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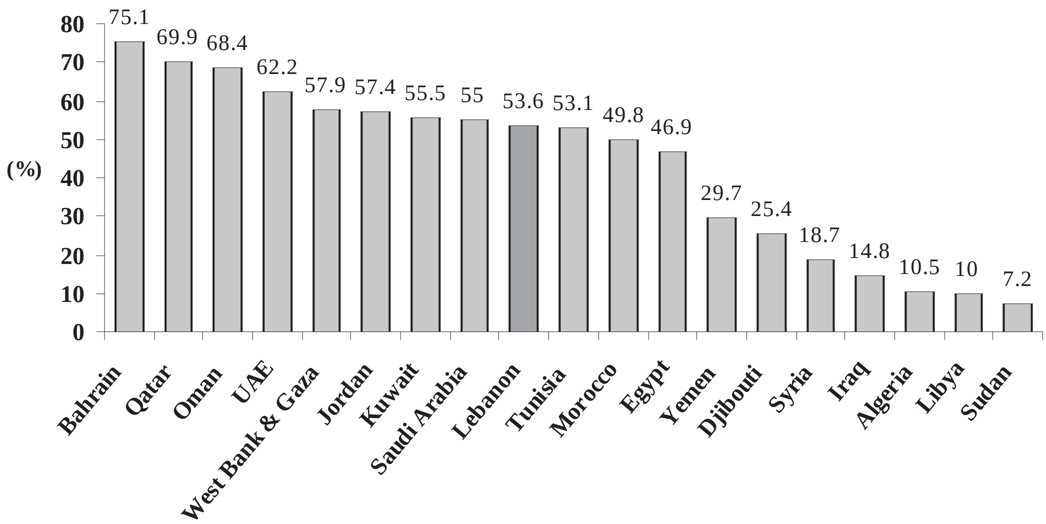
BYBLOS BANK SAL
Economic Research & Analysis Department

LEBANON THIS WEEK

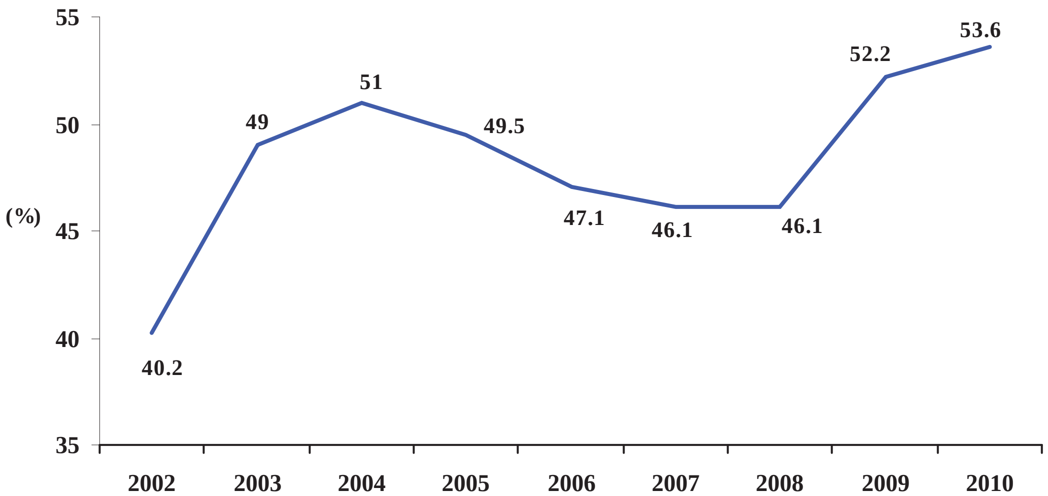
In This Issue

Charts of the Week

Regulatory Quality Indicator of Arab Countries in 2010 in Percentile Rank



Regulatory Quality Indicator for Lebanon in Percentile Rank



Source: World Bank Governance Indicators, Byblos Bank

Quote to Note

"Growth is likely to slow down given numerous political headwinds."

Merrill Lynch, on the impact of political uncertainties on economic activity in Lebanon

Number of the Week

13%: Share of respondents who believe the Lebanese economy is getting better, according to a Gallup opinion poll taken between February and June 2011.

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	38.34	16.68
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"	14.95	1.08	175,824	14.21%
Solidere "B"	14.90	0.95	26,064	9.21%
Byblos Common	1.63	0.00	6,740	5.57%
Byblos Pref. 08	100.00	0.00	0	1.90%
Byblos Pref. 09	100.00	0.00	0	1.90%
BLOM GDR	7.85	(1.88)	39,720	5.51%
BLOM Listed	7.80	0.00	20,490	15.94%
Audi GDR	6.83	0.44	32,469	6.47%
Audi Listed	5.98	3.64	8,630	19.81%
HOLCIM	16.99	2.97	11,002	3.15%

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

Sovereign Eurobonds	Coupon %	Mid Price $	Mid Yield %
Mar. 2012	7.500	101.88	2.96
Sep. 2012	7.750	104.00	3.13
June 2013	8.625	108.25	3.50
Apr. 2014	7.375	108.25	3.87
Jan. 2015	5.875	105.50	4.05
Apr. 2015	10.00	119.25	4.07
Jan. 2016	8.500	115.25	4.52
Mar. 2017	9.000	119.10	4.95
Nov. 2018	5.150	99.50	5.24
Apr. 2021	8.250	117.38	5.84

Source: Byblos Bank Capital Markets

	October 10-14	October 3-7	% Change	Sept. 2011	Sept. 2010	% Change
Total Shares Traded	362,779	1,142,048	(71.39)	3,302,725	3,705,098	(10.86)
Total Value Traded	$4,271,429	$5,021,688	(14.94)	$28,432,174	$49,787,087	(42.89)
Market Capitalization	$10.52bn	$10.41bn	1.02	$10.65bn	$12.38bn	(14.02)

Source: Beirut Stock Exchange (BSE)

Lebanon in the News

Lebanon's CDS spreads widen by 22% in third quarter

Figures released by CDS and bond pricing firm CMA Datavision show that spreads on 5-year credit default swaps (CDS) for Lebanon ended the third quarter of 2011 at 429.7 basis points, widening by 78.7bps from 351bps at the end of the second quarter and by 82bps from 347.7bps at the end of the first quarter of the year. Lebanon's CDS spreads widened during the first and second quarter of 2011 due to the deterioration of political conditions in the country as well as to the turmoil across the Middle East & North Africa. Lebanon's 5-year CDS spreads widened by 28.5bps in 2010, reflecting market stability last year. The firm said that Lebanon's CDS spreads widened by jut 22.4% in the third quarter, compared to the worst performers during the quarter such as Denmark that posted a widening of 216.2%, followed by the Netherlands with 175.9%, Italy with 165.2%, Austria with 160.0% and Germany with 158.4%. In parallel, CMA noted that only Ireland, the U.S. and Venezuela were better performers than Lebanon in the third quarter, with Ireland being the top performer and posting a tightening of 4.7% in spreads, followed by the U.S. with a 3.8% widening, and Venezuela with a 21% widening.

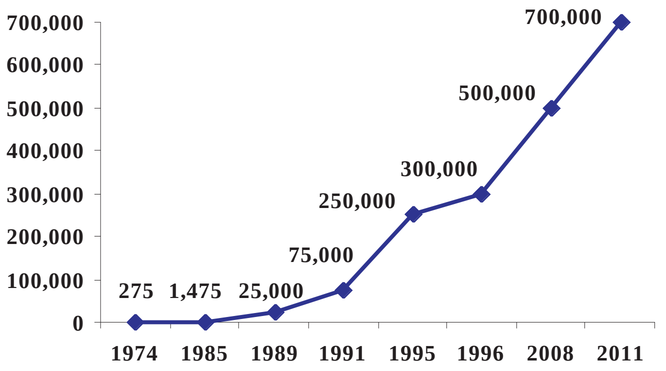
Further, CMA Datavision indicated that Lebanon ended the third quarter of 2011 with a five-year cumulative probability of default (CPD) of 26.6%, deteriorating from 22.2% at the end of the second quarter and 21.9% at the end of the first quarter of 2011. It said the CPD quantifies the probability of an issuer being unable to honor its debt obligations over a given time period. It added that the CPD is a function of the market's recovery level, which varies according to several factors and distance to default. It calculates the CPD using an industry standard model and proprietary credit data. Lebanon's CPD at end-September shows that Lebanese debt was less risky than 15 other sovereigns such as India (27.6%), Dubai (30.4%), Italy (33.3%), Ukraine (46.9%), Portugal (61.3%), and Greece (90.6%). Norway, the U.S. and Finland had the lowest CPDs among the 68 sovereigns covered in the survey, with rates of 4.4%, 4.6% and 5.1%, respectively.

Further, the firm upgraded Lebanon's rating from 'CMA_bb-' in the second quarter to 'CMA_bb' in the third quarter of 2011, which is based on its proprietary CMA Implied Ratings methodology. Lebanon's upgrade came as part of a broader regional trend, as the firm also upgraded the ratings of Iraq, Saudi Arabia, Turkey, Tunisia, Morocco, Qatar, Abu Dhabi and Bahrain. The firm maintained the ratings of Egypt, Dubai and Israel, while no sovereign in the region was downgraded by the firm during the quarter.

Government raises minimum wage by 40%

The Council of Ministers raised the minimum wage from LBP500,000 to LBP700,000, or $464.3, constituting an increase of 40%. It also approved a raise of LBP200,000 for salaries of up to LBP1,000,000 and an increase of LBP300,000 for wages between LBP1,000,000 and LBP1,800,000. The government also increased the transportation allowance to LBP10,000 from LBP8,000 a day and raised the education allowance for children to a maximum of LBP1,500,000. The salary adjustments are not retroactive and will go into effect once the decision is published in the official journal. The General Labor Confederation (GLC) and the private sector had strong reservations about the deal.

Evolution of the Minimum Wage (in Lebanese pounds)



The private sector rejected the wage increase as well as the new ceilings for transportation and education allowances on the ground that the raise could not be borne by employers in Lebanon, especially in the current low growth environment. It said the measures would lead companies to lay off workers and even shut down their businesses. The private sector favored raising the minimum wage to LB700,000 and increasing salaries by LL150,000 for people earning less than LB1,500,000 a month. In contrast, the GLC aimed to increase the minimum wage by LBP750,000 to LBP1,250,000, which would have constituted an increase of 150% in basic salaries.

The previous hike in the minimum wage took place in September 2008, when the Council of Ministers increased the minimum wage by LBP200,000 or 66.7% to LBP500,000, and authorized a raise of LBP150,000 in retirees' pensions. Also, the Council of Ministers increased at the time the transportation allowance to LBP8,000 from LBP6,000 a day. The increases were paid retroactively as of May 1, 2008. The GLC aimed to raise the minimum wage to LBP960,000 in 2008, which would have constituted a 220% increase.

Lebanon in the News

Salary adjustment to benefit only 12% of active labor force, will hurt productivity and lead to layoffs

The Lebanese Businessmen Association (RDCL) indicated that Lebanese companies are increasingly feeling the impact of the economic slowdown in Lebanon and in foreign markets through a decline in domestic consumption and demand, a drop in exports, and an increase in operating costs. It considered that the Council of Ministers' decision to raise the minimum wage by 40% would compound the existing problems facing the Lebanese private sector and would backfire on the entire population. It said the hike in basic salaries would be offset by an immediate rise in the cost of consumer goods and services, as well as of basic products. It noted that the raise will also result in a decline in the purchasing power and the standard of living of those the wage hike is meant to help due to the instant increase in the inflation rate. Further, the salary adjustment will lead to a rise in unemployment and layoffs of workers due to increased pressure on companies through the jump in salary expenditures by about 39%. It added that small and medium-size enterprises, which account for most of private sector activity in Lebanon, will be the most affected. Also, the decision will widen the government's fiscal deficit at a time when public expenditures need to be reduced drastically.

The RDCL stated that about 321,000 workers, or 29% of the active labor force, are officially registered at the National Social Security Fund, including between 160,000 and 175,000 public sector employees. It said that 81% of registered workers receive a salary of less than LBP1,800,000, which means that a maximum of 260,000 workers will benefit from the wage hike, half of which are public sector employees. It also estimated that only 130,000 private sector employees will benefit from the salary adjustment, which accounts for only 12% of the active labor force in the country, but that the inflationary impact will be borne by the entire population. It estimated that only 24% of the active labor force will benefit from the wage increases when including public sector employees. It noted that it is not clear yet if the salary adjustment will include the public sector.

Economic activity contracts in August, overall slowdown trend continues

The Central Bank's Coincident Indicator, an index of economic activity in Lebanon, reached 236.7 points in August 2011 compared to 257.1 points in July 2011 and to 228.3 in August 2010. The Coincident Indicator, an average of 8 weighted economic indicators, declined by 8% in August and increased by 3.7% year-on-year. The indicator averaged 252.8 in the 12-months ending August 2011 compared to 252.1 in the 12-months ending July 2011 and to 243.5 in the 12-months ending August 2010. As a result, the average coincident indicator grew marginally by 0.3% month-on-month and rose by 3.8% year-on-year, which reflects economic stagnation in real terms. The indicator posted its fifth decline this year, as it contracted by 0.4% in January, 4.4% in February, 4.2% in May and 1.8% in July. The indicator reached at an all-time high of 269.9 in April after peaking at 266.7 last November Further, the month-to-month decrease in August constituted the second steepest drop ever for the indicator for the covered month, excluding the 15.2% contraction in August 2006 that was caused by the Israeli war. In parallel, the indicator improved 10 times and regressed 9 times in the month of August since 1993. The indicator averaged 249.5 in 2010 and 225.9 in 2009.

Central Bank encourages early exchange of 2012 maturing Eurobonds, says minimum wage hike to accelerate inflation

In the monthly meeting between the Association of Banks in Lebanon and the Central Bank, Governor Riad Salamé encouraged commercial banks to exchange the Eurobonds maturing in 2012 with long-term bonds, which would resolve the issue of upcoming maturities and reduce pressure on interest rates. He revealed that the Central Bank submitted to the government a request to exchange Treasury bills it holds in its portfolio with US dollar bonds of up to $2bn. He noted that this operation would help the Central Bank manage liquidity, maintain interest rate stability, and provide a reasonable return on deposits.

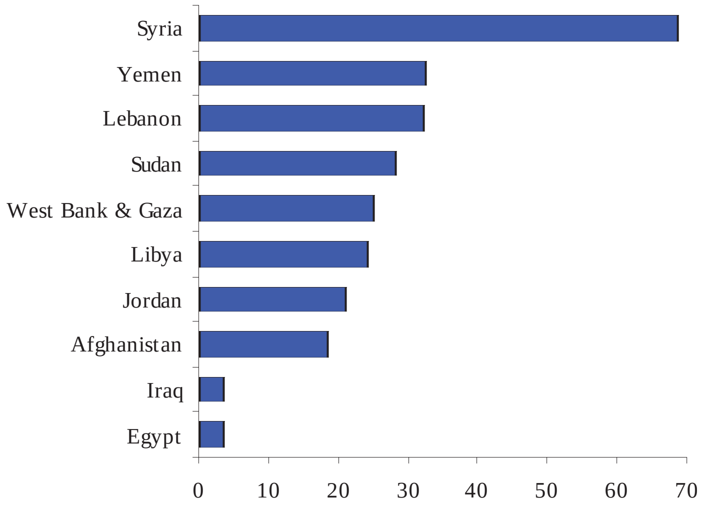
Governor Salamé also encouraged commercial banks to strengthen their capital base and increase their reserves, given the turmoil in global financial markets and in Europe, with the aim to increase the capital adequacy ratio from 7% currently to 12% according to Basel III regulations. He called for the Central Bank, the Banking Control Commission and the ABL to discuss the broad guidelines that will be used to determine the ratio's components and the timetable for its implementation. In parallel, the governor stressed the need to finalize a new draft law to regulate investment banks, especially after the ratification of the Capital Markets Law. He said investment banks are expected to play a central role and it is important to define the scope of their operations and the way they generate profits in light of their full separation from commercial banks. He hoped that investment banks will balance their lending to the private and public sectors by the end of this year to avoid incurring penalties by the Central Bank.

In parallel, the Governor expected that the recent raise in the minimum wage will increase the inflation rate from 6% prior to the raise to more than 10%. He noted that all salary adjustments that exceed 6% usually lead to an increase in the inflation rate. He considered that the excess liquidity that will result from the increase can be easily managed and will not destabilize the market. He added that adjusting the minimum wage was necessary for the low income segment of the population so that it does not fall below the poverty line. He added that the original proposal to raise the minimum wage by 150% would have caused the inflation rate to exceed 20%. It would have also generated additional demand for US dollars of about 65% of the new money supply, which is equivalent to the current dollarization rate.

Lebanon is third largest recipient of IMF technical assistance in the region

The International Monetary Fund's Middle East Technical Assistance Center (METAC) indicated that Lebanon accounted for 12% of its overall allocation of technical assistance delivery during fiscal year 2011 that ended in June 2011. Lebanon was the third biggest recipient of such assistance, ranking behind Syria and Yemen, and came ahead of Sudan, the West Bank & Gaza, Libya, Jordan, Afghanistan, Egypt and Iraq. Lebanon received 32 person weeks (PWs), or 160 days worth of assistance in 2011, down from 51.5 person weeks in 2010 and compared to 30.8 person weeks in 2009. Syria received 68.5 PWs and Yemen 32.5 PWs in FY2011.

Technical Assistance by Person Weeks



Source: METAC, Byblos Research

Lebanon received 11 PWs, or 55 days in revenue administration support, accounting for 34.4% of the total assistance it received and for 15.2% of the region's total for this category. METAC assisted the Lebanese authorities with their plans to reorganize the tax administration structure and integrate Value Added Tax (VAT) and income tax departments. Support in FY2012 will include further assistance in establishing an integrated tax administration, strengthening compliance management and risk-based audit, and supporting customs operations. Lebanon also received 9.5 PWs, or 47.5 days in public financial management assistance, accounting for 29.7% of assistance it received and for 14.7% of overall such assistance in the region. The support covered setting up budget ceilings and multi-year budgeting, and reviewing the progress made with cash management as a direct result of the technical assistance delivered in previous years. Support in FY2012 will cover further development of the cash management unit and extending the Treasury Single Account coverage.

Further, Lebanon received 5.5 PWs, or 27.5 days in banking supervision assistance, accounting for 17.2% of its assistance and 9.2% of total bank supervision activity in the region. Support focused on enhancing the capacity of the Banking Control Commission's examiners through seminars and workshops, and covered advanced topics such as stress testing techniques and consolidated supervision. METAC conducted an assessment and evaluation to help the Lebanese Regulatory authorities set up an early warning system based on prudential banking data. Also, Lebanon received 5 PWs, or 25 days in macroeconomic statistics support, accounting for 15.6% of the total assistance it received and for 13.3% of overall macroeconomic assistance in the region in FY2011. Support consisted of reviewing the progress made at the Central Administration of Statistics on the preparation for compiling the Producer Price Index, which is expected to be ready by end-2011. It also provided further guidance to improve the CPI that was introduced in 2008, and noted that the compilation of the CPI was at risk due to insufficient enumerators. Finally, Lebanon received 1 PW, or 5 days in Debt Management & Money Markets Development, equivalent to 3.1% of its total assistance and to 2.7% of overall support for Central Bank accounting in the region.

The IMF established METAC in Beirut in October 2004 to serve Afghanistan, Egypt, Iraq, Jordan, Lebanon, Libya, Sudan, Syria, the West Bank & Gaza and Yemen. The center's mandate is to provide capacity building assistance, facilitate the reform process in member countries, and support the region's integration in the world economy. METAC is funded through grants from Lebanon and participating countries, as well from the IMF, the European Union, the European Investment Bank, France, Japan and Kuwait.

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

The Association of Banks in Lebanon (ABL) recommended to its member banks to reduce the Beirut Reference Rate in US dollars to 4.68% starting in November 2011 from 4.75% currently. The rate, considered as the reference rate for lending in foreign currency, replaced in 2009 the London Inter-Bank Offering Rate (LIBOR) since the ABL considered that the LIBOR no longer accurately reflects the cost of funding and lending in Lebanon. Additionally, the ABL recommended to its member banks to decrease the Beirut Reference Rate in Lebanese pounds to 7.09% starting in November from 7.24% currently. The Beirut Reference Rate in US dollars and Lebanese pounds were adopted in March and May 2009, respectively. The ABL indicated that the BRR does not replace the Beirut Prime Lending Rate in each currency, but constitutes the basis to calculate the prime rate after adding the cost of liquidity and refinancing, credit risks, and the profitability of banks to the prime lending rate.

Commercial activity retreats in second quarter of 2011

The Central Bank's quarterly business survey of opinions indicated that the volume of commercial sales decreased during the second quarter of 2011, with the balance of opinion standing at -4, compared to -27 during the preceding quarter and to +24 during the same quarter of 2010. The business survey reflects the opinions of enterprise managers on their business activity in order to depict the evolution of a number of key economic variables. The balance of opinion for inventory levels in all commercial sub-sectors was +4 in the second quarter of the year compared to +12 in the same quarter last year. The balance of opinion is the difference between the proportion of surveyed managers who consider that there was an improvement in a particular indicator and the proportion of those who reported a decline in the same indicator.

Commercial Activity: year-on-year evolution of opinions

Aggregate results	Q2-08	Q2-09	Q2-10	Q2-11
Sales volume	10	30	24	-4
Inventories of finished goods	12	21	12	4
Q2-11 Regional results	**Beirut / Mount Lebanon**	**North**	**South**	**Bekaa**
Sales volume	12	-31	-51	20
Inventories of finished goods	11	-21	-12	21

Source: Central Bank Business Survey in second quarter 2011

Overdrafts account for 31% of bank credits, share of trade & services at 36% of utilized credits at end June 2011

Figures issued by the Central Bank about the distribution of bank credits by type show that overdrafts accounted for $12.7bn, or 30.5% of total private sector credits at the end of June 2011. They were followed by advances against real estate with $11.3bn (27.1%), advances against personal guarantees $7.4bn (17.7%), advances against cash collateral or bank guarantees $5.7bn (13.7%), advances against other real guarantees $2.7bn (6.5%), and advances against financial values $1.9bn (4.6%).

In parallel, utilized credits by the private sector totaled $41.7bn at end-June 2011, with the trade & services sector accounting for $14.9bn, or 35.8% of such credits. It was followed by personal credits with $10bn (24%), construction with $6.7bn (16%), industry with $4.8bn (11.6%), financial intermediaries with $3.5bn (8.4%) and agriculture with $402m (1%), while other sectors accounted for the remaining $1.3bn (3.2%). Also, wholesale trade represented 42.2% of trade & services credits, followed by real estate services with 20.6%, retail with 16.7%, transport & storage with 10.3%, hotels & restaurants with 7.4% and educational services with 2.8%.

Personal credits accounted for 78.1% of loan beneficiaries, followed by trade & services with 12% of beneficiaries, industry with 3.3%, construction with 1.5%, agriculture with 0.8%, and financial intermediaries with 0.7%; while other sectors accounted for 3.6%. Further, the aggregate number of loan beneficiaries grew by 22.1% year-on-year to LP 379,523, while 87.6% of beneficiaries had loans ranging from LBP5m to LBP100m by end June-2011. Beirut and its suburbs accounted for 80% of bank credits and for 56.2% of beneficiaries. It was followed by Mount Lebanon with 8.8% of credits and 16.1% of beneficiaries; South Lebanon with 4.1% of credits and 8.5% of beneficiaries; North Lebanon with 3.95% of credits and 12.8% of beneficiaries; and the Bekaa with 3.2% of credits and 6.4% of beneficiaries.

Subsidized interest loans at $483m in first half of 2011

Figures released by the Central Bank show that the amount of subsidized interest loans to productive sectors in Lebanon reached $482.5m in the first half of 2011. The industrial sector accounted for $240.3m, or (49.8%) of the total, followed by tourism with $200.8m (41.6%) and agriculture with $41.3m (8.6%). Subsidized interest loans extended in 2010 totaled $761.3m relative to $538.7m in 2009 and $462.3m in 2008. The cumulative amount of subsidized interest loans to productive sectors in Lebanon reached $4.05bn between 1997 and June 2011.

Subsidized medium & long-term loans reached $388.1m in the first half of 2011, equivalent to 80.4% of the total. Industry accounted for 50.3% of total subsidized medium & long-term loans, followed by tourism with 44.1% and agriculture with 5.6%. The program was established in the first quarter of 1997 and consists of a 5% to 7% subsidy on the interest for loans extended in foreign currencies to productive sectors. Also, subsidized interest loans guaranteed by the Kafalat Corporation totaled $78.3m, or 16.2% of the total. Industry accounted for 47.1% of Kafalat-backed subsidies, followed by tourism with 27.8% and agriculture with 25.1%. Kafalat provides financial guarantees for loans of up to $400,000 for small and medium-sized enterprises in productive sectors.

Further, subsidized interest loans granted by leasing companies totaled $7.8m in the first half of 2011, or 1.6% of the total. In addition, subsidized interest loans granted by the International Finance Corporation totaled $4.5m. The latter two subsidized interest loans were extended in total to the industry sector.

Lebanon ranks 38th globally, 10th in the Middle East & Africa for its microfinance environment

The Economist Intelligence Unit's 2011 Global Microfinance Index ranked Lebanon in 38th place among 55 developing countries worldwide and in 10th place among 15 countries in the Middle East & Africa (ME&A) in terms of the environment for microfinance. Also, Lebanon came in 12th place among 16 Upper Middle Income Countries (UMICs) included in the survey. The index evaluates the microfinance climate across two categories that are the Regulatory Framework & Practices, which assesses market-entry and regulatory dynamics; and the Supporting Institutional Framework that addresses institutional and business practices. The index also factors in the impact of political shocks on the microfinance sector.

Globally, Lebanon ranked ahead of China, Senegal and Cameroon, and came behind Morocco, Madagascar and Azerbaijan. Lebanon came ahead of Senegal and Cameroon and behind Morocco and Madagascar among ME&A countries; while it ranked ahead of Jamaica and Argentina, and behind Azerbaijan and Costa Rica among UMICs. Lebanon received a score of 33.5 points, below the global average of 41.5 points and below the ME&A and UMICs' averages of 40 points and 42.6 points, respectively. Lebanon, Morocco, Egypt and Yemen were the only Arab countries included in the index. Peru ranked first globally and Vietnam came in last place.

Global Microfinance Index 2011

Country	Score	ME& A Rank	Global Rank
Kenya	60.3	1	4
Uganda	53.7	2	9
Rwanda	48.6	3	15
Tanzania	46.5	4	17
Ghana	46.2	5	19
Mozambique	43.9	6	24
Nigeria	43.4	7	25
Madagascar	37.0	8	36
Morocco	33.7	9	37
Lebanon	**33.5**	**10**	**38**
Senegal	31.8	11	40
Cameroon	31.6	12	41
Egypt	31.4	13	42
Yemen	30.1	14	44
Dem. Rep. Congo	28.5	15	47

Source: Economist Intelligence Unit, Byblos Research

Lebanon ranked in 42nd place globally, in last place among ME&A countries and in 12th place among UMICs on the Regulatory Framework & Practices category. Globally, it tied with Armenia and Egypt, ranked ahead of Sri Lanka and Vietnam and came behind Uruguay and the Democratic Republic of Congo. Also, Lebanon ranked in 25th place globally, in 5th place among ME&A countries and in 10th place among UMICs on the Supporting Institutional Framework category. Globally, Lebanon tied with Egypt, Morocco, Indonesia and Argentina, ranked ahead of Azerbaijan and Turkey, and came behind Nigeria and Georgia. Further, Lebanon ranked in 36th place globally, in 10th place among ME&A countries and in 14th place among UMICs in terms of political stability. Globally it tied with the Georgia, Ecuador and Morocco, came ahead of Azerbaijan and India and behind Nigeria and Armenia.

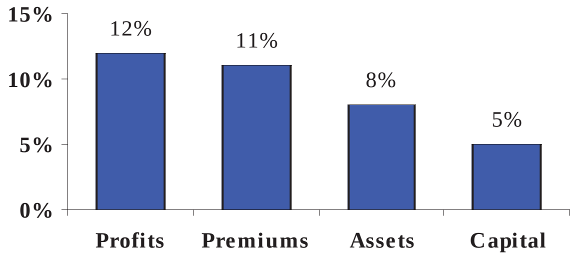
Byblos Bank partners with EBRD to provide financing in Armenia

The European Bank for Reconstruction and Development (EBRD) announced that it has partnered with Byblos Bank sal and two other European banks to arrange a $12m loan that would support small and medium size enterprises in Armenia. The deal consists of a loan to Araratbank to help it meet demand for finance from local micro, small and medium-sized enterprises. The ERBD will contribute $3m to the financing package, with the balance consisting of a syndicated loan by Byblos Bank sal, as well as by Russia's OJSC Promsvyazbank and VDK Spaarbank nv of Belgium. The arrangement represents the first time the EBRD cooperates with a Lebanese bank on a transaction in Armenia, and the first time it has worked with the three banks on the lending side. Byblos Bank is one the largest Lebanese investors in Armenia and is the first Lebanese bank to establish a direct presence in the country with its acquisition of a 100% stake in the Yerevan-based International Trade Bank in 2007. Byblos Bank Armenia operates as an independent subsidiary of the Byblos Bank Group and mainly focuses on commercial and retail activities, as well as serves the needs of the Armenian Diaspora across the world.

Lebanese insurers account for 11% of premiums generated in Arab world

The annual survey by *Al Bayan* magazine of the insurance market in the Arab world shows that the aggregate premiums generated in Lebanon and abroad by Lebanese insurance firms totaled $2.28bn at the end of 2010, constituting an increase of 26.5% from $1.8bn in 2009. Premiums generated by 50 Lebanese insurers accounted for 11.1% of the total premiums generated by 308 Arab insurance firms last year, compared to 10.7% in 2009. Lebanese insurers held the fourth highest market share in premiums generated, coming behind UAE firms with 20.3% of the market, firms in Saudi Arabia with 16.7% and insurers from Morocco with 13.7% of the total. The MEDGULF Group was the top ranked Lebanese insurer with $882.2m in premiums generated domestically and abroad, and ranked in second place in the Arab world. It was followed by Arabia Insurance in 15th place regionally ($334m), AROPE Insurance in 40th place ($117.1m), Allianz SNA in 52nd place ($97.9m), Libano-Suisse in 54th place ($95m), Metlife Alico in 55th place ($92.9m), Bankers Assurances in 66th place ($77.6m), LIA in 86th place ($57.4m), AXA Middle East in 89th place ($56.9m), Fidelity in 99th place ($44.5m), ADIR in 106th place ($40.6m), Bancassurance in 111th place ($37.4m), Mashrek Insurance in 130th place ($27.7m), Assurex in 136th place ($26.4m), and CLA in 142nd place ($24.4m) as the top 15 Lebanese insurers.

Share of Lebanese Insurers in 2010 by Category



Source: Al Bayan magazine, Byblos Research

In parallel, the survey included 14 Lebanese insurers among the top 150 Arab insurance firms in terms of assets. The MEDGULF Group ranked in 8th place with $1.55bn in assets at the end of 2010. It was followed by Metlife Alico in 24th place ($502.7m), Arabia Insurance in 32nd place ($394m), AROPE in 40th place ($308.1m), Allianz SNA in 43rd place ($278.4m), LIA in 53rd place ($250.1m), Bancassurance in 64th place ($189.5m), Libano Suisse in 74th place ($153m), Bankers Assurances in 84th place ($134.2m), ADIR in 88th place ($121.9m), CLA in 93rd place ($113m), Union Nationale in 95th place ($109.3m), AXA Middle East in 128th place ($67.3m) and SOGECAP in 129th place ($67.2m). The aggregate assets of the 14 firms reached $4.3bn at end-2010.

Further, the survey included 20 Lebanese insurers among the top 150 Arab insurance firms in terms of profits. The MEDGULF Group posted $89.5m in profits in 2010, coming in 4th place regionally. It was followed by Metlife Alico with $26.8m (16th), Bankers Assurances with $10.4m (38th), Arabia Insurance with $10m (40th), LIA with $9.9m (41st), AROPE Insurance with $9.3m (42nd), Bancassurance with $8.3m (56th), CLA with $5m (65th), SOGECAP with $4.9m (70th), and ADIR with $4.1m (81st) as the 10 most profitable Lebanese insurers. The aggregate profits of the 20 insurers reached $192.7m in 2010. Also, the survey included 7 Lebanese insurance companies among the largest Arab insurers in terms of capital. The MEDGULF Group had $63.4m in capital at end-2010, ranking in 30th place among 150 Arab insurers. It was followed by LIA with $41.5m (59th), Arabia Insurance with $34m (77th), AROPE Insurance with $28.7m (89th), Allianz SNA with $27.9m (91st), ADIR with $16.6m (141st), and Securité with $15m (148th). The total capital of the 7 insurers reached $227m at end-2010.

Car sales down 5% in first 9 months of 2011

Figures released by the Association of Automobile Importers in Lebanon indicate that a total of 24,348 new passenger cars were sold in the first 9 months of 2011, constituting a decrease of 4.8% from the 25,569 cars sold in the same period last year. Korean cars accounted for 42% of total car sales, followed by Japanese cars with a 29.8% share, European automobiles with 21.2%, American vehicles with 6.3%, and Chinese cars with 0.7%. The number of Korean cars sold grew by 30% year-on-year. In parallel, the number of Japanese cars sold posted a drop of 27.6% year-on-year, followed by European cars with a 13% decline, Chinese autos with a 9.1% retreat, and American vehicles with a 1.5% decrease. Kia is the leading brand in the Lebanese market with 6,236 cars sold in the first 9 months of 2011, followed by Nissan with 4,277 cars sold, Hyundai with 3,984 cars, Chevrolet with 1,057 cars sold, Toyota with 1,054 cars, Renault with 891 cars, and Peugeot with 707 cars. In parallel, a total of 1,556 new commercial vehicles were sold in the first 9 months of 2011, down 26.6% from the 2,121 vehicles sold in the same period last year.

Holcim's net profits at $20m in first half of 2011

Cement producer Holcim Liban sal posted net profits of $19.9m in the first half of 2011 compared to $33.7m in all of 2010. The firm's net sales reached $97.1m in the frst six months of the year relative to $185m in 2010. Holcim's total assets reached $282.2m and its equity amounted to $206.7m at end-June 2010 compared to $287.7m and $217.1m, respectively, at end-2010. The company's total loans and borrowings reached $25.6m at end-June 2011, including bank overdraft of $10.5m, compared to total debt of $20.1m at end-2010; while its banks' balance and cash decreased to $7.4m from $17m at end-2010. The firm is engaged in the production and sale of cement and other related services. Last May, the Ordinary General Assembly of HOLCIM Liban sal approved the distribution of dividends for 2010, equivalent to LBP2,220 ($1.47) after tax. Holcim's share price closed at $16.7 on October 14, declining marginally by 0.06% from end-2010. Holcim has 19,516,040 shares listed on the Beirut Stock Exchange.

Ciments Blancs' net income at $1.4m in first half of 2011

Société Libanaise des Ciments Blancs sal, an affiliate of Holcim Liban sal, declared net profits of $1.4m in the first half of 2011 compared to net income of $2.8m in 2010. The company generated sales worth $6.9m in the first half of the year relative to $14.1m in 2010. The firm's total assets reached $20.8m at end of June 2011 compared to $19.8m at end-2010. Total equity amounted to $14.7m as at the end of June compared to $16.1m as at end-2010. Ciments Blancs' bearer share price closed at $3.25 on October 14, constituting an increase of 18.2% from end-2010, while its nominal share price closed at $1.72, increasing from $0.5 at end-2010. Ciment Blancs has 6 million bearer shares and 3 million nominal shares on the Beirut Stock Exchange.

Beirut bourse approves listing of Bank Audi's GDRs

The Beirut Stock Exchange (BSE) approved the trading and pricing of 1,000,000 Bank Audi Global Depository Receipts (GDRs), bringing the total to 99,581,430 GDRs listed on the bourse. Bank Audi sal, one of Lebanon's top 3 banks, converted 1,000,000 of its common shares to GDRs in September 2011 ahead of their listing on the bourse. It also has 348,477,114 common shares, 12,500,000 Preferred Shares Series D, and 1,250,000 Preferred Shares Series E listed on the BSE.

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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