



LEBANON THIS WEEK

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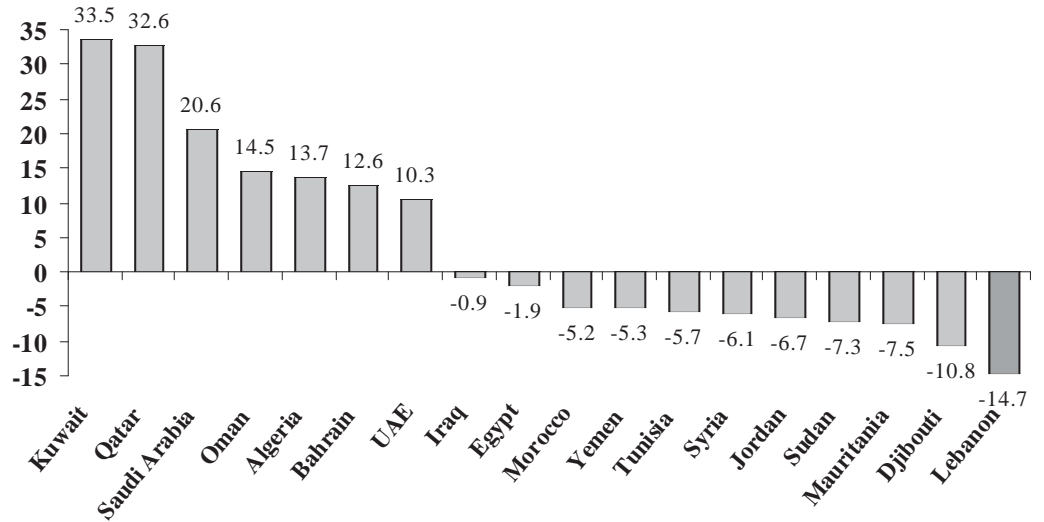
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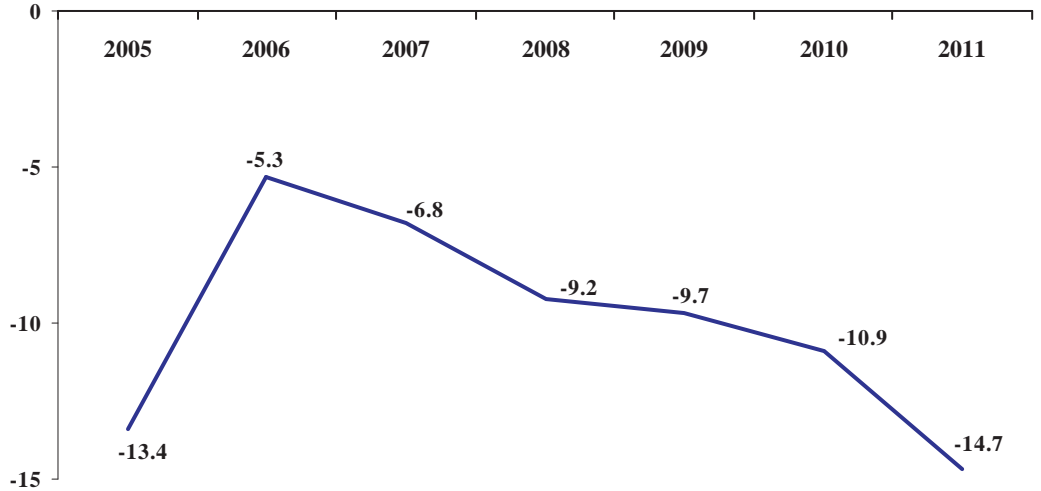
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Charts of the Week

Projected Current Account Balance of Arab Countries in 2011 (% of GDP)



Current Account Balance of Lebanon (% of GDP)



Source: International Monetary Fund, Byblos Research

Quote to Note

"Property price appreciation has been driven more by foreign investment than bank lending, mitigating risks to the banking system from the real estate sector."

Fitch Ratings, on the relatively low exposure of banks to the property sector in Lebanon

Number of the Week

141: Lebanon's rank out of 142 countries on the quality of electricity supply, according to the World Economic Forum's Global Competitiveness 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
<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

Most Traded Stocks on BSE	Last Price (\$)	% Change*	Total Volume	Weight in Market Capitalization	Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
Solidere "A"	15.29	0.92	54,698	14.28%	Mar. 2012	7.500	102.23	2.74
Solidere "B"	15.16	(0.92)	20,325	9.20%	Sep. 2012	7.750	104.50	2.82
Byblos Common	1.65	0.00	217,543	5.54%	June 2013	8.625	109.00	3.22
Byblos Pref. 08	100.00	0.00	0	1.87%	Apr. 2014	7.375	108.50	3.82
Byblos Pref. 09	100.00	0.00	9,200	1.87%	Jan. 2015	5.875	105.25	4.15
BLOM GDR	8.03	(1.71)	6,097	5.54%	Apr. 2015	10.00	119.50	4.07
BLOM Listed	8.19	0.00	0	16.44%	Jan. 2016	8.500	115.50	4.49
Audi GDR	6.89	1.03	160,161	6.34%	Mar. 2017	9.000	118.50	5.05
Audi Listed	6.11	(1.45)	124,978	19.88%	Nov. 2018	5.150	99.00	5.32
HOLCIM	16.34	(2.16)	1,674	2.98%	Apr. 2021	8.250	116.75	5.88

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

Source: Byblos Capital Markets

	Sept. 19-23	Sept. 12-16	% Change	August 2011	August 2010	% Change
Total Shares Traded	615,376	1,091,446	(43.62)	4,130,284	2,924,222	41.24
Total Value Traded	\$4,568,616	\$8,672,747	(47.32)	\$42,508,858	\$35,867,053	18.52
Market Capitalization	\$11.71bn	\$11.75bn	(0.35)	\$11.08bn	\$12.19bn	(9.06)

Source: Beirut Stock Exchange (BSE)



Growth forecast reduced to 1.8% for 2011 and 3.6% in 2012 on spillovers from Syrian crisis

Barclays Capital downgraded its growth forecast for Lebanon to 1.8% in 2011 from an earlier estimate of 3%, and to 3.6% for 2012 from a previous projection of 4.5%. It attributed the revision of its forecast to the impact of the ongoing Syrian crisis on economic activity in Lebanon, as spillovers from the crisis have affected construction, tourism and consumption. It expected that the weakening outlook for the services sector, especially tourism, along with higher consumer prices, to further dampen domestic demand and to slow consumption next year. It said the economy has slowed considerably and the external position has weakened so far this year, but added that the banking sector's liquidity and the level of foreign currency reserves at the Central Bank provide a solid buffer. It noted that the aggravation of the Syrian crisis, with no end to it in sight, is likely to keep the current government in a wait-and-see mode, and expected it to implement as few reforms as possible without addressing key structural challenges.

Barclays indicated that the resulting slowdown in tourism and other services exports, along with a decrease in capital flows, has led to a balance-of-payments deficit of \$0.8bn in the first 7 months of 2011, slightly higher than the deficit posted in the same period of 2005, a year of extreme political turbulence. It considered that the more unstable the situation is in Syria, the less favorable Lebanon is as a tourist destination and the greater the disruption and the costs of exporting products to neighboring Arab countries. It noted that this does not bode well for the revival of exports and tourism anytime soon, which is likely to lead to a further weakening in the services balance and a widening of the current account deficit to 12.5% of GDP in 2011 from 10% in 2010. It added that pressures on the balance of payments remain manageable, given the level of foreign currency reserves at the Central Bank. It said reserves declined by almost \$1bn from a peak of \$31.7bn in August 2010, but are at a comfortable level or 12 months of import cover, and should remain at this level unless the security situation deteriorates significantly and in case of massive outflows from the banking system, a scenario that it considered extremely unlikely.

Barclays said that risks of a wider fiscal deficit next year are high. It expected public revenues to remain subdued this year due to weaker consumer confidence and slowing economic activity, and spillovers from regional political risks into local domestic politics. But it forecast the deficit to stay around 7.6% of GDP this year, given the slow pace of expenditure increases in the last quarter. It noted, however, that the 15% increase in expenditures expected in the 2012 budget, as well as the slow pace of reforms, does not bode well for further improvements in debt dynamics. It warned that imminent decisions to proceed with public sector recruitment, without any planned efforts to rationalize the size and functions of some public institutions, reflect the lack of political will to improve efficiency in the public sector and to curb corruption. It added that the absence of a clear timetable for implementing reforms in the power sector, while proceeding with an ambitious spending plan of more than \$1.2bn in investments over the next four years, does not bode well for badly needed improvements in cost recovery. As such, it forecast the fiscal deficit to widen to 8.5% of GDP in 2012.

Key Macroeconomic Indicators				
	2009	2010E	2011F	2012F
Activity				
Real GDP (% yoy)	8.5	7.5	1.8	.3.6
CPI (% average)	1.2	4.5	5.0	3.0
External Sector				
Current account balance (\$bn)	(3.3)	(4.0)	(5.3)	(5.4)
Current account balance (% of GDP)	(9.5)	(10.1)	(12.5)	(12.0)
Gross external debt (% of GDP)	168.9	160.5	161.6	162.6
International reserves (\$bn)	29.1	31.5	30.1	31.4
Public Sector				
Public sector balance (% of GDP)	(8.5)	(7.4)	(7.6)	(8.5)
Primary balance (including grants) (% of GDP)	3.1	3.1	2.5	3.3
Gross public debt (\$bn)	51.1	53.6	56.9	60.0
Gross public debt(% of GDP)	146.4	136.7	135.2	133.6

Source: Barclays Capital

Economic activity stagnates in July, overall slowdown trend continues

The Central Bank's Coincident Indicator, an index of economic activity in Lebanon, reached 257.1 points in July 2011 compared to 261.8 in June 2011 and 251.9 in July 2010. The Coincident Indicator, an average of 8 weighted economic indicators, declined by 1.8% in July and increased by 2.1% year-on-year. The indicator averaged 252.1 in the 12-months ending July 2011 compared to 251.7 in the 12-months ending June 2011 and to 242.9 in the 12-months ending July 2010. As a result, the average coincident indicator grew marginally by 0.2% month-on-month and rose by 3.8% year-on-year, which reflects economic stagnation in real terms. The indicator posted its fourth decline this year, as it contracted by 0.4% in January, 4.4% in February and 4.2% in May. The indicator reached an all-time high of 269.9 in April after peaking at 266.7 last November. Further, the month-to-month decrease in July constituted the second steepest drop ever for the indicator for the covered month, excluding the 26.3% contraction in July 2006. In parallel, the indicator improved 8 times and regressed 11 times in the month of July since 1993. The indicator averaged 249.5 in 2010 and 225.9 in 2009.

IMF projects real GDP in Lebanon at 1.5% in 2011, economy to post 16th slowest growth rate in the world

The International Monetary Fund projected economic growth in Lebanon at 1.5% in 2011 compared to growth of 4% in the Middle East & North Africa, 1.4% for oil importing economies and 0.8% for the Mashreq economies, as well as compared to growth of 6.4% in emerging and developing economies and 4% for the world economy. Lebanon's projected growth rate in 2011 would make it the third slowest growing economy in the MENA region, similar to Bahrain, and ahead of Egypt at 1.2% and Tunisia at zero percent. Another three Arab economies are set to contract this year. Lebanon would also be the 16th slowest growing economy in the world in 2011 when excluding contracting economies, as its growth rate is projected to be similar to that of Romania, Jamaica, the United States, and Bahrain.

It also projected Lebanon's real GDP growth at 3.5% in 2012 compared to 3.6% in the MENA region and 1.9% in the Mashreq countries. Lebanon's projected growth rate in 2012 would make it the sixth slowest growing economy in the MENA region. Also, it would be the 62nd slowest growing economy globally and would tie with Albania, Montenegro, and Honduras.

The Fund forecast inflation in Lebanon to average 5.9% this year, sixth highest in the region, relative to 9.9% for the MENA and 9.6% for the Mashreq region. Lebanon's inflation rate averaged 4.5% in 2010 and 1.2% in 2009. Further, it projected Lebanon's current account deficit at 14.7% of GDP in 2011 compared to a surplus of 11.2% of GDP for the region and a deficit of 4.5% of GDP for the Mashreq countries. Lebanon posted current account deficits of 10.9% of GDP in 2010 and 9.7% of GDP in 2009.

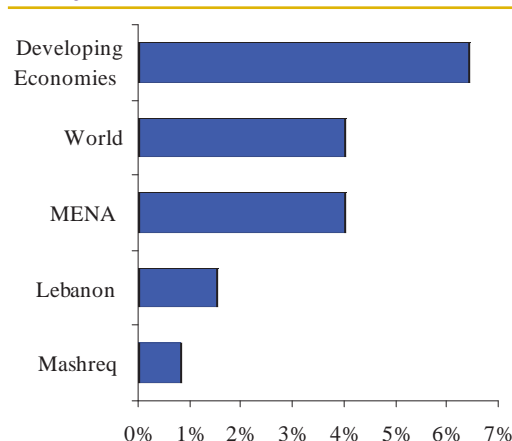
In parallel, the IMF estimated Lebanon's economic growth at 7.5% in 2010 compared to growth of 4.4% in the MENA region and 4.9% for the Mashreq economies, as well as compared to growth of 7.3% in emerging and developing economies and 5.1% growth for the world economy. Lebanon was the third fastest growing economy in the MENA region last year, behind Yemen at 8% and Qatar at 16.6%. It was also the 31st fastest growing economy in the world in 2010, as its growth rate was similar to that of Brazil, Panama, and Rwanda last year.

The Fund previously highlighted the weaknesses in the availability, quality, and timeliness of economic data in Lebanon, and urged the authorities to take bold steps to improve Lebanon's statistical system. It noted that Lebanon's statistical system remains weak and in need of significant improvement, which mitigates the growth forecasts. It said real sector statistics should be compiled on a timely basis. It added that data shortage in national accounts, employment and wage statistics, coverage of the fiscal accounts, balance of payments statistics, and the real estate sector, among others, still hamper economic analysis and policy development.

Parliament approves amended version of electricity plan

The Lebanese Parliament ratified the amended version of the electricity plan that was endorsed earlier by the Cabinet, and that would raise the country's electricity production by 700 Megawatts during the 2011-14 period. The plan allocates 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 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.

Projected Real GDP Growth in 2011 (%)



Source: International Monetary Fund, September 2011

Lebanon ranks 82nd globally, 11th in MENA region in country risk, posts highest increase in scores and rankings regionally

In its quarterly survey of the country risk of 184 countries, *Euromoney* magazine ranked Lebanon in 82nd place worldwide and in 11th place among 20 countries in the Middle East & North Africa region in September 2011. Also, Lebanon came in 22nd place among 45 upper middle income countries (UMICs) included in the survey. Lebanon ranked in 92nd place globally and in 11th place regionally in June 2011, and in 90th place globally and 12th place regionally in the March 2011 survey. The survey evaluates individual country risk by assigning a weighting to six categories that cover Political Risks, Economic Performance, Access to Bank Finance & Capital Markets, Debt Indicators, Credit Ratings, and Structural Assessment.

Globally, Lebanon ranked ahead of Macedonia, Paraguay and Nigeria, and came behind Azerbaijan, Mongolia and Serbia. It also ranked ahead of Macedonia and behind Azerbaijan among UMICs. Lebanon's rank on the Political Risks category regressed by three spots from last June, its ranking on the Credit Rating category regressed by two spots, its rank on the Economic Performance and Structural Assessments categories improved by one spot each, its ranking on the Access to Bank Finance & Capital Markets category improved by 47 spots, while its rank on the Debt Indicators category remained unchanged.

In parallel, Lebanon received a score of 46.01 points, an increase of 10.1% from 41.8 points in the June 2011 survey and up 5.7% from 43.53 points in the March 2011 survey. Its score came below the global average of 45.82 points and lower than the MENA and Arab averages of 46.96 points and 46.6 points, respectively, as well as below the UMICs' average score of 43.4 points. Lebanon's score remained unchanged on the Economic Performance, Structural Assessments, Debt Indicators and Credit Ratings categories. Its score on Political Risks declined by 1.3%, while its score on Access to Bank Finance & Capital Markets increased by 288.7% from last June.

Lebanon posted the largest increase in scores and rankings among MENA countries in the September 2011 survey from June 2011. The increase in Lebanon's overall score and rank was driven primarily by the increase in the Access to Bank Finance & Capital Markets score. The scores of 16 MENA countries improved, 3 regressed and one remained unchanged from June 2011, while the rankings of 11 countries improved, eight declined and one remained unchanged in the covered period.

Lebanon ranked ahead of Belize and behind Madagascar globally, while it came ahead of Algeria and behind Tunisia regionally on the Political Risks category. Also, it tied with Gambia and Seychelles, ranked ahead of Vietnam and behind Latvia worldwide, while it came ahead of Syria and behind Iraq regionally in Economic Performance. Further, it ranked ahead of Brazil and behind Serbia globally, and ahead of all Arab countries on the Structural Assessment category. Finally, Lebanon tied with Dominica, ranked ahead of Tajikistan and behind Turkey globally, and came ahead of Algeria and behind Tunisia regionally on the Debt Indicators category.

MENA Countries Rankings & Scores			
	Score	MENA Rank	Global Rank
Qatar	75.89	1	20
Kuwait	71.41	2	29
UAE	68.99	3	32
Oman	68.90	4	34
Israel	67.44	5	36
Saudi Arabia	66.25	6	38
Bahrain	55.41	7	61
Morocco	52.64	8	68
Jordan	50.93	9	71
Tunisia	48.34	10	78
Lebanon	46.01	11	82
Egypt	42.30	12	94
Algeria	39.56	13	102
Iran	33.69	14	125
Syria	32.59	15	133
Sudan	30.10	16	137
Iraq	29.60	17	138
Yemen	27.38	18	148
Libya	21.99	19	157
Mauritania	9.74	20	178

Source: *Euromoney*, *Byblos Research*

Country Risk Indicators for Lebanon - September 2011

	Weighting (%)	Score	MENA Rank	Global Rank	MENA Avg Score	Global Avg Score
Political Risk	30	12.11	11	101	12.27	13.72
Economic Performance	30	13.50	12	95	14.42	13.25
Structurals Assessments	10	5.89	2	43	4.76	3.83
Debt Indicators	10	7.22	13	119	7.26	7.80
Credit Rating	10	1.46	12	111	3.46	3.30
Access to Bank Finance & Capital Markets	10	5.83	9	72	4.79	4.54

Source: *Euromoney September 2011*, *Byblos Research*

Lebanon is 72nd most affordable country globally, 8th most affordable regionally in terms of ICT services

The International Telecommunication Union's 2011 Information & Communication Technology Price Basket in 165 countries ranked Lebanon as the 72nd most affordable country worldwide and the 8th most affordable country among 15 Arab countries. Lebanon was also the 19th most affordable country among the 42 Upper Middle Income Countries (UMIC) included in the survey. The ICT Price Basket is a composite of three price sub-baskets that represent the cost of fixed line telephony, mobile cellular telephony and broadband Internet services, evaluated as a percentage of GNI per capita in a given country. Lebanon's ICT cost accounts for 3% of its GNI per capita, down from 3.8% in the previous survey and compared to the global average of 12.4%, the Arab average of 8.2% and the UMIC average of 4.3%.

On a global basis, ICT services in Lebanon are more affordable than in China, Argentina and Bosnia & Herzegovina, and are more costly than in Algeria, Qatar and Ukraine. Also, Lebanon's ICT services are considered to be more affordable than in Argentina and Bosnia & Herzegovina, and less affordable than in Algeria and Montenegro among UMICs. Regionally, ICT services in Lebanon are more affordable than in Egypt and Jordan and less affordable than in Algeria and Qatar.

Globally, Lebanon tied with Croatia, New Zealand, Slovak Republic, Algeria, China, Moldova and Tajikistan and ranked ahead of Armenia and behind Trinidad & Tobago and Portugal on the affordability of Fixed Telephony. Also, Fixed Telephony in Lebanon is as affordable as in Algeria, but more affordable than in Uruguay and less affordable than in Colombia, Montenegro and Lithuania among UMICs. Regionally, it is as affordable as in Algeria, more affordable than in Egypt and less affordable than in Yemen. The ITU found that Mobile Telephony in Lebanon is as affordable as in Colombia, Egypt and the Dominican Republic, more affordable than in Bangladesh and Ecuador, and less affordable than in Tonga among UMICs. Also, Mobile Telephony in Lebanon is as affordable as in Colombia and the Dominican Republic, more affordable than in Namibia and South Africa, and less affordable than in Bosnia & Herzegovina among UMICs; while it is as affordable as in Egypt, more affordable than in Yemen and less affordable than in Algeria. Also, Broadband Internet Services in Lebanon are as affordable as in Tunisia, more affordable than in Macedonia and less affordable than in Montenegro and Malaysia. Regionally, Broadband Internet Services in Lebanon are as affordable as in Tunisia, more affordable than in Algeria and less affordable than in Oman.

	ICT Price Basket Value*	Arab Rank	Global Rank
UAE	0.4	1	5
Bahrain	0.7	2	18
Saudi Arabia	1.1	3	36
Oman	1.2	4	39
Tunisia	2.5	5	65
Qatar	2.7	6	70
Algeria	3.0	7	71
Lebanon	3.0	8	72
Egypt	3.5	9	78
Jordan	3.9	10	84
Syria	7.1	11	107
Morocco	9.6	12	117
Mauritania	23.4	13	129
Djibouti	24.7	14	130
Yemen	36.8	15	144

* % of GNI per capita

Source: ITU, Byblos Research

Sub-Basket	Global Rank	Arab Rank	UMIC Rank	Lebanon value*	Global Average Value*	Arab Average Value*	UMIC Average Value*
Fixed	69	9	19	1.5	5.5	3.5	2
Mobile	94	9	28	4.1	8.3	5.9	3.7
Broadband	70	5	19	3.4	84.5	17.7	13.9

* % of GNI per capita

Source: International Telecommunication Union, Byblos Research

Launch of household survey

The Central Administration of Statistics (CAS) announced the launch of the National Household Budget Survey for 2011, which is the first such survey to take place since 2004. The survey will cover a sample of 4,000 households and will be conducted in cooperation with the World Bank. The results will provide a statistical database on the characteristics of demographic and social development of households and individuals, the line of work of individuals, housing and house living conditions, and details on income distribution and household spending. The findings will help assess poverty levels and update the weights used in the compilation of the consumer price index. In addition, the survey will provide figures on labor and unemployment levels.

Cabinet approves borders of Exclusive Economic Zone

The Cabinet approved the proposed borders of Lebanon's Exclusive Economic Zone in the Mediterranean. Last August, the Lebanese Parliament ratified a draft law that demarcates Lebanon's maritime border with Israel and Cyprus. The law came after the Lebanese government accused Israel of seeking to annex a large part of Lebanon's territorial waters in an area that is likely to contain significant oil and gas reserves. In July, the Israeli Cabinet approved the demarcation of its northern maritime border, but the Lebanese authorities declared that Israel had incorporated into its version a 17-kilometer long line that had been left undefined in Lebanon's 2007 agreement with Cyprus, thereby adding parts of Lebanese territory to Israel's claimed economic zone and infringing on Lebanon's Exclusive Economic Zone by 854 square kilometers.

The United States Geological Survey (USGS) estimates that the Levant Basin Province has a mean of 1.7 billion barrels of recoverable oil and a mean of 122 trillion cubic feet of recoverable gas. The Levant Basin Province encompasses approximately 83,000 square kilometers of the eastern Mediterranean area off the coasts of Lebanon, Syria, Cyprus and Israel. The USGS stressed that the estimates represent technically-recoverable oil and gas resources, and are not estimates of economically-recoverable resources. The Ministry of Energy & Water indicated that the first licensing round for offshore gas exploration would take place at the end of 2011.

Parliament endorses public transport subsidy plan

The Parliament endorsed a public transport subsidy plan that would allocate monthly payments to public transport drivers over a three-month period. The plan was approved by former Finance Minister Raya al-Hasan last May due to the surge in gasoline prices. The plan will provide a monthly subsidy that covers the cost of 12.5 jerry cans to about 40,000 licensed taxi drivers and an unspecified number of truck drivers. As such, the plan allocates LBP470,000 to taxi drivers and LBP350,000 to truck drivers over the three months period.

Last February, the government approved the reduction of the excise tax on gasoline by LBP5,000, or \$3.3, per 20 liters due to the increase in global oil prices, as Lebanon imports all of its energy needs and retail gasoline prices are affected by the fluctuations of international oil prices. Excise taxes have been fixed by the government since January 2009 at LB476.5 per liter or LBP9,530 per 20 liters for 95 octane gasoline, and at LBP474 per liter or LBP9,480 per 20 liters for 98 octane gasoline. As such, the decision constituted declines of 52.5% and 52.7% on 95 octane and 98 octane gasoline, respectively. Revenues from the gasoline excise tax totaled \$690m and accounted for 10.4% of tax revenues in 2010. The new subsidies and the reduction in excise fees are expected to raise government expenditures and reduce government revenues and, therefore, to have a negative impact on the fiscal deficit in the absence of structural reforms to reduce government spending and borrowing needs.

Water management agreement to provide farmers with access to irrigation water

The Ministry of Energy & Water and the Ministry of Agriculture signed a water management agreement that aims to provide farmers with access to water for agricultural irrigation. The Energy Ministry said that the plan underlines the importance of irrigation projects in developing the agricultural sector. It added that the \$370m program is financed by the Italian government and the Food and Agriculture Organization over a five-year period. It noted that the program includes the rehabilitation of obsolete water networks and the delivery of water to about 15,000 hectares of agricultural land. It indicated that agricultural irrigation accounts for around 60% of Lebanon's aggregate water demand.

Last January, the ministry unveiled a national water strategy that aims to increase Lebanon's water supply to 1,862 million of cubic meters by 2035 and close the existing water deficit. It noted that the current water demand in a dry year is around 1,474 million m³ compared to supply of 1,191 million m³, leading to an annual deficit of 283 million m³. It forecast demand to rise to 1,800 m³ by 2035, which would result in a yearly water deficit of about 600 million m³ by then if no measures were taken.

Consumer Price Index up 5.5% annually in August

The Central Administration of Statistics' Consumer Price Index indicates that inflation increased by 5.5% in August 2011 from August 2010. Prices of water, electricity, gas & other fuels increased by 14.3%, followed by clothing and footwear (+8.8%), transportation (+7.5%), health care (+7.3%), education (+6.7%), food & non-alcoholic beverages (+6.2%), restaurants & hotels (+5.4%), furnishings & household equipment (+3.7%), recreation & entertainment (+3.5%), miscellaneous goods & services (+1.8%) and alcoholic beverages & tobacco (+0.7%). In parallel, housing prices and communication remained unchanged year-on-year. Imported inflation accounts for about 70% of inflation in the country, as Lebanon has an import-based economy. Lebanon imports most of its energy needs and the value of imports historically has been equivalent to about five times that of exports.

The Consumer Price Index decreased by 0.5% in August 2011 from July 2011. Prices of food & non-alcoholic beverages increased by 1.5%, followed by transportation cost (+1.2%), water, electricity, gas & other fuels (+0.5% each), prices at restaurants & hotels (+0.4%), miscellaneous goods & services (+0.3%), alcoholic beverages & tobacco (+0.2%), recreation & entertainment (+0.2%), clothing & footwear (+0.1%) and furnishings & household equipment (+0.1%). Further, the cost of housing, health care, communication and education remained unchanged month-on-month. The Consumer Price Index grew by 5.8% year-on-year in July and increased by 6% year-on-year in June.



Construction permits down 1.3% in first 7 months of 2011

Figures released by the Association of Engineers of Beirut & Tripoli show that construction permits issued in the first 7 months of 2011 reached 10 million square meters, constituting a decrease of 1.3% from 10.1 million square meters in the same period last year. Construction permits totaled 1.2 million square meters in July 2011, down 30.7% year-on-year from 1.7 million square meters in July 2010. In parallel, cement deliveries reached 3.2 million tons in the first 7 months of 2011, an increase of 4.6% from 3.1 million tons in the same period last year. Cement deliveries reached 587,000 tons in July 2011, up 13.5% from 517,000 tons in July 2010.

Cleared checks up 3%, returned checks down 4% in first 7 months of 2011

The value of cleared checks reached \$41.3bn in the first 7 months of 2011, constituting an increase of 2.9% from the same period of 2010. The value of cleared checks in Lebanese pounds rose by 9.1% to the equivalent of \$8.4bn, while the value of cleared checks in US dollars increased by 1.4% to \$32.9bn. The dollarization rate of cleared checks decreased to 79.8% from 80.9% in the same period last year. Also, the value of returned checks in domestic and foreign currency amounted to \$826m in the first 7 months of 2011, down 4.2% from \$862m in the same period last year. In parallel, the number of cleared checks totaled 7.5 million checks in the first 7 months of 2011, up 0.8% from the same period of 2010. Also, the number of returned checks totaled 147,000 checks and rose by 8.9% in the covered period.

Corporate Highlights

Insurance premiums up 17% to \$623.3m in first half of 2011

Figures released by the Association of Insurance Companies in Lebanon (ACAL) indicated that insurance premiums in Lebanon totaled \$623.3m in the first half of 2011, constituting an increase of 17% from the same period last year. In comparison, premiums grew by 4% in 2010. ACAL said that most of the growth was realized in the second quarter of the year, as aggregate premiums grew by only 1% year-on-year in the first quarter.

It noted that the medical and life categories were the main drivers of premium growth in the second quarter as they posted increases of 29% and 24%, respectively, compared to growth of 9% for medical premiums and a contraction of 4% for life premiums in the first quarter of the year. It added that medical insurance premiums accounted for 33.5% of the sector's aggregate premiums in the second quarter compared to 30.4% in the first quarter, followed by motor insurance with 25.7% relative to 23.9% in the previous quarter, and life premiums with a 23.1% share compared to 24.7% in the first quarter.

In parallel, it indicated that total benefits and claims paid by insurance companies stood at \$258.5m in the first half of 2011, constituting a 10% annual increase. Claims and benefits paid reached \$144.2m in the second quarter and rose by 17% from the same period last year, while they reached \$114.3m in the first quarter and increased by 4% year-on-year. It noted that medical claims accounted for 44.4% of total payments, followed by motor policies payments with 30.3%. ACAL said its figures cover over 90% of all underwriting activities in the sector, as they include 95% of non-life premiums and 80% of life premiums.

Economy Ministry calls for consolidation of insurance sector

The Ministry of Economy & Trade urged the consolidation of the insurance sector in Lebanon through the merger of inadequately-managed firms with more liquid insurers. It indicated that many insurance firms are selling policies that do not comply with the ministry's rules and regulations. It added that some insurers are selling policies at significantly reduced prices, which raises questions about their ability to fulfill their financial obligations to clients. The ministry encouraged the ratification of a modern insurance law raise the industry's standards, as it considered that the sector has yet to reach its full potential. It noted that the current law does not provide a clear mechanism for enforcing penalties on insurance firms. There are 54 licensed insurance companies in Lebanon, with the top 10 insurers accounting for 64.7% of the combined life and non-life market and the top 20 firms representing 86.4% of aggregate premiums. Insurance premiums generated in Lebanon totaled \$1.165bn in 2010, of which non-life premiums totaled \$808.1m and life premiums \$356.7m. Overall premiums rose by 13% in 2010, with non-life premiums growing by 12.2% and life premiums rising by 14.8% from the previous year.

Hotel occupancy at 67% in July

Figures released by Deloitte and STR Global show that the occupancy rate at Beirut hotels was 67.4% and the revenue per available room (RevPAR) amounted to \$189 in July 2011. Deloitte and STR Global said occupancy rates at Beirut hotels dropped by 9.8% year-on-year and that RevPAR regressed by 23.5% in the covered month, both posting the second steepest year-on-year contraction in the Middle East after Cairo. The occupancy rate at hotels in the Middle East was 64.6% during the covered month and increased by 8.7% from July 2010, while the region's RevPAR was \$105, up 9.2% from the same month last year.

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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