



## LEBANON THIS WEEK

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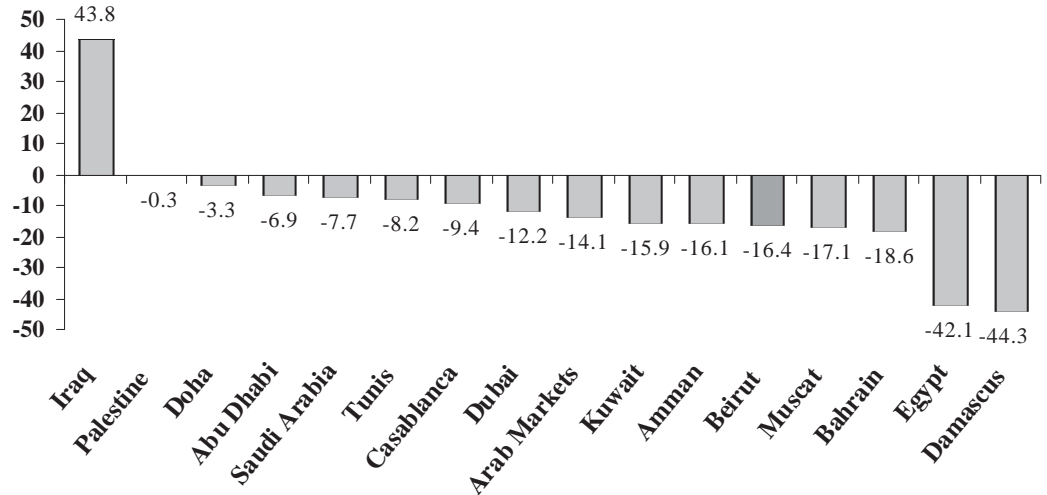
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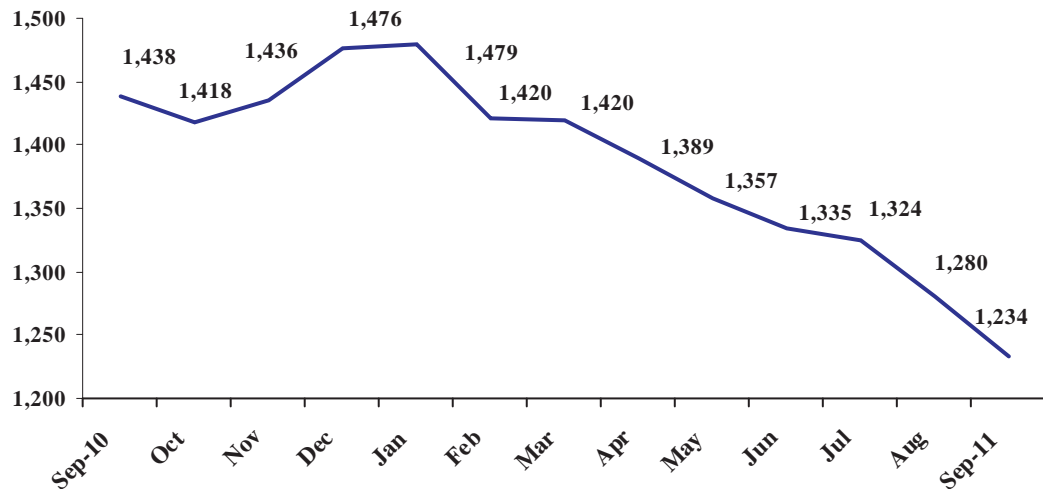
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### Charts of the Week

Performance of Arab Stock Markets in First Nine Months of 2011 (% Change)



Performance of the Beirut Stock Market



Source: Local Stock Markets, Byblos Bank, Dow Jones Indices

### Quote to Note

"These new measures will affect domestic demand at a time when the economy slowed sharply in the first half of the year."

*JP Morgan, on the expected negative impact of the tax hikes proposed in the 2012 budget draft*

### Number of the Week

**12%:** The Central Bank's target for the Tier One capital ratio of Lebanese banks by the end of 2018, compared to the 7% required under Basel III

## 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
<i>In months of Imports</i>	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"	14.79	(2.57)	56,868	14.20%
Solidere "B"	14.76	(1.99)	40,128	9.21%
Byblos Common	1.63	(1.21)	192,217	5.63%
Byblos Pref. 08	100.00	0.00	941	1.92%
Byblos Pref. 09	100.00	0.00	0	1.92%
BLOM GDR	8.00	0.25	59,911	5.68%
BLOM Listed	7.80	(4.76)	7,500	16.11%
Audi GDR	6.80	0.59	65,000	6.44%
Audi Listed	5.77	(3.83)	111,344	19.31%
HOLCIM	16.50	0.00	2,408	3.09%

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 Bank Capital Markets

	Oct. 3 - 7	Sept. 26 - 30	% Change	Sept. 2011	Sept. 2010	% Change
<b>Total Shares Traded</b>	1,142,048	932,267	22.50	3,302,725	3,705,098	(10.86)
<b>Total Value Traded</b>	\$5,021,688	\$6,584,057	(23.73)	\$28,432,174	\$49,787,087	(42.89)
<b>Market Capitalization</b>	\$10.41bn	\$10.65bn	(2.20)	\$10.65bn	\$12.38bn	(14.02)

Source: Beirut Stock Exchange (BSE)



### Lebanon ranks 120th globally, 11th in the MENA region in Government Effectiveness

The World Bank's annual World Governance Indicators for 2010 show that Lebanon's rankings improved on three out of six governance indicators included in the survey and regressed in three others; while its score improved on four indicators and regressed on two others. The results show marginal improvement year-on-year, but still reflect a weak level of governance in Lebanon. The indicators cover 213 countries and territories and are rated on a scale of -2.5 to +2.5, with higher values corresponding to better governance outcomes.

Lebanon ranked in 120th place worldwide and in 11th place in the MENA region in terms of Government Effectiveness. The indicator measures the competence of the bureaucracy and the quality of public service delivery. Globally, Lebanon came ahead of Ethiopia and Lesotho and ranked behind Tonga and Vietnam, while it ranked ahead of the West Bank & Gaza and Egypt and came behind Morocco and Saudi Arabia in the region. Lebanon's rank improved by 17 spots globally and by two spots regionally year-on-year. In parallel, 56.7% of countries and territories in the world had a better score than Lebanon on this dimension of governance.

Also, Lebanon ranked 195th worldwide and 15th in the MENA region in terms of Political Stability. The indicator measures the likelihood of instability, domestic violence and terrorism during the covered year. Globally, Lebanon ranked ahead of Chad and Burundi and came behind Colombia and Israel, while it ranked ahead of Iran and the West Bank & Gaza and behind Israel and Algeria in the MENA region. Lebanon's rank regressed by two spots globally and one spot regionally from the previous year. Further, 91.1% of countries and territories in the world had a better score than Lebanon on this dimension of gover-

In addition, Lebanon ranked 137th globally and second in the MENA region on the Voice & Accountability indicator. This category measures a country's citizens' ability to participate in selecting their government as well as freedom of expression, freedom of association, and a free media. Globally, Lebanon came ahead of Guatemala and the Comoros Islands and behind Senegal and Niue, while it ranked ahead of all Arab countries. Lebanon's rank improved by two spots globally and remained unchanged regionally year-on-year. Also, 64.2% of countries and territories worldwide had a better score than Lebanon on this dimension of governance.

Further, Lebanon ranked 98th globally and 10th in the MENA region in terms of Regulatory Quality, the measure of market-friendly policies and laws. Globally, it ranked ahead of Tunisia and Serbia and came behind Ghana and Namibia, while it ranked ahead of Tunisia and Morocco and behind Saudi Arabia and Kuwait in the region. Lebanon's rank improved by three spots worldwide and remained unchanged the MENA region in 2010. The results show that 46.2% of countries and territories in the world had a better score than Lebanon on this dimension of governance.

Lebanon ranked 148th globally and 14th in the MENA region on the Rule of Law category, an indicator of the extent that citizens have confidence in and abide by the rules of society. Globally, it came ahead of Sao Tomé & Príncipe and the Solomon Islands and behind Kosovo and Indonesia, while it ranked ahead of Algeria and Iran and came behind Syria and the West Bank & Gaza regionally. Lebanon's rank regressed by two places worldwide and remained unchanged in the MENA region. In parallel, 69.3% of countries and territories in the world had a better score than Lebanon on this dimension of governance. Finally, Lebanon ranked 165th globally and 14th in the MENA region on the Control of Corruption indicator, the measure of a country's level of corruption. Globally, it came ahead of Honduras and Uganda and behind the Dominican Republic and Philippines, while it ranked ahead of Iran and Syria and behind Egypt and Algeria in the region. Lebanon's rank regressed by one spot worldwide and improved by one spot in the MENA region. Also, 78.1% of countries and territories in the world had a better score than Lebanon on this dimension of governance.

#### Government Effectiveness Rankings & Scores 2010

Country	Score	MENA Rank	Global Rank
Israel	1.24	1	29
Qatar	0.94	2	47
UAE	0.78	3	51
Bahrain	0.59	4	64
Oman	0.59	5	65
Tunisia	0.19	6	78
Kuwait	0.10	7	87
Jordan	0.08	8	90
Saudi Arabia	-0.08	9	100
Morocco	-0.17	10	108
<b>Lebanon</b>	<b>-0.34</b>	<b>11</b>	<b>120</b>
West Bank/Gaza	-0.42	12	125
Egypt	-0.43	13	126
Iran	-0.52	14	133
Syria	-0.55	15	137
Algeria	-0.56	16	139
Yemen	-1.03	17	180
Libya	-1.21	18	190
Iraq	-1.23	19	191
Sudan	-1.37	20	196

Source: World Bank, Byblos Research

#### Lebanon's Rankings and Scores on Governance Indicators for 2010

Indicator	Global Rank	MENA Rank	Lebanon Score	Change in Score	MENA Average Score
Voice & Accountability	137	2	-0.33	▲	-1.05
Political Stability	195	15	-1.53	▼	-0.75
Government Effectiveness	120	11	-0.35	▲	-0.17
Regulatory Quality	98	10	0.04	▲	-0.19
Rule of Law	148	14	-0.66	▲	-0.20
Control of Corruption	165	14	-0.84	▼	-0.26

Source: World Bank, Byblos Research

### Cost of sending remittances to Lebanon rises in third quarter of 2011

Figures issued by the World Bank show that the cost of sending remittances from the United States to Lebanon reached 14% in the third quarter of 2011 for a \$200 transfer, constituting an increase from 12.6% in the first quarter of 2011 and from 13.1% in the third quarter of 2010. Also, the cost of sending \$500 from the U.S. to Lebanon reached 6.51% in the third quarter of 2011, up from 5.53% in the first quarter of 2011 and from 5.7% in the third quarter of 2010. The cost includes the transaction fee and exchange rate margin, and represents the average cost of transferring money through commercial banks and money transfer operators (MTOs). In nominal terms, the cost of sending \$200 and \$500 from the U.S. to Lebanon is \$28 and \$32.5, respectively, up from \$26.2 and \$28.5, respectively, in the third quarter of 2010.

Also, the cost of sending remittances from Germany to Lebanon reached 14.8% in the third quarter of 2011 for a transfer of €140, or about \$200, constituting a decrease from 13.5% in the first quarter of the year and from 15.66% in the third quarter of 2010. Also, the cost of sending €345, or about \$500, from Germany

to Lebanon reached 8.1% in the third quarter of the year, up from 6.9% in the first quarter of the year and from 7.7% in the third quarter of 2010. In nominal terms, the cost of sending €140 and €345 from Germany to Lebanon costs €0.7 and €7.8, respectively.

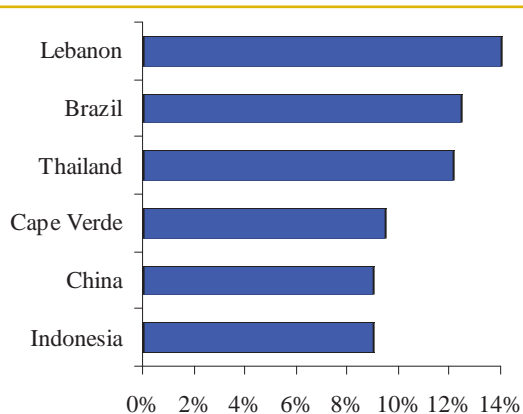
In parallel, Lebanon ranked as the most expensive destination for sending of \$200 from the U.S. among 27 countries with available data. It was the fourth most expensive for sending \$500. The data covered 12 countries in Latin & Central America, seven countries in East and Southeast Asia, three countries in the Caribbean, and four countries in Africa, in addition to Lebanon in the Middle East. The United States is the sixth largest source of inward electronic cash transfers to Lebanon.

The World Bank indicated that the average cost to send remittances through commercial banks to Lebanon was 17.9% and the average cost through MTOs was 7.2% in the third quarter of 2011. In comparison, the average cost to send remittances through commercial banks to Lebanon was 17.1% and the average cost through MTOs was 6.2% in the first quarter of the year; while the average cost to send remittances through banks and MTOs was 19.2% and 5.8%, respectively, in the third quarter of 2010. MTOs accounted for 70% of all cash electronic transactions to Lebanon, followed by money dealers with 22.4% and commercial banks with 7.5%.

### FDI in Lebanon down 40% to \$3bn in 2011

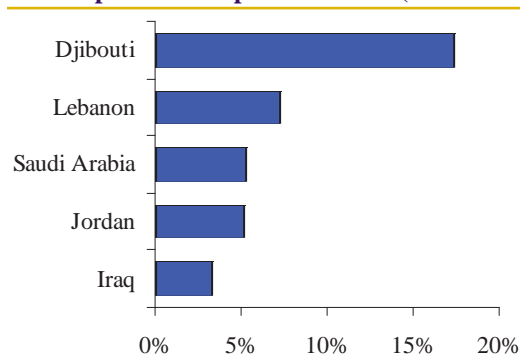
The Arab Investment and Export & Guarantee Corporation (AIEGC) projected foreign direct investment (FDI) in Lebanon at \$3bn in 2011, constituting a decrease of 39.5% from \$5bn in 2010. Lebanon is expected to be the fifth largest recipient of FDI in nominal terms among 21 Arab countries in 2011, down from the fourth largest in 2010. Also, FDI inflows to Lebanon would exceed the \$2.6bn in average FDI inflows per Arab country in 2011. But, Lebanon is expected to post the fifth steepest drop in FDI in the Arab world and to be among 13 Arab countries that will post a decline in FDI this year. The AIEGC forecast FDI to Arab economies to contract by 16.8% year-on-year in 2011. In parallel, FDI inflows to Lebanon are estimated to account for 5.4% of total FDI in Arab countries in 2011, down from 7.5% of aggregate inflows in 2010. Further, FDI inflows to Lebanon are projected to be equivalent to 7.2% of GDP in 2011, the second highest in the Arab world after Djibouti at 17.4% of GDP. This would constitute a drop for Lebanon, as it was the highest recipient of FDI in the Arab world last year at 12.6% of GDP.

### Costliest Destinations of Remittances from the U.S.



Source: World Bank, Byblos Research

### Top 5 FDI recipients in 2011 (% of GDP)



Source: AIEGC, Byblos Research

### Draft budget for 2012 projects deficit at 30% of expenditures, excessive spending widens deficit by 14% despite multiple tax hikes

The Ministry of Finance issued the budget draft for 2012 that shows expenditures at \$14bn, constituting an increase of 6.2% from 2011; and revenues of \$10.3bn, up 3.2% from the previous year. As a result, the budget deficit would widen by 14.3% to reach \$4.14bn, or 29.7% of overall spending, compared to a deficit of \$3.6bn or 27.6% of expenditures in the 2011 draft budget. The ministry estimated the deficit at 8.1% of GDP in 2012 relative to 9.4% of GDP in 2011. The ministry based its projections on real GDP growth of 4% and an average inflation rate of 5% in 2012. It estimated the debt-to-GDP ratio at 132% of GDP at end-2012 compared to 135% of GDP at end-2011. But it did not give a figure of nominal GDP for next year.

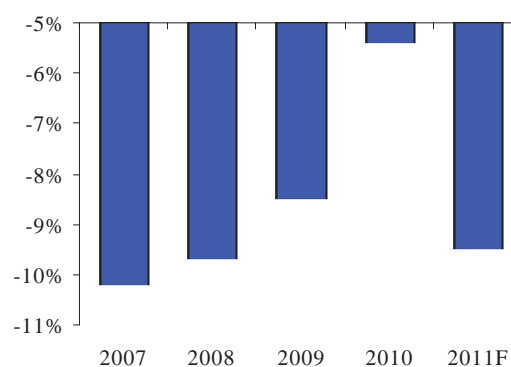
On the expenditures side, it estimated budgetary spending at 30.8% of GDP in 2012. It projected debt servicing at \$3.86bn, an increase of 1% year-on-year, which would account for 27.5% of overall spending and would absorb 39.3% of total revenues. It also forecast current expenditures to rise by nearly 13% to \$8.1bn and for capital spending to decline by 5.8% to \$2bn, leading to an 8.5% increase to \$10.1bn in primary budgetary outlays. The ministry estimated capital spending at 4.5% of GDP. It said such spending would reach \$2.42bn, or 5.3% of GDP, when including \$373.5m in spending by the Telecommunications Ministry that was budgeted in previous years. The distribution of current expenditures shows that overall transfers increase by 24.5% to \$4.23bn, subsidies to Electricité du Liban rise by 33.6% to \$2bn, wages & salaries decrease by 6.1% to \$2.6bn, end-of service indemnities & retirement expand to \$1.2bn, government operations rise by 12.3% to \$538.2m, and emergency and exceptional spending jumps 125% to \$360m. It also allocated \$71.6m over two years to cover Lebanon's dues to the Special Tribunal for Lebanon, with \$40m to be paid in 2012.

On the revenues side, it expected tax receipts to rise by 1% to \$7.7bn and to account for 78% of budgetary revenues; while it forecast non-tax income to improve by 12% to \$2.1bn due to a 12.4% rise to \$1.3bn in telecom receipts. In order to boost revenues, the ministry increased the value-added tax to 12% from 10% and the tax on deposit interest rates to 8% from 5%, while it imposed a new tax of 3% on real estate transactions as a prelude to introducing a capital gains tax on the property sector. As such, it forecast VAT receipts to rise by 11% to \$2.63bn, revenues from the income tax to grow by 27% to \$2.3bn, customs revenues to contract by 11% to \$1.5bn, and property tax receipts to drop by 13% to \$722m. It plans to reduce certain fees, such as penalties on various infractions, and the average profit tax rate from the revaluations of fixed assets and real estate of companies when converting them to joint stock status. It also intends to waive the fees needed for issuing work permits as well as pre-work permit approvals for all children and spouses of Lebanese women.

### Balance of payments posts deficit of \$1.2bn in first eight months of 2011

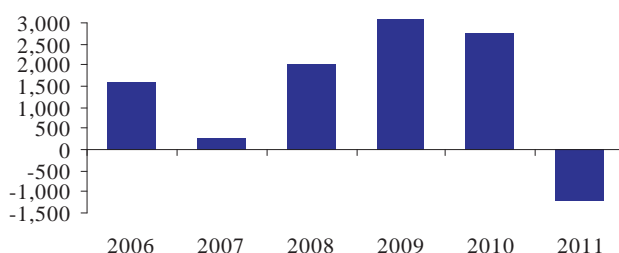
Central Bank figures show that Lebanon's balance of payments posted a deficit of \$1.24bn in the first eight months of 2011 compared to a surplus of \$2.8bn in the same period last year. The balance of payments posted a deficit of \$450.8m in August compared to \$307.3m in July 2011 and a surplus of \$446.7m in August 2010. The August 2011 deficit was caused by a deficit of \$2.1bn in the net foreign assets of banks and financial institutions and a surplus of \$1.7bn in those of the Central Bank. The cumulative deficit over the first eight months of 2011 was caused by a surplus of \$1.9bn in the Central Bank's net foreign assets and a deficit of \$3.1bn in those of banks and financial institutions. The balance of payments posted cumulative surpluses of \$3.3bn in 2010, \$7.9bn in 2009 and \$3.5bn in 2008.

Fiscal Balance (% of GDP)



Source: Institute of International Finance

Balance of Payments\* (\$m)



\* in first eight months of the year

Source: Central Bank

### World Bank revises downward real GDP growth to 4% in 2011

The World Bank projected economic growth in Lebanon at 4% in 2011, down from a January forecast of 7% and compared to growth of 4.1% in the Middle East & North Africa, 2.5% for the region's oil importers and 3.5% for oil importers with links to the GCC. Lebanon's projected growth rate in 2011 would make it the seventh fastest growing economy in the MENA region. It also projected real GDP growth in Lebanon at 5% in 2012 compared to 3.8% for the MENA region, 3.9% for oil importers and 4.5% for oil importers with links to the GCC. Lebanon's projected growth rate for 2012 would make it the fourth fastest growing economy in the MENA region behind Iraq at 12.6%, Qatar at 7.1% and Djibouti at 5.1%.

Also, the World Bank forecast Lebanon's fiscal balance to post a deficit of 5.5% of GDP this year, relative to a surplus of 1.4% of GDP for the MENA region, a deficit of 7.5% of GDP for oil importers and a deficit of 5.5% for oil importers with GCC links in 2011. Lebanon's projected fiscal deficit would be, along with Morocco, the sixth highest in the region in 2011, behind Egypt with a deficit of 9.5% of GDP, Iraq with a deficit of 8.4% of GDP, Syria with a deficit of 7.1% of GDP, and Yemen with a deficit of 5.9% of GDP. Further, it projected Lebanon's current account deficit at 22.4% of GDP in 2011 and 21.3% of GDP in 2012, compared to a surplus of 8% of GDP for the region in 2011, a deficit of 5.4% of GDP for oil importers and a deficit of 17.2% of GDP for oil importers with GCC links this year.

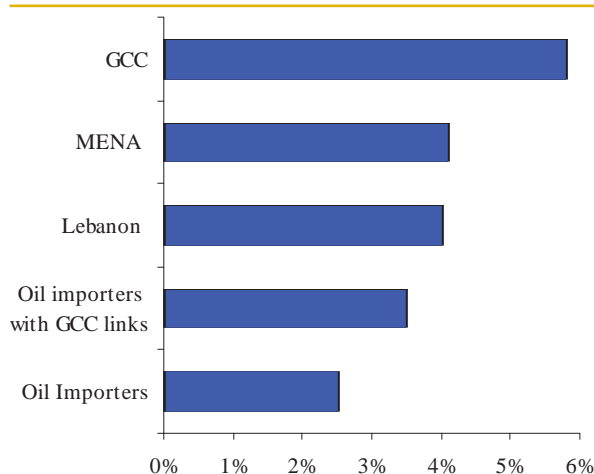
In parallel, the World Bank revised downwards Lebanon's economic growth to 7% in 2010 from a January estimate of 8%, compared to growth of 4.3% in the MENA region, 4.7% for oil importing economies, and 5.3% for oil importers with GCC links. Lebanon was the third fastest growing MENA economies in 2010 among Arab countries behind Qatar at 16.3% and Yemen at 7.8%. It also estimated Lebanon's current account deficit at 24.1% of GDP last year compared to a surplus of 6% of GDP for the region, a deficit of 5.1% of GDP for oil importers and a deficit of 16.3% for oil importers with GCC links.

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

Lebanon's gross public debt reached \$53.4bn at the end of August 2011, up 1.6% from the end of 2010, and constituting an increase of 6.4% from end-August 2010. Domestic debt increased by 10.1% to \$32.1bn, while external debt decreased by 1.4% annually to \$21.3bn. Local currency debt accounted for 60.2% of gross public debt at end-August 2011 compared to 58.2% a year earlier, while foreign currency-denominated debt represented 39.8% of the total at the end of August relative to 41.8% a year earlier. The weighted interest rate on outstanding Treasury bills was 6.99%, while the weighted interest rate on Eurobonds was 7.09% at the end of August. Further, the weighted life on Eurobonds was 5.30 years, while that on Treasury bills was 876 days.

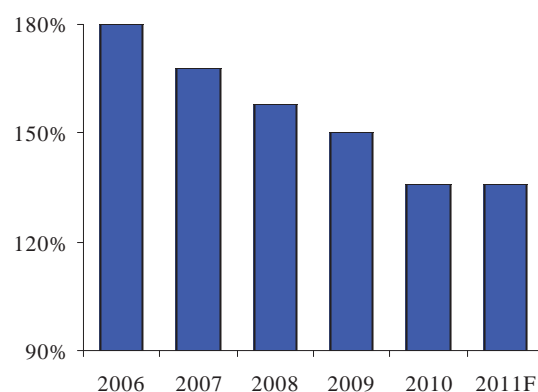
Commercial banks accounted for 48.4% of the local public debt at the end of August 2011 compared to 63.1% a year earlier. They were followed by the Central Bank with 35.4%, up from 22% at end-August 2010; while public agencies, financial institutions and the general public accounted for 16.2% of local debt, compared to 17.2% in August 2010. Eurobond holders, foreign private sector loans and special T-bills in foreign currencies accounted for 86.9% of the external debt, followed by multilateral institutions with 7.1%, foreign governments with 4.9%, and Paris II loans with 1.2%. Net public debt, which excludes the public sector's deposits at the Central Bank and at commercial banks from overall debt figures, increased annually by 2.9% to \$45.7bn. In parallel, the gross market debt accounted for about 63% of total public debt. Gross market debt is the total public debt less the portfolios of the Central Bank, the National Social Security Fund, bilateral and multilateral loans, as well as Paris II and Paris III related debt.

Projected Real GDP Growth in 2011 (%)



Source: World Bank

Total Government Debt (% of GDP)



Source: Institute of International Finance

### Lebanon among 101 countries that have laws on non-discrimination in hiring practices

A report by the World Bank on gender differentiations in legal treatment affecting women's prospects as entrepreneurs and employees in 141 economies gave Lebanon a mixed track record. The World Bank used 6 indicators to assess gender differentiation, namely, Accessing Institutions, Using Property, Getting a Job, Providing Incentives to Work, Building Credit, and Going to Court. But, the report did not measure all aspects that matter for women's economic opportunities like access to childcare, education, or personal security. The report estimated Lebanon's female population at about 2.16 million, or nearly half of the total population, while it estimated the female labor force participation at nearly 25% of the country's working population. Lebanon was one of 103 economies that still impose legal differences on the basis of gender in at least one of the report's key indicators.

Lebanon was one of 14 countries in the MENA region that have at least one legal differentiation both in Accessing Institutions and in Using Property. The Accessing Institutions indicator covers women's legal ability to interact with public authorities and the private sector in the same ways as men. Lebanon was one of 14 MENA countries and 48 countries globally that impose restrictions on married or unmarried women's capacity to act. Further, Lebanon was one of 14 MENA countries and 29 countries globally where married women cannot be legally recognized as head of household. Also, Lebanon was one among 97 countries that does not have a non-discrimination clause covering gender in their constitutions, while it was one of 28 economies globally and among 11 MENA countries that maintain customary or personal law as valid sources of law, even if they violate other constitutional provisions, such as non-discrimination or equal protection provisions.

In parallel, the Using Property indicator analyzes women's ability to access and use property based on their capacity to own, manage, control and inherit it. However, Lebanon has gender-differentiated inheritance rights, with male descendants receiving larger shares than similarly-situated female descendants. As such, Lebanon was one of 14 economies in the MENA region and one of 26 countries globally where women do not have the same inheritance rights as men. Further, Lebanon was one of 45 countries globally in which all property acquired by the spouses before they marry, as well as all property acquired during the marriage, remain the separate property of the person who bought it.

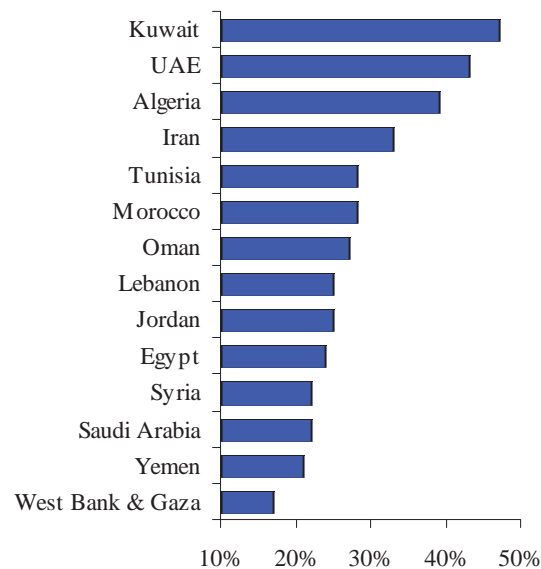
The World Bank found that Lebanese laws impose few restrictions on women's work. Lebanon is among 101 economies worldwide that have laws on non-discrimination in hiring practices, but it is one of 71 countries worldwide where women cannot work in all industries. Also, Lebanon was among 52 countries around the world where women are expected by law to retire at an earlier age than men. The statutory retirement age for men in the Lebanese private sector is at 64 years, while the retirement age for women is at 60 years. Further, Lebanon is one of 66 economies that lack laws protecting employees from sexual harassment in the workplace

In addition, Lebanese laws discriminate in terms of personal income tax liabilities, which take into account tax credits and deductions available to women relative to men. Lebanon, along with Burkina Faso, Côte d'Ivoire and Indonesia, are the only economies in the world where women face higher personal income tax liabilities than men.

### TRA signs contract to oversee performance of telecom services

The Telecommunications Regulatory Authority of Lebanon awarded Wicom, a Dubai-based technology firm specializing in IT and telecom products and services, a \$1.2m Quality of Service (QoS) Management System contract. It indicated that the contract would allow the TRA to oversee and follow-up on the performance of telecom services across Lebanon, and to take the necessary steps to improve the quality of these services. It said that the contract constitutes the final step for the implementation of a turn-key solution that would allow the TRA to measure the performance of telecommunications and data networks, analyze traffic, and deliver reports on key performance indicators about fixed-line, wireless and data networks in the country. It added that the system will collect and process raw data streaming from mobile, fixed and data network platforms. It noted that the project will include the implementation of a platform at the TRA to measure fixed and mobile key performance indicators, a drive test solution for mobile services, and a broadband QoS measurement solution. The project will start by monitoring mobile services, and the TRA intends to publish next April its first KPI report about the first quarter of 2012.

### Female Labor Force Participation



Source: World Bank, Byblos Research

### **Central Bank foreign assets up 5% to \$32bn in first 9 months of 2011**

The Central Bank's interim balance sheet reached \$70.8bn at the end of September 2011 compared to \$62.6bn at the end of 2010 and to \$60.2bn at end-September 2010. Assets in foreign currencies totaled \$32.1bn at end-September, constituting an increase of 5% in the first 9 months of the year from \$30.6bn at the end of 2010. Assets in foreign currencies increased by \$1.7bn in August, \$574.8m in July, \$87m in April and \$118.7m in March; while they declined by \$19.2m in September, \$93.8m in June, \$544.4m in May, \$247.8m in February and \$64.6m in January 2011. This resulted in an aggregate increase of \$1.51bn in the first 9 months of the year, with a rise of \$1.68bn in the third quarter, and declines of \$193.6m in the first quarter and of \$551.2m in the second quarter of 2011. Further, assets in foreign currencies increased by \$605m, or 1.9%, year-on-year.

The value of the Central Bank's gold reserves increased by 15.8% in the first 9 months of 2011 and by 24.4% year-on-year to \$15.1bn, due to the rise in global gold prices. Its securities portfolio increased by 19.5% in the first 9 months and by 58% annually to \$11.5bn. Loans to the local financial sector rose by \$626.5m, or 83% year-to-September to \$1.4bn, due in part to a loan to a small Lebanese bank. Further, deposits of the financial sector rose by \$4.15bn, or 9.7%, in the first three quarters of the year and by \$4.4bn or 10.3% annually to \$47bn, reflecting the slowdown in capital inflows into the banking sector; while deposits of the public sector rose by 10.6% year-to-September and by 40% year-on-year to \$6.8bn. Assets in foreign currencies increased by \$2.3bn in 2010, \$8.6bn in 2009 and \$7.34bn in 2008.

### Commercial banks' assets reach \$138bn at end-August 2011

The consolidated balance sheet of commercial banks operating in Lebanon shows that total assets reached \$138.1bn at the end of August 2011, constituting an increase of 7.1% from end-2010 and a rise of 10.2% from end-August 2010. Private sector deposits totaled \$113bn, increasing by 5.4% from end-2010 and rising by 10% from a year earlier. Deposits in Lebanese pounds reached \$37.8bn, down 4.3% from end-2010 and 1.7% year-on-year, while deposits in foreign currencies totaled \$75.2bn and rose by 11% from the end of last year and by 17% from end-August 2010. Non-resident foreign currency deposits totaled \$18bn at end-August 2011, up by 15.3% from end-2010 and by 23% year-on-year. Total private sector deposits decreased by \$1.1bn in January, and rose by \$673m in February, \$1.34bn in March, \$1.79bn in April, \$539m in May, \$1bn in June, \$656m in July and \$813m in August 2011. In parallel, deposits of non-resident banks reached \$6.5bn, an increase of 43.5% from end-2010 and of 24.1% year-on-year. The dollarization rate of deposits reached 66.6% at the end of August relative to 63.2% at end-2010 and 62.6% at end-August 2010. Further, the average deposit rate in Lebanese pounds reached 5.53% in August compared to 5.72% a year earlier, while the same rate in US dollars was 2.8%, up from 2.78% in August 2010.

Loans to the private sector totaled \$38.9bn at end-August, constituting an increase of 11.4% from end-2010 and up 17.1% year-on-year. Lending to the non-resident private sector reached \$5.6bn and rose by 22% from end-2010. The dollarization rate in private sector lending reached 79.4%, marginally down from 80.3% at end-2010 and compared to 81.4% a year earlier. The average lending rate in Lebanese pounds was 7.53% in August 2011 compared to 8.05% a year earlier, while the same average in US dollars was 7.16% compared to 7.04% in August 2010. In addition, claims on non-resident banks reached \$15.3bn at end-August, posting a decrease of 3.6% from end-2010. Claims on the public sector stood at \$27.7bn, down 4.8% year-on-year and 5.6% from end-2010, and accounted for 41.6% of the banking sector's total claims. The ratio of private sector loans to deposits in foreign currencies stood at 41.1%, well below the Central Bank's limit of 70%, and below the ratio of 42.1% a year earlier. In parallel, the same ratio in Lebanese pounds was 21.2%, up from 16.1% a year earlier. The ratio of total private sector loans to deposits was 34.5% compared to 32.4% a year earlier. The banks' aggregate capital base stood at \$10.4bn, up by 13% from end-2010 and 15.6% from \$9bn in August 2010.

### Kafalat loan guarantees down 1.4% year-on-year to \$126m in first nine months of 2011

Figures released by the Kafalat Corporation show that loans extended to small- and medium-sized companies under the guarantee of Kafalat reached \$124.6m in the first nine months of 2011, down 1.4% from \$126.4m in the same period last year. The number of loan guarantees totaled 971 year-to-September compared to 1,070 in the same period last year. The average loan size reached \$128,278 compared to \$118,115 in the first nine months of 2010. Mount Lebanon accounted for 41.8% of guarantees, followed by the South & Nabatieh with 19.4%, the Bekaa with 18.2%, the North with 14.9% and Beirut with 5.7%. Agriculture accounted for 41% of total guarantees, followed by the industrial sector with 38.2%, tourism with 17.2%, handicraft with 2.2% and specialized technologies with 1.5%. Kafalat is a state-sponsored organization that provides financial guarantees for loans up to \$400,000 earmarked for the set up and expansion of small and medium-sized companies in productive sectors. It guarantees up to 75% of the loan amount and a similar percentage of the interest that accrues during the grace period.

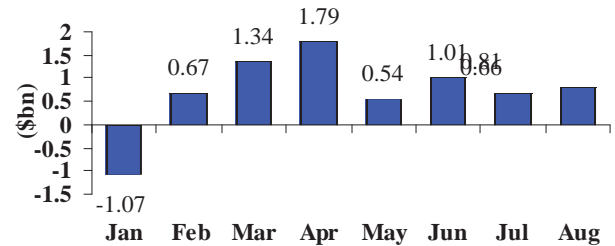
### FFA's profits down 21% to \$3.1m in 2010

FFA Private Bank sal posted consolidated net profits of \$3.1m in 2010, constituting a decrease of 20.8% from nearly \$4m in 2009. Net operating income declined by 3.1% to \$13.8m in 2010, with net interest income increasing by 20.4% to \$2.7m and non-interest receipts rising by 15.6% to \$6.5m year-on-year. Also, operating expenditures increased by 6.3% to \$10.5m. The bank's total assets reached \$104.7m at end-2010, constituting a 9.7% rise from end-2009, while loans & advances to customers stagnated year-on-year at \$22.5m. Customer deposits totaled \$65.1m at end-2010, constituting a rise of 23.2% from end-2009. Also, dues to banks and financial institutions reached \$5m, declining by 39.4% year-on-year. The bank's total equity increased year-on-year by 1.6% to \$30.3m.

### Fidus posts net losses of \$2.3m in 2010

Brokerage Firm Fidus sal, an affiliate of Société Générale de Banque au Liban sal, posted net losses of \$2.3m in 2010 compared to net profits of \$1.2m in 2009. Net operating income declined by 16.8% to \$7.8m, with net interest income increasing by 12.6% to \$7.4m and commission receipts increasing by 65.7% to \$3.1m year-on-year. Also, operating expenditures increased by 23.6% to \$10m. Total assets reached \$134.4m at end-2010, constituting a 63.4% rise from end-2009, while loans & advances to customers increased by 71.1% year-on-year to \$92.5m. Customer deposits totaled \$58.2m at end-2010, reflecting an increase of 38.1% from end-2009. Also, dues to banks and financial institutions reached \$21.6m, rising by 137% year-on-year. The firm's shareholders' equity decreased annually by 32.4% to \$4.83m.

### Private sector deposit change in first 8 months of 2011



Source: Association of Banks in Lebanon

## Ratio Highlights

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

\* Change in basis points 08/09

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

Source: Association of Banks in Lebanon, Byblos Research Calculations

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

## Risk Outlook

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

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

\*year-on-year

Source: The PRS Group, Byblos Research

Note: Political & Composite Risk Ratings range from 0 to 100 (where 100 indicates the lowest risk)

Financial & Economic Risk ratings range from 0 to 50 (where 50 indicates the lowest risk)

## Ratings & Outlook

Sovereign Ratings	Foreign Currency			Local Currency		
	LT	ST	Outlook	LT	ST	Outlook
Moody's	B1	NP	Stable	B2		Stable
Fitch	B	B	Stable	B		Stable
S&P	B	B	Stable	B	B	Stable
Capital Intelligence	B	B	Stable	B	B	Stable

Source: Rating agencies

Banking Ratings	Banks' Financial Strength	Banking Sector Risk	Outlook
Moody's	D-		Negative
EIU		B	Stable

Source: Rating agencies



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