block Equity Fund, a venture capital fund, raised $17m in 2007 to support small and medium-sized enterprises (SMEs) in Lebanon, especially in the fields of IT and services. The investors in the fund were the European Investment Bank with 22.5% of the shares of the fund, Averroès Finance (an investment capital fund for Mediterranean countries) with 24.2%, 8 Lebanese banks and members from Bader. However, the fund only made a single $1m investment in 2009 in Luceor SAS, a networking technology company based in France. It exited the investment soon after. Bader is an organization launched by a group of local business leaders and entrepreneurs to raise awareness among Lebanese youth about the importance of entrepreneurship. Established in 2010, MEVP's venture capital fund, the Middle East Venture Partners Fund L.P., raised $10m and invested $3m in five Lebanese companies and two Saudi firms.

Bank of Beirut to issue preferred shares

Bank of Beirut sal announced that it is increasing its capital by issuing 5,400,000 in preferred shares for a total issuance of $135m. The Preferred Shares Series H are non-cumulative, non-convertible, redeemable, and subject to a call option by the bank after five years from the issuance date. The issue price is $25 per share of which $0.84 is par value and the remaining $24.16 is issue premium. Holders of the preferred shares will receive a dividend of 7% annually per share. Bank of Beirut sal, one of Lebanon's top 10 banks, announced unaudited consolidated net profits of $48.7m in the first half of 2011, up 1.2% from the same period last year. The bank had total assets of $8.95bn, loans & advances to customers of $3.12bn, and customer deposits of $6.87bn at end-June. In parallel, the Board of Directors of the bank invited its shareholders to an Extraordinary General Assembly to be held on September 28, 2011 in order to verify that the subscription was duly carried out and to announce the capital increase from LBP79,931,124,000 to LBP86,735,124,000.

Banque Bemo to launch operations in Iraq in 2012

Banque Bemo sal, one of Lebanon's listed banks, announced that it has received the approval of the Central Bank of Iraq to start operations in Iraq. It said that it plans to open a branch in Baghdad in 2012, to be followed by a branch in Erbil which will be the main branch. It added that the bank will provide private banking and corporate banking services. Banque Bemo has subsidiaries in Syria, Cyprus, France, Luxembourg and Dubai. Banque BEMO sal posted net profits of $4.9m in the first half of 2011, unchanged from the same period last year. Total assets reached $1.36bn, up 12.4% from end-2010 and customer loans & advances rose by 11.5% to $0.53bn. Customer deposits grew by 8.1% year-on-year to $1.08bn at end-June.

Last July, Moody's Investors Service downgraded Banque Bemo's long-term national-scale rating (NSR) to 'Aa3.lb' from 'Aa2.lb' and maintained the short-term NSR of 'LB-1'. The outlook on the ratings is 'negative'. It attributed the downgrade to the slowdown in the Lebanese economy so far this year and to elevated regional political risks, which exacerbate Bemo's intrinsic limitations of high single-party credit exposures, a modest franchise and marginal profitability. The agency said Bemo is vulnerable to deterioration in the credit standing of its large customers, given the bank's profile and the weakened domestic economic conditions. It added that the bank's asset quality is currently strong, but that it has very high single-party exposures, even before taking into account its exposure to the Lebanese sovereign. It noted that potential losses from the bank's Syrian subsidiary could have a significant impact on Bemo's performance.

Corporate Highlights

Saudi Oger mandates banks for $2bn syndicated loan

Saudi Oger Group, the conglomerate owned by the family of the late Prime Minister Rafiq Hariri, announced that it has mandated banks to arrange an $800m senior secured term loan and a SAR3.97bn, equivalent to $1.06bn, advance payment guarantee (APG) to finance the construction of police training facilities in Saudi Arabia. It said that the syndicated loan constituted the company's first loan to be run by non-Saudi institutions. It indicated that Deutsche Bank, China Development Bank and Emirates NBD will act as initial mandated lead arrangers and book runners for the transaction; and that lender Natixis joined later as mandated lead arranger role for both tranches. Further, it added that the Industrial and Commercial Bank of China joined as lead arranger for the term loan only, while Abu Dhabi's Al-Hilal Bank and Barclays Capital were appointed as lead arrangers for the APG only. The term loan is expected to carry a five-year tenor, with the APG lasting for three years. In August 2010, the company tapped the loan market and completed a four-year $250m loan through Crédit Agricole.

Moody's downgrades two French banks with stakes in Lebanese institutions

Moody's Investors Service downgraded by one notch the long-term debt and deposit ratings of Crédit Agricole SA (CA) to 'Aa2' from 'Aa1' and those of Société Générale (SocGen) to 'Aa3' from 'Aa2'. It also lowered CA's financial strength rating (BFSR) by one notch to 'C' from 'C+' and indicated that SocGen's BFSR of 'C' remains on review for possible downgrade to assess the impact of funding challenges on its credit profile. The agency has a 'negative' outlook on the long-term ratings of both banks. It attributed the downgrades to concerns about the banks' exposures to the Greek economy, either through their holdings of government bonds or through loans they have extended to the Greek private sector. It said that although CA has considerable capital resources to absorb potential losses arising over time from these risks, the exposures themselves are too large to be consistent with existing ratings. It added that SocGen's capital base currently provides an adequate cushion to support its Greek, Portuguese, and Irish exposures, but expressed concerns about the increase in the structural challenges to banks' funding and liquidity profiles, in light of the worsening of refinancing conditions and the bank's reliance on the wholesale market.

Crédit Agricole has a direct presence in Lebanon through its subsidiary Crédit Agricole Suisse (Liban) Financial Services sal. The bank also has a 9% stake in Banque Libano- Française and a 6% stake in Fransabank sal. In parallel, Société Générale has a 19% stake in Société Générale de Banque au Liban sal.

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	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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