



## LEBANON THIS WEEK

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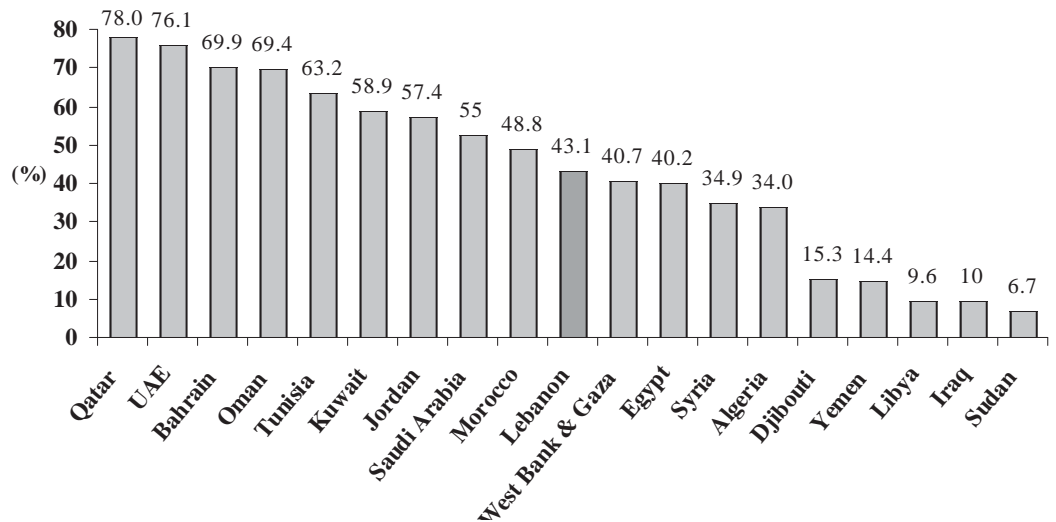
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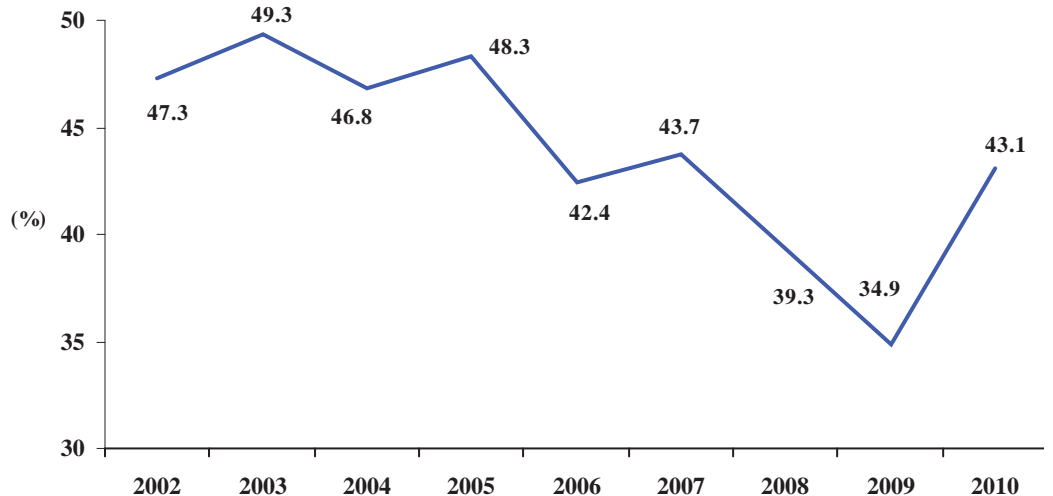
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### Charts of the Week

Government Effectiveness Indicator of Arab Countries in 2010 (in Percentile Rank)



Government Effectiveness Indicator for Lebanon (in Percentile Rank)



Source: World Bank Governance Indicators, Byblos Bank

### Quote to Note

"We would not expect meaningful progress on economic policy, particularly when it comes to controversial issues."

*Citigroup, on the need for political consensus to advance structural reforms*

### Number of the Week

**\$60bn:** The nominal size of Lebanon's gross public debt at the end of 2012, up from \$53.4bn at end-August, as projected by the Finance Ministry

## 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	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"	14.89	(0.40)	68,570	14.23%
Solidere "B"	14.70	(1.34)	19,965	9.13%
Byblos Common	1.64	0.61	12,200	5.63%
Byblos Pref. 08	100.00	0.00	112	1.91%
Byblos Pref. 09	100.70	0.70	350	1.91%
BLOM GDR	7.79	(0.76)	8,938	5.50%
BLOM Listed	7.65	(1.92)	14,590	15.72%
Audi GDR	6.62	(3.07)	28,292	6.30%
Audi Listed	6.00	0.33	34,850	19.98%
HOLCIM	16.95	(0.24)	360	3.16%

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 17-21	October 10-14	% Change	Sept. 2011	Sept. 2010	% Change
<b>Total Shares Traded</b>	274,559	362,779	(15.98)	3,302,725	3,705,098	(10.86)
<b>Total Value Traded</b>	\$3,266,399	\$4,271,429	(23.53)	\$28,432,174	\$49,787,087	(42.89)
<b>Market Capitalization</b>	\$10.46bn	\$10.52bn	(0.52)	\$10.65bn	\$12.38bn	(14.02)

Source: Beirut Stock Exchange (BSE)



### Lebanon ranks 104th globally, 11th among Arab countries on ease of doing business

The World Bank/International Finance Corporation Doing Business 2012 report ranked Lebanon in 104th place among 183 countries worldwide and 11th among 19 Arab countries in terms of ease of doing business. Lebanon came in 103rd place globally and in 10th place regionally in 2011. Lebanon also ranked in 32nd place among 44 Upper-Middle Income Countries included in the 2012 survey. The index is a composite of 10 sub-indices of business regulations that track the time and cost to meet government requirements in business start-up, expansion, operations and insolvency. Globally, Lebanon ranked ahead of Pakistan, the Marshall Islands and Nepal, and came behind Seychelles, Paraguay and Papua New Guinea. It also ranked ahead of the Dominican Republic and Argentina, and behind Seychelles and Saint Kitts & Nevis among UMICs.

Lebanon ranked ahead of the Solomon Islands and Russia and behind Burundi and Japan on the Starting a Business indicator. Regionally, it came ahead of Qatar and Sudan and behind Jordan and Morocco. Entrepreneurs need five steps to start a business in Lebanon compared to an average of 8.2 procedures in Arab countries and 5.3 procedures in OECD states, and it takes nine days to start a business locally compared to an average of 20.9 days in the region and 12.5 days in OECD countries.

Also, Lebanon ranked ahead of Malawi and Algeria, and came behind Panama and Brazil on the Enforcing Contracts indicator; while it ranked ahead of Algeria and Jordan and behind Kuwait and Bahrain in the region. A firm in Lebanon requires 37 procedures and 721 days to enforce commercial contracts, compared to an average of 44.7 procedures and 659.1 days in the Arab world and to 31.4 procedures and 518 days in OECD countries. Further, enforcing a contract in Lebanon costs 30.8% of the claim compared to 23.8% in the region and 19.7% in OECD markets.

Further, Lebanon tied with 19 countries that include Greece, Turkey, Ecuador and Paraguay on the Getting Credit indicator, while it ranked ahead of Russia and Italy, and came behind China and Argentina. This category measures the legal rights of lenders and borrowers, as well as access and quality of available credit information. Regionally, it tied with the UAE and Egypt, ranked ahead of Qatar and Kuwait, and came behind Saudi Arabia only. Lebanon scored five points on the Credit Information category, better than the 3.2 points for the regional average and 4.7 points for the OECD average.

Lebanon ranked ahead of Fiji and Benin, and came behind Mongolia and Niger on the Resolving Insolvency indicator, while it ranked ahead of Egypt and Djibouti and behind Yemen and Jordan in the region. Resolving Insolvency in Lebanon takes four years and costs 22% of the value of the debtor's estate compared to 3.5 years on average and 14% of estate value in the Arab countries and 1.7 years and 9.1% of estate value in OECD economies. The recovery rate in Lebanon is 20.6 cents on the dollar compared to 29.3 cents for the region and 68.2 cents for OECD markets.

### Launch of WTO enquiry point

The Lebanese Standards Institution (LIBNOR) and the United States Agency for International Development (USAID) launched the Technical Barriers to Trade (TBT) Enquiry Point for Lebanon. The Enquiry Point is a prerequisite for accession to the World Trade Organization (WTO), and aims to increase transparency and global accessibility to Lebanese trade regulations and facilitates trade operations. It will enable LIBNOR to maintain and publish up-to-date TBT requirements, answer inquiries from Lebanese and international traders, and provide information on technical regulations, standards, and conformity assessment procedures for products sold in the country. The USAID provided assistance to LIBNOR to establish the Enquiry Point, its adoption of procedures, and training of key personnel. LIBNOR is a public entity under the Ministry of Industry. The project is part of USAID's \$3m support for Lebanon's Accession to the World Trade Organization program.

### Ease of Doing Business in 2012

Country	Arab Rank	Global Rank
Saudi Arabia	1	12
UAE	2	33
Qatar	3	36
Bahrain	4	38
Tunisia	5	46
Oman	6	49
Kuwait	7	67
Morocco	8	94
Jordan	9	96
Yemen	10	99
<b>Lebanon</b>	<b>11</b>	<b>104</b>
Egypt	12	110
West Bank & Gaza	13	131
Syrian Arab Republic	14	134
Sudan	15	135
Algeria	16	148
Mauritania	17	159
Iraq	18	164
Djibouti	19	170

Source: Doing Business 2012, Byblos Research

### Lebanon's Rankings by Category in 2012

Indicator	Arab Rank	Global Rank	Change in Rank
Starting a Business	10	109	-5
Dealing with			
Construction Permits	19	161	-4
Getting Electricity	7	47	5
Registering Property	16	105	0
Getting Credit	2	78	-3
Protecting Investors	8	97	-4
Paying Taxes	8	30	-2
Trading Across Borders	11	93	0
Enforcing Contracts	10	120	0
Resolving Insolvency	13	125	3

Source: Doing Business 2012, Byblos Research

### Growth revised downward to 2.5% in 2011, divisive budget to weigh on economy

Merrill Lynch reduced its projection of real GDP growth in Lebanon to 2.5% in 2011 and 3.8% in 2012, from an earlier forecast of 6% this year and 5.5% next year. It attributed its revision to the deterioration in the macroeconomic picture, as economic activity continues to be hampered by the aftershocks of regional unrest and by the domestic political instability that took place in the first half of 2011. It indicated that regional unrest, low consumer and business confidence, and disappointing tourism and commercial activity have led to a severe and broad-based economic slowdown in the first half of 2011. It added that the coincident indicator bounced back from a 4.4% contraction in March, but increased at an uninspiring 3.7% in August year-on-year. It noted that the balance of payments, after years of surpluses, shifted to a deficit of \$786m in the first 7 months of the year and to a 12-month rolling surplus of just \$230m.

Merrill Lynch indicated that the draft 2012 budget includes several contentious measures. It considered that the draft budget is similar to the one submitted by the previous Cabinet, but that it comes at a time where the economy faces numerous headwinds. It noted that the government intends to reduce the deficit by 1.3 percentage points to 8.1% of GDP in 2012 through a hike in VAT, higher taxes on interest rate deposits, and a new tax on real estate transactions. It said the proposed tax increases have generated discontent and could slow the economy further. It added that the approved 40% increase in the minimum wage could negatively affect the private sector as well as disappoint labor unions given that it came lower than their demands. However, it warned that the dispute over the potential inclusion in the budget of the funding for the Special Tribunal for Lebanon could delay to the adoption of the 2012 budget. It also noted that the lack of structural reforms to reduce the government's borrowing needs, along with lower economic growth, will lead to an increase in public sector indebtedness.

Selected Economic Indicators				
	2009	2010E	2011F	2012F
<b>Economic Activity and Prices</b>				
Real GDP (% yoy)	9.0	8.0	2.5	3.8
CPI (% average)	3.4	4.7	5.3	4.5
<b>External Sector</b>				
Current account balance (% of GDP)	(10.7)	(10.8)	(10.7)	(10.5)
Current account balance (\$bn)	(3.7)	(4.2)	(4.5)	(4.8)
Trade balance (\$bn)	(11.2)	(13.6)	(14.7)	(13.5)
International Reserves (\$bn)	28.7	32.6	34.5	36.0
<b>Public Sector</b>				
Primary balance (% of GDP)	3.1	3.2	2.8	1.2
Nominal Budget balance (% of GDP)	(8.9)	(7.4)	(7.5)	(8.5)
<b>Debt Indicators</b>				
Gross external debt (% of GDP)	17.1	166.5	163.7	161.0
Public (% of GDP)	61.7	58.0	54.0	53.0
Private (% of GDP)	115.4	108.5	109.7	108.0
Gross government debt (% of GDP)	148.5	133.2	135.2	129.0
Domestic (% of GDP)	86.8	75.2	81.3	76.0
External (% of GDP)	61.7	58.0	54.0	53.0

Source: Merrill Lynch

### Economic growth to slow to 1.7%, fiscal deficit to widen in 2011

HSBC Bank revised downwards its real GDP growth forecast in Lebanon to 1.7% in 2011 from a July estimate of 2.4%, and maintained its projection of 3.5% for 2012. It indicated that perceptions of domestic and regional political risks remain pronounced and are affecting economic activity such as exports. It added that weak data about airport arrivals, construction permits, the coincident indicator and other areas reflect a cyclical downturn in domestic activity that had already begun before the regional political unrest of the first quarter of the year. HSBC also expressed concern about the fiscal position. It said that although the headline data appears strong, the 10% rise in revenues in the first half of the year included a one-off payment from the Telecommunications Ministry that has not yet been made. It noted that budget revenues were actually down 7% year-on-year when removing this item, while expenditures were up 10%. It said the actual figures put Lebanon on track to post a fiscal deficit of 8.2% of GDP in 2011.

In parallel, HSBC considered that Lebanon has found itself serving as a safe haven despite ongoing policy stagnation in the country and deepening unrest in Syria. It said Lebanese pound and dollar-denominated bonds have outperformed their peers, and banks have seen a surge in non-resident deposits. Also, Central Bank reserves, including gold, reached a new all-time high of \$44bn, which is equivalent to 28 months of import cover. It noted that this comfortable position rules out any risks to Lebanon's currency peg, despite the large fiscal and current account deficits.



### Lebanon ranks second in Arab world in economic freedom

The Fraser Institute's annual Index of Economic Freedom in the Arab World ranked Lebanon in second place in 2011 among 16 countries included in the survey, up from third place in 2010 and 2009 and from sixth place in 2008. The index measures the degree of economic freedom in each country on the basis of 18 variables that are divided into five broad factors of economic freedom. The factors measure the size of government, legal structure and security of property rights, access to sound money, freedom to trade internationally, and the regulation of credit, labor and business. Lebanon received a score of 7.7 points on a scale of 1 to 10, up from 7.6 points in 2010 but unchanged from 2009, and higher than the Arab average of 6.9 points.

Lebanon ranked first on the Size of Government category, up from second place in 2010 which reflects the small size of the government relative to its economy. Also, Lebanon ranked in second place behind Kuwait on the Access to Sound Money category, which measures the extent that a nation's currency is sound and holds its value over time. It ranked also ranked second in the region on this category in 2010 and first in 2009.

In parallel, Lebanon ranked behind Egypt and ahead of Algeria on the Legal Structure & Security of Property Rights category. This category examines whether laws, primarily dealing with economic matters, are fairly and transparently applied in a timely manner, and whether property rights and contracting are protected by the rule of law.

Also, Lebanon ranked behind Libya and ahead of Comoros on the Freedom to Trade Internationally category, which measures the extent to which businesses and individuals can freely trade with their counterparts in other nations. Further, Lebanon came behind Oman and ahead of Kuwait in terms of Regulation of Credit, Labor and Business. This category measures the extent to which the regulatory burden hinders the formation or advancement of businesses, the free movement of labor, and ability to obtain or advance credit.

The Fraser Institute is a Canada-based independent research organization whose mission is to study and measure the impact of competitive markets and government intervention on the welfare of individuals. The 2011 survey is based on figures for end-2009, while the 2010 survey is based on updated figures for 2008.

### Draft budget to face opposition within Cabinet over tax hikes

Regional investment bank EFG Hermes reduced its growth forecast for Lebanon to 2.8% from 3.5% in 2011 and to 4.4% from 4.8% for 2012. It attributed its downward revision to domestic political uncertainties and to the developments in the region. It expected the continued instability in Syria to impact tourism, trade and local consumption; and expressed concerns that the growing disagreement within the Cabinet over the funding of the Special Tribunal for Lebanon could lead to the toppling of the current government and would put Lebanon in a difficult position with the international community. In parallel, EFG Hermes indicated that the 2012 draft budget stipulates a 6.2% increase in total spending, which accelerates expenditures compared to the 1.2% rise in spending in the 2011 draft budget. It noted that current expenditures will mainly drive spending growth.

It indicated that the draft budget for 2012 is likely to face opposition within the Cabinet due to the incorporated tax increases. It added that the minimum and other wage increases announced in October by the government will add to the existing fiscal and political pressure. It estimated that the salary increase will raise current expenditures by \$1.1bn and result in a 14.3% increase in total spending from a forecast raise of 6.2%. It assumed that military employees and retirees will also see the same wage increases. It forecast the fiscal deficit to reach 9% of GDP this year and to widen to 10.5% of GDP in 2012. It considered that these obstacles reduce the chances of having the budget draft passed before the end of 2011, which means that Lebanon will likely have to face one additional year without an official budget.

Index of Arab Economic Freedom 2011		
Country	Score	Rank
Bahrain	8	1
<b>Lebanon</b>	<b>7.7</b>	<b>2</b>
Kuwait	7.6	3
UAE	7.6	3
Qatar	7.5	5
Jordan	7.4	6
Saudi Arabia	7.4	6
Oman	7.2	8
Comoros	6.8	9
Egypt	6.8	9
Djibouti	6.6	11
Morocco	6.6	11
Tunisia	6.5	13
Mauritania	6	14
Syria	5.9	15
Algeria	5.5	16

Source: Fraser Institute, Byblos Research

### Lebanon's Rankings & Scores by Category

Category	Rank	Score
Size of Government	1	8.3
Access to Sound Money	2	9.2
Regulation of Credit, Labor & Business	4	8.0
Freedom to Trade Internationally	10	6.8
Legal Structure & Security of Property Rights	14	6.1

Source: Fraser Institute, Byblos Research

### Government to rollover \$2bn in Eurobonds maturing in 2012

The Finance Ministry intends to roll over in November \$2bn in Eurobonds that mature in 2012 and has sent requests for proposals to local and international banks. The government has a total of \$3.8bn in Eurobonds that mature in 2012, including \$2.55bn in principal and \$1.24bn in coupon payments. Last July, the ministry issued a \$1.2bn dual-tranche Eurobond to refinance \$943m in bonds maturing in August 2011. The first series consisted of a 5-year \$500m issue that carries a coupon rate of 4.75%, and the second series was a \$700m re-opening of the 6.1% coupon Eurobond due in October 2022, with the new series carrying a coupon rate of 6.2%. Also, the government issued last May a \$1bn dual-tranche Eurobond to refinance a \$1bn bond that matured in the same month. The first tranche consisted of an 8-year \$650m bond that matures in May 2019 and carries a coupon rate of 6%; while the second tranche consisted of an 11-year \$350m bond that matures in October 2022 and carries a coupon rate of 6.1%.

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 5.3 years, while that on Treasury bills was 876 days.

### Cabinet approves onshore oil exploration process

The Cabinet approved the start of onshore oil exploration in Lebanon, as it authorized the launch of a tender process to survey the Lebanese territory and locate areas with potential oil deposits. It also recommended the preparation of a draft law that regulates oil exploration on Lebanese soil, followed by a tender process for onshore exploration. It said the decisions constitute the government's first official step for launching onshore oil exploration. It noted that the decrees should be completed by the end of the year in order to launch the tender process in the first quarter of 2012. In parallel, the Energy Ministry indicated that the government launched a tender process last year to determine the state of the seven wells that were dug between 1947 and 1962, but it indicated that it could not attract pro bono offers without additional cost to the Treasury due to Lebanon's difficult geographical landscape, limited size, and the difficulty in scanning the mainland.

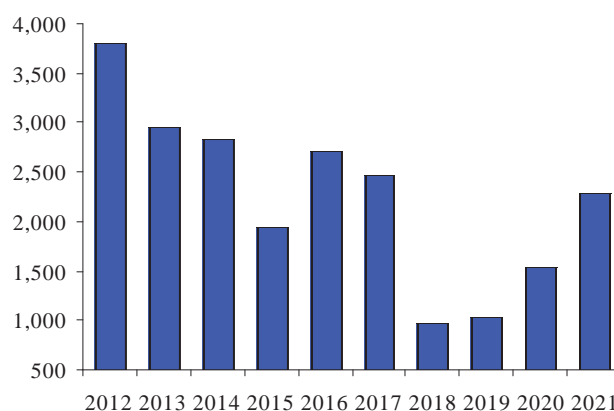
In August 2010, the Lebanese Parliament ratified a draft law that authorizes for the first time offshore oil and gas exploration and drilling. The law provides the basis to apply an international law called Production Sharing Agreement (PSA), essential in the production sharing deals that usually take place between states and international oil companies. The law calls for the establishment of a regulatory authority and a committee to oversee exploration and production; while discussions over the establishment, structure and management of a sovereign wealth fund have been postponed.

### Consumer Price Index up 4.8% annually in September

The Central Administration of Statistics' Consumer Price Index indicates that inflation increased by 4.8% in September 2011 from September 2010. Prices of water, electricity, gas & other fuels increased by 13.2%, followed by health care (+7.1%), transportation (+7%), education (+6.7%), restaurants & hotels (+6.2%), food & non-alcoholic beverages (+5.5%), furnishings & household equipment (+5.3%), recreation & entertainment (+3.4%), miscellaneous goods & services (+2.2%), alcoholic beverages & tobacco (+0.8%) and clothing and footwear (+0.1%). In parallel, housing prices remained unchanged year-on-year and communication prices declined by 0.1%. Imported inflation accounts for about 70% of inflation in the country, as Lebanon has an import-based economy. Lebanon imports most of its energy needs and the value of imports historically has been equivalent to about five times that of exports.

The Consumer Price Index increased by 0.1% in September 2011 from August 2011. Prices of food & non-alcoholic beverages increased by 0.6%, followed by miscellaneous goods & services (+0.4%), clothing & footwear, furnishings & household equipment, prices at restaurants & hotels (+0.3% each), recreation & entertainment (+0.2%) and alcoholic beverages & tobacco (+0.1%). Further, the cost of housing, health care, communication and education remained unchanged month-on-month, and that of water, electricity, gas & other fuels declined by 0.2% and transportation cost decreased by 0.9%. The Consumer Price Index grew by 5.5% year-on-year in August and increased by 5.8% year-on-year in July.

Outstanding Lebanese Eurobonds (\$m)



Source: Ministry of Finance

### Salary increase to cost Treasury \$700m annually

The Ministry of Finance estimated that the total cost of the recently approved increase of the minimum wage and of other benefits will cost the Treasury \$700m annually. On October 11, 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.

According to the Lebanese Businessmen Association (RDCL), 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.

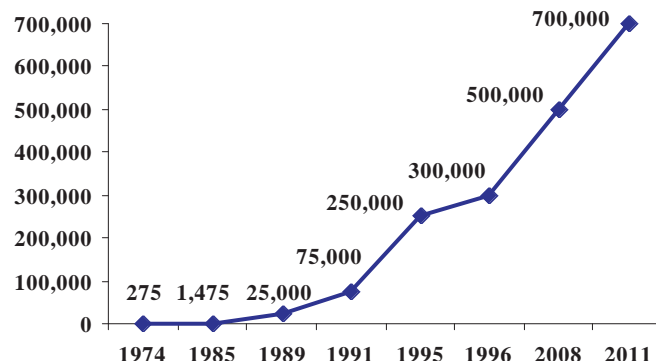
### Launch of national program against poverty

The Ministry of Social Affairs launched the national program to support Lebanon's poorest families. It said the initiative aims to assist the segment of the Lebanese population that is living under the poverty line, which includes 74,000 families or about 8% of the population. It indicated that the program would provide an opportunity for the poor to improve their standard of living through free hospitalization, preliminary health care, medicine, exemption from tuition fees at public schools and providing school books. It noted that the program is co-funded by the Lebanese government, which allocated \$28.2m to the initiative, as well as by the Italian Foreign Ministry, the World Bank and the Canadian Embassy. The program's first phase ended in 2008 and included the preparation of the program's implementation mechanisms; while the second phase, which ended in 2009, included a pilot test for the mechanism in three regions and resulted in assisting 6,500 families or 25,500 citizens. The third phase is the current launch of the program.

### Construction and public work activity down in second quarter of 2011

The Central Bank's quarterly business survey indicated that construction activity decreased during the second quarter of 2011, with a balance of opinion standing at -7, compared to +20 during the same quarter of 2010 and -9 during the previous quarter. The business survey reflects the opinions of enterprise managers on the evolution of their businesses, in order to depict the evolution of a number of key economic variables. The balance of opinion for public works stood at -28 in the second quarter of 2011 compared to +5 in the same quarter of 2010 and -25 in the first quarter of 2011. Also, the balance of opinion for general construction activity decreased to -9 during the second quarter of 2011, compared to +15 during the same quarter of 2010. Further, the balance of opinion for construction costs reached -9, down from +15 in the same period of 2010 and -11 in the first quarter of the 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.

Evolution of the Minimum Wage (in Lebanese pounds)



Construction and Public Work Activity: Year-on-year evolution of opinions

Aggregate results	Q2-08	Q2-09	Q2-10	Q2-11
General activity	7	16	15	-9
Construction	17	16	20	-7
Public work	-12	4	5	-28
Portfolio of projects	5	12	16	-14
Construction costs	69	28	41	35
Investments (% of yes)	30%	46%	43%	35%

Source: Central Bank Business Survey Q2-11

### **Industrial exports increase by 7% to \$2.2bn in first 8 months of 2011, imports stagnate at \$159m**

Figures released by the Ministry of Industry show that industrial exports totaled \$2.35bn in the first 8 months of 2011, constituting an increase of 7.4% from \$2.2bn in the same period last year. Industrial exports reached \$311m in August 2011, down 6.6% from \$333m in July 2011 and up 18.7% from August 2010. Pearls & precious or semi-precious stones accounted for \$575.9m, or 24.5% of total industrial exports in the first 8 months of the year, followed by base metals & articles of base metals with \$399m (17%), and machinery and mechanical appliances with \$359.8m (15.3%). Arab countries accounted for 32.7% of total industrial exports in August, followed by African countries with 27.3%. In parallel, industrial imports reached \$159.4m in the first 8 months of the year, up marginally 0.2% from the same period in 2010. Italy was the main source of such imports and accounted for 31.5% of total. It was followed by China with 14.7% and Germany with 13%. Further, imports of industrial equipment and machinery reached \$18.3m in August 2011, decreasing by 22.1% year-on-year. Italy was the main source of imports of industrial equipments, accounting for 30.3% of total, followed by Germany with 21.3% and China with 15.2%.

### **Term savings attract 86% of customer deposits**

Figures issued by the Central Bank about the distribution of bank deposits show that term savings was the preferred type of account for resident and non-resident depositors in Lebanese pounds as well as in foreign currencies at the end June 2011. Term saving deposits accounted for \$46.6bn, or 82% of resident deposits in foreign currencies and were followed by checking and current accounts with \$8.4bn (14.7%), sight saving accounts with \$1.5bn (2.6%) and other creditor accounts with \$467.5m (0.8%). Further, term saving accounts attracted \$32.1bn, or 92.6%, of resident deposits in Lebanese pounds, followed by checking and current accounts with \$2bn (5.9%) and sight saving accounts with \$465m (1.3%). Non-residents also favored term saving accounts, which accounted for \$15.1bn, or 86.2%, of their foreign currency deposits and for \$2.4bn, or 97%, of their Lebanese pound deposits. Term saving deposits in all currencies totaled \$96.1bn at end-June 2011, accounting for 86.2% of deposits in Lebanese pounds and foreign currencies.

In parallel, Beirut and its suburbs accounted for 68.9% of private sector deposits and for 49.3% of depositors. It was followed by Mount Lebanon with 13.1% of deposits and 17.3% of beneficiaries; South Lebanon with 6.7% of deposits and 11.7% of beneficiaries; North Lebanon with 6.2% of deposits and 13.8% of depositors; and the Bekaa with 5.1% of deposits and 7.9% of beneficiaries

### **Private equity fund invests \$13.5m in Khoury Home Group**

The EuroMena II private equity fund announced that it has invested \$13.5m for an undisclosed stake in home appliances and retail electronics group Khoury Home Appliances sal. It said that the capital injection would finance Khoury Home's expansion plans in Lebanon and across the Arab world. Earlier this year, Khoury Home acquired Houkayem Brothers sarl, a direct competitor and one the larger retail chains of home appliances in Lebanon. Khoury Home has 14 outlets in Lebanon, plans to open four additional ones, and has established distribution and manufacturing channels in Syria and Jordan.

Khoury Home Appliances sal inaugurated in June 2002 the first-of-its-kind megastore for home appliances in Lebanon and the largest such retail outlet in the Arab world at the time. The megastore offers under one roof more than 250 brand names covering home appliances such as refrigerators, washers, dryers, air conditioners, and other 'white goods'; as well as audio-visual products such as TVs, video recorders, DVD players, hi-fi systems, personal and portable hi-fi, in-car entertainment products and other 'brown goods'. It also offers kitchens, built-in appliances, tableware, personal computers, photography equipment, mobile phones and accessories. The outlet also extends on-the-spot credit facilities on most purchases. The investment in the megastore totaled \$3m at the time. The Beirut-based \$90m EuroMena II fund is managed by the Capital Trust Group and invests in companies across the Middle East and North Africa.

### **Hilton to manage Habtoor hotels in Lebanon**

Hilton Hotel & Resorts signed a management agreement with the UAE-based Al Habtoor Group to manage the Habtoor Grand Hotel and Metropolitan Palace Hotel in Beirut. The hotels will be re-branded Hilton Beirut Habtoor Grand and Hilton Beirut Metropolitan Palace at the beginning of 2012. They will constitute the first properties managed by Hilton in Lebanon and will mark the entry of the Hilton brand to the country. The Hilton Beirut Habtoor Grand has 195 rooms and the Hilton Beirut Metropolitan Palace comprises 183 rooms. The hotels include multiple business, meeting and entertainment facilities. Hilton Hotel & Resorts manages 53 hotels in the Middle East and 3,750 properties worldwide.

### **Balance sheet of investment banks posts 18% decrease year-on-year at end-June**

Figures released by the Central Bank show that the consolidated balance sheet of investment banks in Lebanon reached LBP7,142bn, or \$4.74bn, at the end of June 2011, constituting a decrease of 9.5% from end-2010 and a drop of 17.7% from a year earlier. Private sector deposits reached \$2.91bn at end-June, down 10.1% from end-2010 and 23.4% from end-June 2010. Resident deposits in foreign currencies reached \$1.29bn, followed by resident deposits in Lebanese pounds at \$1.17bn and non-resident deposits in foreign currencies at \$292.5m. Also, commitments to the financial sector reached \$537.7m at the end of June 2011, representing a decrease of 4.8% from end-2010 and 16.3% year-on-year.

On the assets' side, investment banks' operations with commercial banks reached \$2.41bn at the end of the second quarter, down 12.6% from the end of 2010 and 21.8% from end-June 2010. Lending to the private sector reached \$1.1bn, constituting a marginal decrease of 0.1% from end-2010 but an increase of 1% year-on-year. Investments in government securities totaled \$858m as at end-June, down 16% from end-2010 and 35.3% from a year earlier. Further, the aggregate capital of investment banks reached \$824.2m at the end of June 2011, up 15% from end-2010 and 21.8% from a year earlier. There are 14 investment banks operating in Lebanon with a total of 19 branches.

## 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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