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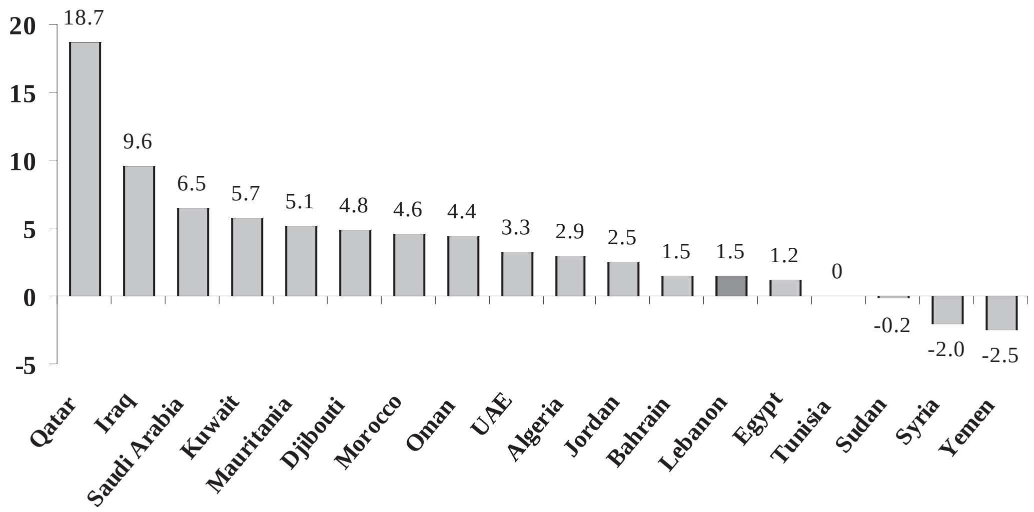
LEBANON THIS WEEK

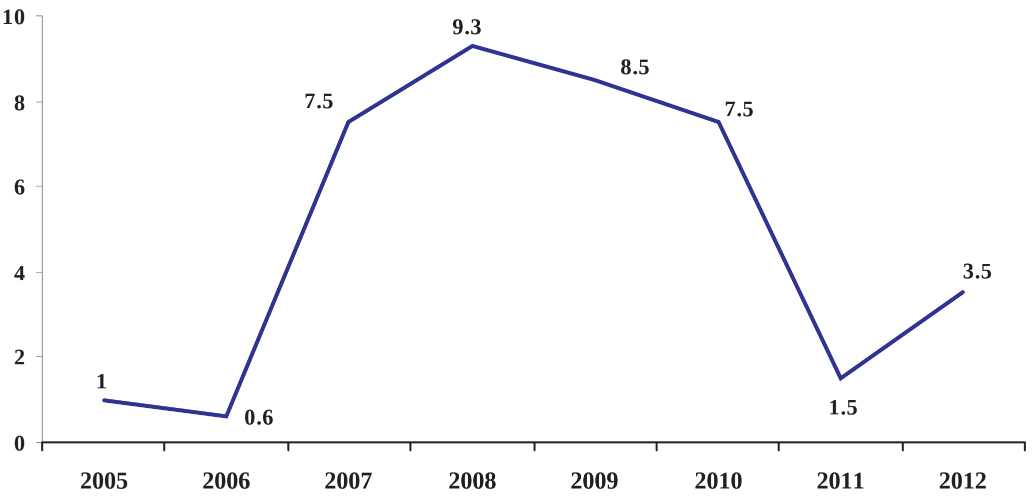
In This Issue

Charts of the Week

Projected Real GDP Growth of Arab Countries in 2011 (%, per year)



Real GDP Growth in Lebanon (%, per year)



Source: International Monetary Fund, Byblos Bank

Quote to Note

"This does not bode well for the revival of exports and tourism anytime soon."

Barclays Capital, on the impact of the lingering Syrian crisis on the Lebanese economy

Number of the Week

112: Lebanon's rank out of 142 countries in terms of intellectual property protection, according to the World Economic Forum's Global Competitiveness Index for 2011-12

Economic Indicators

$m *(unless otherwise mentioned)*	2009	July 10	2010	May 11	June 11	July 11	% Change*
Exports	3,486	303	4,256	377	411	415	36.96
Imports	16,241	1,850	17,956	1,578	1,571	1,679	(9.24)
Trade Balance	(12,755)	(1,547)	(13,700)	(1,201)	(1,160)	(1,264)	(18.29)
Balance of Payments	7,899	994	3,326	(445)	564	(307)	(130.89)
Checks Cleared in LBP	11,122	1,783	13,519	1,145	1,156	1,218	(31.69)
Checks Cleared in FC	45,270	4,898	53,925	4,495	4,716	5,939	21.25
Total Checks Cleared	56,392	6,681	67,444	5,640	5,872	7,157	7.12
Budget Deficit/Surplus	(2,960)	(278)	(2,892)	183	350	67.1	(124.13)
Primary Balance	1,078	159	1,232	455	459	314.4	97.74
Airport Passengers	4,986,544	684,084	5,552,260	420,133	517,860	702,265	2.66

$bn *(unless otherwise mentioned)*	Dec 2009	July 10	Mar 11	May 11	June 11	July 11	% Change*
BdL FX Reserves	25.66	27.93	28.54	28.44	28.33	28.91	3.51
In months of Imports	*18.6*	*15.10*	*17.40*	*18.02*	*18.03*	*17.2*	*13.91*
Public Debt	51.09	50.77	52.59	52.72	52.52	52.8	4.00
Net Public Debt	44.11	44.30	45.61	45.70	45.6	45.5	2.71
Bank Assets	115.25	127.05	132.49	134.04	135.43	136.88	7.74
Bank Deposits (Private Sector)	95.77	101.93	108.15	110.47	111.48	112.14	10.02
Bank Loans to Private Sector	28.37	32.86	36.43	37.45	37.26	28.34	(13.76)
Money Supply M2	34.16	38.24	37.14	37.22	36.61	36.84	(3.66)
Money Supply M3	82.08	88.10	92.76	94.11	94.23	94.65	7.43
LBP Lending Rate (%)	9.04	8.09	7.73	7.67	7.59	7.33	(76b.p.)
LBP Deposit Rate (%)	6.75	5.79	5.63	5.64	5.62	5.59	(20b.p.)
USD Lending Rate (%)	7.28	7.05	7.24	7.04	6.98	7.03	(2b.p)
USD Deposit Rate (%)	3.05	2.80	2.82	2.84	2.81	2.86	6b.p.
%* Change in CPI**	4.20	3.90	6.94	7.30	6.16	6.28	238b.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"	15.18	(0.72)	94,554	14.26%
Solidere "B"	15.06	(0.66)	26,861	9.19%
Byblos Common	1.65	0.00	262,524	5.57%
Byblos Pref. 08	100.00	0.00	4,671	1.88%
Byblos Pref. 09	100.00	0.00	1,329	1.88%
BLOM GDR	7.98	(0.62)	14,125	5.54%
BLOM Listed	8.19	0.00	0	16.54%
Audi GDR	6.76	(1.89)	257,798	6.26%
Audi Listed	6.00	(1.80)	250,122	19.64%
HOLCIM	16.50	0.98	700	3.02%

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

Sovereign Eurobonds	Coupon %	Mid Price $	Mid Yield %
Mar. 2012	7.500	102.23	2.74
Sep. 2012	7.750	104.50	2.82
June 2013	8.625	109.00	3.22
Apr. 2014	7.375	108.50	3.82
Jan. 2015	5.875	105.25	4.15
Apr. 2015	10.00	119.50	4.07
Jan. 2016	8.500	115.50	4.49
Mar. 2017	9.000	118.50	5.05
Nov. 2018	5.150	99.00	5.32
Apr. 2021	8.250	116.75	5.88

Source: Byblos Capital Markets

	Sept. 26-30	Sept. 19-23	% Change	Sept. 2011	Sept. 2010	% Change
Total Shares Traded	932,267	615,376	51.50	3,302,725	3,705,098	(10.86)
Total Value Traded	$6,584,057	$4,568,616	44.11	$28,432,174	$49,787,087	(42.89)
Market Capitalization	$10.65bn	$10.71bn	(0.60)	$10.65bn	$12.38bn	(14.02)

Source: Beirut Stock Exchange (BSE)

Global investment banks recommend Lebanese Eurobonds

Merrill Lynch changed its recommendation on Lebanon's external debt to 'Over Weight' from 'Market Weight' in its model portfolio of emerging markets debt and raised Lebanon's allocation to 3.9% from 3.5% in the portfolio. Lebanon's external debt rating of 'Over Weight' placed it in the same category as Abu Dhabi, Jordan, Qatar, South Africa, the Philippines, and Uruguay. Lebanon's allocation is the second highest after the Philippines among countries with an 'Over Weight' recommendation. Lebanon accounted for 9.3% of the allocations in the Emerging Europe, the Middle East & Africa (EEMEA) region, and constituted the third highest allocation in the EEMEA region. Also, Lebanon had the same allocation as Columbia and was the 8th highest in the universe of 42 emerging economies in the portfolio. Merrill Lynch attributed its recommendation on Lebanese Eurobonds to their low beta correlation with international markets, given increased global risk aversion. It added that it changed Lebanon's debt to 'Over Weight' despite concerns about domestic politics and the risk of further deterioration in the fiscal outlook. It noted that Lebanese Eurobonds have outperformed Merrill Lynch's Sovereign Plus Debt Index since the emerging markets sell-off in August, while the high interest rate differential, or carry, has helped. It said Lebanon's external debt posted returns of 0.2% in September compared to -4.6% for the EEMEA region and -3.6% for emerging markets. It added that Lebanon's returns in September constituted the only positive performance among 42 emerging economies in the portfolio. It considered that the main risk for Lebanon remains contagion spillovers from the unrest in Syria.

EEMEA External Debt

Country	Weight (%)	Recommendation
Turkey	9.0	Market Weight
Russia	8.9	Market Weight
Lebanon	**3.9**	**Over Weight**
Qatar	3.4	Over Weight
Poland	2.4	Under Weight
Romania	2.4	Market Weight
Hungary	1.9	Under Weight
South Africa	1.9	Over Weight
Ukraine	1.7	Under Weight
Abu Dhabi	1.1	Over Weight
Lithuania	1.1	Under Weight
Croatia	1.0	Under Weight
Bahrain	0.5	Under Weight
Iraq	0.5	Under Weight
Morocco	0.5	Market Weight
Egypt	0.4	Under Weight
Belarus	0.3	Market Weight
Bulgaria	0.3	Under Weight
Jordan	0.2	Over Weight
Nigeria	0.1	Under Weight

Source: Merrill Lynch, September 2011

In parallel, Barclays Capital maintained its recommendation on Lebanese Eurobonds at 'Market Weight' in its emerging markets credit portfolio and raised Lebanon's allocation to 2.8% from 2.4% in the portfolio. Lebanon's external debt rating of 'Market Weight' placed it in the same category as Poland, Ukraine, Bulgaria, Croatia, Venezuela, Argentina, Panama, the Dominican Republic, and Pakistan. Lebanon's allocation is the second highest after Argentina among countries with a 'Market Weight' recommendation. Lebanon accounted for 7% of the allocations in the EEMEA region, and constituted the fourth highest allocation in the region. Also, Lebanon's allocation was the 12th highest in the universe of 30 emerging economies in the portfolio.

Barclays Capital said the recent global market turmoil has had a limited effect on Lebanese credit spreads, in line with Lebanon's historically low correlation to global market drivers, and despite the domestic political uncertainties. It considered that this trend is unlikely to change, given the high level of local liquidity and the support for the Eurobonds. It noted that Lebanon's external debt may be an attractive asset class to temporarily increase allocations in an environment of global market uncertainties. However, it cautioned that political risks in the country remain elevated.

Labor Ministry eases right to work for spouses and children of Lebanese women

The Ministry of Labor issued decrees facilitating the right to work in Lebanon for spouses and children of Lebanese women. The changes to the labor law would grant work permits to children and spouses of Lebanese women, and will not restrict work to occupations allowed to foreigners. They also simplify administrative procedures and allow employers of spouses and children of Lebanese women to reclaim bank guarantees of LBP1.5m per person that are usually blocked for that purpose. Further, the ministry sent an official request to the Cabinet requesting the inclusion of a specific clause in the finance law to waive the fees needed for issuing a work permit as well as a pre-work permit approval for all children and spouses of Lebanese women, effective one year after the official marriage registration for the spouses. It noted that the decrees aim to eliminate discrimination against non-Lebanese children and spouses of Lebanese women.

Launch of anti-corruption campaign

The Lebanese Transparency Association (LTA), the local chapter of global advocacy organization Transparency International (TI), launched the first global campaign against corruption since the start of the Arab Spring under the theme "Time to Wake Up". LTA indicated that the objectives of the campaign consist of communicating to a larger audience TI's anti-corruption message, particularly by showing the heavy cost of corruption on citizens; advocating for change in the behavior of governments, corporations and individuals; and increasing citizen participation in anti-corruption organizations and campaigns. LTA added that the campaign's message and slogan, "Time to Wake Up", will be communicated through a wide range of channels that include TV commercials, talk shows, documentaries, press conferences, interviews, public forums, and mass sticker distributions, as well as through social networks like Facebook, Twitter and YouTube. TI selected five chapters, including LTA, among its 90 chapters worldwide to pilot the campaign.

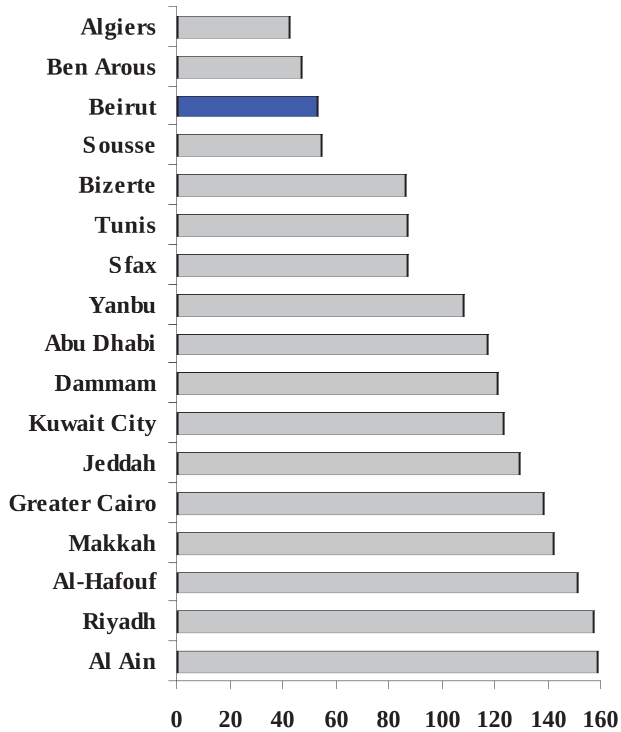
Lebanon in the News

Beirut is 176th most polluted city in the world, third cleanest regionally

Figures released by the World Health Organization (WHO) indicate that Beirut has the 176th highest level of urban outdoor air pollution among 1,082 cities in the world. Beirut also ranks as the 63rd most polluted city among 159 cities in upper-middle income countries (UMICs), but is the third least polluted city among 17 Arab cities. The WHO based its findings on measures of air quality in cities and countries based on the annual mean concentration of fine particulate matter (PM10), which refers to particles smaller than 10 microns. The indicator captures measurements from monitoring stations located in urban background, urban traffic, as well as residential, commercial and mixed areas. The WHO indicated that PM10 particles can penetrate into the lungs, may enter the bloodstream, and can cause heart disease, lung cancer, asthma, and acute lower respiratory infections. It recommended air quality guidelines for PM10 of 20 micrograms per cubic meter (ug/m3) as an annual average.

Globally, the level of outdoor air pollution in Beirut is higher than in La Calera in Chile, Leon in Mexico and Johor Bahru in Malaysia, but lower than in Salamanca in Mexico, Nicosia in Cyprus and Ulsan in South Korea. Regionally, Beirut's level of air pollution was higher than only in Algeria's capital Algiers and Ben Arous in Tunisia. Also, Beirut has a higher level of air pollution than in La Calera in Chile, Leon in Mexico and Johor Bahru in Malaysia, and lower than in Salamanca in Mexico, Iasi in Romania and Calli in Colombia among cities in UMICs. Ahwaz in Iran has the highest level of air pollution in the world, while Whitehorse in Canada has the lowest level of pollution globally.

Ranking of Arab cities from least to most polluted*



** Based on annual mean concentration of fine particulate matter (PM10) in ug/m3*
Source: World Health Organization, Byblos Research

On a country-wide basis, Lebanon had the 34th highest level of outdoor air pollution among 91 countries worldwide. Air pollution in Lebanon was the 11th highest among 27 UMICs, while Lebanon was the second least polluted country after Algeria among 7 Arab countries with available data. The level of outdoor air pollution in Lebanon is 52.6 ug/m3, below the global average of 71 ug/m3, the Eastern Mediterranean High Income Countries' average of 137 ug/m3, and the Eastern Mediterranean Low and Middle Income countries' average of 142 ug/m3; but above European Low and Middle Income Countries' average of 42 ug/m3. Globally, Lebanon has a higher level of outdoor air pollution than El Salvador, South Africa and Guatemala, and a lower level than Cyprus, Indonesia and Mexico. Further, air pollution in Lebanon was higher than in South Africa, Jamaica and Serbia, and lower than in Mexico, Bulgaria and Chile among UMICs. Mongolia has the highest level of outdoor air pollution in the world, while Estonia is the least polluted country globally.

Customs receipts down 25% to $997m in first 8 months of 2011

Figures released by the Customs Directorate indicated that customs revenues reached $997m in the first 8 months of 2011, down 25% from $1.3bn in the same period last year. Customs revenues totaled $117m in August 2011, down by 11% from the previous month and by 30% from $168m in August 2010. The Port of Beirut continues to be the main point of customs receipts, as it accounted for 86.7% of the total during the first 8 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 2.2%. Customs receipts from the value-added tax totaled $969m year-to-August. The Port of Beirut accounted for 75.2% of such receipts, and was followed by the Hariri International Airport with 8.8%, the Port of Tripoli with 7% and the Masnaa crossing point with 6.1% and the Port of Saida with 2.4% of the total. As such, overall customs receipts reached $1.97bn year-to-August, with the Port of Beirut accounting for 81% of the total, and was followed by the Hariri International Airport with 8%, the Port of Tripoli with 5%, and the Masnaa crossing point with 4.2%. In addition, other entry points accounted for the balance, with the port of Saida for 1.3%, the crossing point of Abboudieh for 0.4%, and the port of Tyre for 0.2%. Overall customs receipts reached $250m in August 2011 when including revenues from the value-added tax that totaled $132.5m in the same period.

Fiscal deficit down 33% to $798m in first 7 months of 2011 when assuming $831m in telecom revenues

Figures released by the Finance Ministry show that the fiscal deficit reached $798.2m in the first 7 months of 2011, down 32.8% from $1.2bn in the same period last year. The deficit was equivalent to 12.4% of total budget and Treasury expenditures compared to 18.8% in the same period of 2010. Overall government expenditures reached $6.46bn, up 2.1% year-on-year, while total revenues increased by 10.2% to $5.66bn. Budgetary expenditures rose by 4.3% to $6bn and included $759m in transfers to Electricité du Liban and $605m in outlays from previous years, while budget revenues rose by 10.7% to $5.37bn. Tax revenues contracted by 2.5% year-on-year to $4.1bn, of which 32%, or $1.3bn, were in VAT receipts that regressed by 0.1% from the same period last year. Tax revenues accounted for 76% of budgetary revenues and for 72.3% of total Treasury and budget receipts. The narrowing of the deficit and the increase in revenues is due to the inclusion of $831.4m in telecommunications receipts in budget revenues. The figure is based on the Telecommunications Ministry's assumption that telecom receipts would total $831.4m in the first 7 months of the year, rather than on the Treasury actually receiving the transfers from the Telecom Ministry.

The distribution of other tax revenues shows that customs revenues declined by 23.3% year-on-year to $834.5m, income, profits & capital gains tax receipts grew by 19.3% to $1.2bn, revenues from property taxes decreased by 7% to $408m, and other tax receipts, mainly stamp fees, regressed by 0.3% to $181.6m. Further, the distribution of income tax revenues shows that taxes on profits accounted for 51% of total income tax receipts, followed by the tax on interest deposits with 21%, taxes on wages & salaries with 18%, and capital gains tax with 10%. Revenues from taxes on profits increased by 25.1% year-on-year, income from capital gains taxes grew by 24.6%, tax receipts on wages & salaries improved by 17.6%, and income from the tax on interest rose by 6.1%. Also, the distribution of property taxes shows that revenues from real estate registration fees regressed by 10% to $302m, built property taxes decreased by 15% to $62m, and revenues from inheritance tax grew by 39% to $44.6m. In parallel, non-tax budgetary revenues rose by 95.5% to $1.28bn, with revenues from government properties increasing by 148% to $1bn and administrative fees & charges growing by 1.1% to $199.5m. Based on the ministry's assumption, receipts from telecommunications services, which account for 81.2% of income from government properties and for 65% of non-tax revenues, jumped by 278.6% to $831.4m in the first 7 months of 2011.

Debt servicing decreased by 6.6% year-on-year to $2.1bn, and accounted for 32.6% of total expenditures and for 35% of budgetary spending. It absorbed 37.2% of overall revenues and 39.2% of budgetary receipts. Interest payment on domestic debt declined by 7.3% to $1.34bn, while interest disbursement on foreign debt contracted by 5.4% to $765.7m. Repayment of principal on foreign debt increased by 1.1% to $120.6m. Excluding debt servicing, the primary balance posted a surplus of $1.57bn, or 26% of budget expenditures compared to a surplus of $1.45bn, or 25% of budget spending in the same period last year. The overall primary balance posted a surplus of $1.43bn, or 22% of spending, relative to a surplus of $1.2bn or 19% of total expenditures in the first 7 months of 2010.

Fiscal Results in First 7 months of 2011

	Including Assumed Telecom Receipts		Excluding Assumed Telecom Receipts*	
	US$m	year-on-year % change	US$m	year-on-year % change
Budget revenues	5,730	10.7%	4,539	-6.5%
Tax revenues	4,093	-2.5%	4,093	-2.5%
Non-tax revenues	1,278	95.5%	447	-31.7%
of which Telecom revenues	831	278.6%	-	-100.0%
Budget expenditures	6,031	4.3%	6,031	4.3%
Budget Deficit	**(661)**	**-28.8%**	**(1,492)**	**60.7%**
In % of budget expenditures	*-11.0%*		*-24.7%*	
Budget Primary Surplus	**1,567**	**8.3%**	**736**	**-49.2%**
In % of budget expenditures	*26.0%*		*12.2%*	
Treasury receipts	292	1.7%	292	1.7%
Treasury expenditures	430	-21.3%	430	-21.3%
Total Revenues	5,663	10.2%	4,831	-6.0%
Total Expenditures	6,461	2.1%	6,461	2.1%
Total Deficit	**(798)**	**-32.7%**	**(1,630)**	**37.3%**
In % of total expenditures	*-12.4%*		*-25.2%*	
Total Primary Surplus	**1,430**	**20.2%**	**598**	**-49.7%**
In % of total expenditures	***22.1%***		*9.3%*	

** Cash basis*

Source: Ministry of Finance, Byblos Research

Occupancy at Beirut hotels at 52%, room yields down 37% in first 8 months of 2011

Ernst & Young's benchmark survey of the Middle East hotel sector indicated that the average occupancy rate at hotels in Beirut was 52% in the first 8 months of 2011, decreasing from 70% in the same period last year. The occupancy rate at Beirut hotels was the sixth lowest among 21 markets in the region, while it was the eighth lowest in the first 8 months of 2010. The survey said the average rate per room at Beirut hotels was $217 in the first 8 months of 2011, ranking the capital's hotels as the seventh most expensive in the region.

The average rate per room at Beirut hotels decreased by 16.8% year-on-year and posted the third steepest decrease among all markets in the region, behind Hurghada and Sharm El Shaikh in Egypt. The average rate per room in Beirut came above the regional average of $184.2, which declined by a marginal 0.1% from $184.2 in the same period of 2010. Occupancy rates at Beirut hotels were 44% in January, 42% in February, 53% in March, 61% in April, 58% in May, 62% in June, 67% in July and 31% in August 2011, compared to 64% in January, 76% in February, 68% in March, 79% in April, 71% in May, 77% in June, 80% in July and 43% in August 2010.

Further, revenues per available room (RevPAR) were $115 in Beirut in the first 8 months of 2011, down from $183 in the same period last year, ranking it in 12th place in the region behind Muscat, Madina and Dubai City and ahead of Al Ain, Dubai Apartments and Amman. Beirut's RevPAR was down 37.2% year-on-year, compared to a decrease of 9.3% across the region. Beirut posted RevPARs of $99 in January, $84 in February, $107 in March, $120 in April, $119 in May, $142 in June, $184 in July and $63 in August 2010 compared to RevPARs of $160 in January, $209 in February, $155 in March, $208 in April, $158 in May, $188 in June, $270 in July and $120 in August 2010. Dubai Beach posted the highest average room rate in the region at $308 and the highest RevPAR at $252, while Dubai Apartments posted the highest occupancy rate at 82% in the first 8 months of the year.

Hotel Performance in first 8 months of 2011

	Occupancy Rate (%)	RevPAR (US$)	RevPAR % change
Dubai Apartments	82	94	0.5
Makkah	81	228	24.1
Dubai Beach	81	252	10.3
Dubai Overall	78	169	7.1
Dubai City	76	131	4.3
Abu Dhabi	74	154	(4.9)
Jeddah	71	154	(0.5)
Madina	70	127	17.9
Al Ain	67	106	(10.4)
Doha	62	164	(6.8)
Muscat	61	125	(6.8)
Hurghada	59	21	(43.5)
Riyadh	58	135	4.3
Amman	54	78	(16.3)
Kuwait	52	146	3.3
Beirut	**52**	**115**	**(37.2)**
Sharm Shaikh	51	25	(51.4)
Cairo Pyramids	50	67	(23.0)
Cairo Overall	34	43	(47.9)
Cairo City	32	39	(51.7)
Manama	28	64	(60.3)

Source: Ernst & Young, Byblos Research

Trade deficit up 6% to $9.7bn in first 8 months of 2011, volume of non-hydrocarbon imports up 7%

Total imports reached $12.6bn in the first 8 months of 2011 constituting an increase of 6% from the same period last year while aggregate increased by 7% to $2.9bn, leading to a trade deficit of $9.7bn, up 6% year-on-year. This trade deficit constituted the highest deficit in five years, in terms of value. Imports of oil and mineral fuels increased by 3% year-on-year to $2.4bn, and non-hydrocarbon imports grew by 7.1% to $10.3bn. In volume terms, imports reached 9 million tons in the first 8 months of 2011, constituting a decrease of 9% from the same period last year; while exports posted a 4% drop to 1.9 million tons in the covered period, leading to a trade deficit of 7.1 million tons, down 10% year-on-year. Imports of oil and mineral fuels decreased by 22% year-on-year to 2.9 million tons, while non-hydrocarbon imports dropped by 0.7% annually to 6.1 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 the volatility international prices, such as a 68% rise in the value of imported unwrought gold, un-mounted diamond & precious metals and a 19% increase in the value of imported pharmaceutical products. The trade deficit was $1.35bn in August 2011, down 18% from the same month last year. Imports averaged $1.58bn and exports averaged $363m on a monthly basis year-to-August, resulting in an average monthly trade deficit of $1.2bn during the covered period. The coverage ratio reached 23.1% in the first 8 months compared to 23% in the same period last year, while it reached 21.7% in August 2011 relative to 21.5% in August last year.

Italy was the main source of imports with $1.2bn or 10% of the total, followed by China with $1.06bn (8%), the United States, with $1bn (8%), France with $992m (8%) and Germany with $743m (6%). Imports from Italy rose by 32% year-on-year and from France by 24%; while imports from the U.S. dropped by 21%, from Germany by 12%, and from China by 3% during the covered period. Switzerland was the main export destination with $346m or 12% of the total, followed by the UAE with $213m (7%), Saudi Arabia with $211m (7%), Turkey with $201m (7%), Iraq with $151m (5%) and Syria $134m (5%). Exports to Turkey rose by 31%, Exports to Saudi Arabia increased by 28% and exports to Switzerland grew by 3%; while exports to the UAE dropped by 24%, exports to Iraq regressed by 15%, exports to Syria contracted by 9%. Lebanon's main export was jewelry at $998m or 34% of the total, followed by base metals with $399m (14%), machinery & mechanical appliances with $360m (12%), prepared foodstuff with $247m (8%) and chemical products with $249m (9%). Re-exports totaled $429m in the first 8 months, compared to $94m in the same period last year.

Lebanon in the News

Number of tourists down 25% in first 8 months of 2011

The number of incoming tourists to Lebanon totaled 1,126,755 in the first 8 months of 2011, constituting a decrease of 24.5% from 1,492,133 tourists in the same period last year, driven by annual declines in tourist arrivals of 20% in August, 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 8 months of the year, and were followed by visitors from Europe with 30%, Asia with 16.5%, the Americas with 14%, Africa with 3.4%, and Oceania with 3.2%. Tourists from Jordan accounted for 7% of total visitors in the first 8 months of the year, followed by visitors from France with 6.9%, Iraq with 6.1%, the U.S. with 6%, and Saudi Arabia with 5.6%. The number of tourists reached 132,888 in August 2011 compared to 166,132 in August 2010. Incoming tourists totaled 2.17 million in 2010, up 17% year-on-year.

Tourism spending in Lebanon up 4% year-to-August

Figures issued by Global Blue, the VAT refund operator for international shoppers, show that total spending by tourists in Lebanon increased by 4% year-to-August, as visitors from Saudi Arabia spent the most during the first eight months of 2011 and accounted for 22% of total tourists' spending. They were followed by visitors from the UAE with 12%, Kuwait with 9%, Syria with 8% and Egypt with 6%. Spending by visitors from the UAE rose by 13%, followed by visitors from Syria (+9%) and France (+7%); while spending by visitors from Egypt contracted by 19%, followed by Kuwait (-12%), Qatar (-10%), Saudi Arabia (-9%) and Jordan (-7%). Beirut attracted 84% of total spending over the covered period, followed by the Metn area with 12%, the Keserwan region with 2%, and Baabda with 1%. Fashion & clothing accounted for 74% of total spending, followed by watches with 10%, home & garden products and department stores with 4% each, souvenirs & gifts with 3%, consumer electronics & household appliances with 2%, and electronics & IT and sports equipments & clothing with 1% each. Spending on sports equipment & clothing increased by 24%, followed by fashion & clothing with a 9% growth, souvenirs & gifts (+6%), consumer electronics & household appliances (+3%), and home & garden equipements (+2%). Expenditures on electronics & IT decreased by 18% in the covered period, followed by watches with a 14% drop, and spending at department stores with a 9% decrease.

RDCL suggests new pension system

The Lebanese Businessmen Association (RDCL) proposed a pension plan that aims to provide a minimum retirement salary that is linked to the minimum wage. The plan also aims to have a Replacement Ratio that is in harmony with the International Labor Organization's Social Security Treaty. It also puts the basis for raising the Replacement Ratio, especially for low income persons. The Replacement Ratio constitutes a person's retirement salary relative to the last salary prior to retirement. The RDCL said the objective of its plan is to have the highest possible Replacement Ratio, while keeping the retirement salary at 40% of the last salary prior to retirement following 30 years of work and of paying contributions.

The RDCL's plan consists of three categories of retirees based on their income bracket at the time of retirement. First, it recommended for those with a salary close to the minimum wage at the time of retirement to receive a pension based on 60% of the minimum wage in force at retirement. The second segment consists of persons with income above the minimum wage but up to three to six times the minimum wage at time of retirement, and who have paid contributions for 30 years. This segment would secure a pension equal to 40% of their last salary. It noted that participants who contributed for more than 30 years will receive a higher percentage of their last salary, and vice versa. The third segment consists of persons with an income higher than the ceiling of three to six months of the minimum wage at the time of retirement. It aims to guarantee a complementary retirement salary equivalent to 15% of the salary prior to retirement, with a ceiling to this salary that may range between three and 10 times the minimum wage at the time of retirement.

The RDCL said that its proposed plan is close to the "Defined Benefits" system rather than to the "Pay as you Go" system. It added that the former is technically equivalent to systems that adopt defined contributions and that include a minimum guaranteed return on investment. It added that its proposed plan would lead to a limited redistribution of income from high wage earners to low-income earners, which is a characteristic of social security systems. It added that the first and second category would provide 40% of the pre-retirement salary to about 90% of the wage earners who are currently registered with the National Social Security Fund (NSSF).

The RDCL suggested mandatory membership in the first and second segments for all wage earners who are under the age of 35 years, and for membership be optional for those between the age of 35 and 55 years. It proposed a grace period of a maximum of 12 months, during which the wage earner chooses to join the new system or keep the "end-of-service" option. Further, retirees who are over the age of 55 would remain eligible for the existing "end-of-service" system. It also proposed that membership in the third category to be optional, and to provide tax incentives to the employers and employees, such as exempting subscriptions from income and profit tax, in addition to exemptions from contributing to the NSSF.

Further, it suggested for the first category to be funded from the National Social Security Fund and the Treasury, and the second category to be funded by contributions from employers and employees. It stated that financing of the third category will depend on the employees and their willingness to participate in the pension plan.

Corporate Highlights

Lebanese banks resilient to sovereign debt crisis in Europe

Central Bank Governor Riad Salamé indicated after meetings at the International Monetary Fund, with officials from the U.S. Department of the Treasury and with global banks that Lebanese banks are not targeted as a sector or as individual institutions. He added that the Lebanese banking sector has the confidence of regulators around the world and that the case of the Lebanese-Canadian Bank will not be repeated. He noted that 40 global financial institutions pledged to continue normal work with Lebanese banks through payment systems, credit facilities and correspondent banking, among others. In parallel, he said that Lebanese banks will not be affected by the sovereign debt crisis in Europe, as they do not hold significant amounts of European sovereign debt, and because existing regulations limit banks' foreign investments at 50% of their private funds. He added that current regulations encouraged Lebanese banks to have high solvency and liquidity levels that are in line with Basell III requirements. Also, Governor Salamé did not expect the Lebanese economy to be affected by a currency crisis in the Euro zone due to the Lebanese pound's peg to the U.S. dollar since 1993. He noted that 66% of deposits in Lebanon are in foreign currencies, of which 90% are in U.S. dollars, and forecast deposit growth at between 7% and 10% in 2011. He added that the domestic political unrest in Syria slowed the Lebanese economy this year.

Stock market activity down 72% to $467m in first 9 months of 2011

Figures released by the Beirut Stock Exchange indicate that total trading volume reached 64.2 million shares in the first 9 months of 2011, constituting a decrease of 54.2% from the same period last year; while aggregate turnover amounted to $466.7m, down 72% from a turnover of $1.66bn in the first 9 months of 2010. Market capitalization decreased by 14% from end-September 2010 to $10.6bn, of which 72.7% was in banking stocks, followed by real estate stocks with 23.5%, industrial stocks with 3.3%, investment funds with 0.3% and trading stocks with 0.3%. The market liquidity ratio was 4.4% compared to 13.4% a year earlier. Bank stocks accounted for 81% of aggregate trading volume year-to-September, followed by real estate stocks with 17%, trading stocks with 0.9%, industrial stocks with 0.4% and investment funds with 0.1%. In terms of the value of shares traded, banking stocks accounted for 51.7% of aggregate value, followed by real estate stocks with 41.5%, investment funds with 1%, industrial stocks with 0.8%, and the trading sector with 0.4%. The average daily traded volume for the period was 352,776 shares for an average daily value of $2.6m. The figures reflect decreases of 53.5% in volume and 71.5% in value year-on-year.

Syria's ban of imports to affect Lebanese industry

Minister of Industry Freij Sabounjian indicated that the decision by Syrian authorities to ban the import of products that are subject to tariffs of more than 5% will have a negative material impact on productive sectors in Lebanon, and could lead to the closure of manufacturers that rely in large part on the Syrian market for their exports. Last week, the Syrian government banned the import of products that are subject to tariffs of more than 5%, with the aim to save at least $6bn in foreign currency reserves. The ban covers 25% of Syria's total import bill and affects about 14,000 items that include cars, furniture, domestic appliances, clothes and some food items. But the measure excludes basic supplies that are not manufactured locally as well as foodstuffs and raw materials. The Syrian Economy Ministry attributed the ban to the sanctions imposed by the international community on Syria, and said it constitutes a precautionary measure to protect the country's foreign currency reserves.

The value of Lebanese exports to Syria totaled $220.8m in 2010 compared to $225.4m in 2009 and $223.9m in 2008. Exports to Syria accounted for 5.2% of total Lebanese exports in 2010, down from 6.5% in 2009 and 6.4% in 2008. Sulfur & cement accounted for 15.5% of total exports to Syria in 2010, followed by fruits with 10.6%, paper & paperboard products (10%), machinery & mechanical appliances (5.9%), prepared fruits & vegetables (5.1%), plastics (4.7%), beverages (4%), essential oils & perfumes (2.7%), electrical equipment (2.3%), and fertilizers (1.8%). Exports to Syria accounted for 5.2% of total Lebanese exports in 2010, down from 6.5% in 2009 and 6.4% in 2008. Also, industrial exports to Syria account for about 5% to 7% of Lebanese industrial exports. Industrial exports to Syria amounted to $98.1m in the first seven months of 2011, of which prepared foodstuffs accounted for 29.5% of the total, followed by paper & paperboard products with 18.4%, and mineral products with 12.8%.

Byblos Bank wins award for Most Improved Website in the Middle East

Byblos Bank sal, one Lebanon's top 3 banking and financial services groups, won the award for Most Improved Website in the Middle East in the financial services category at the Internet Awards Middle East 2011. Byblos Bank's website was short-listed along with the sites of the Abu Dhabi Commercial Bank, Bank Audi, Emirates NBD, and Masraf Al Rayan. Byblos Bank won the award based on the criteria that the website made the business more efficient and reduced operational costs; the site improved brand perception among the target audience; and the site contributed to an improved business performance through increased customer satisfaction, increased usage, traffic and action, and enhanced seamless management by business owners. Additional factors considered for the award covered the fact that the website engaged users, facilitated access to information, and resulted in return traffic and customer uptake.

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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