



## LEBANON THIS WEEK

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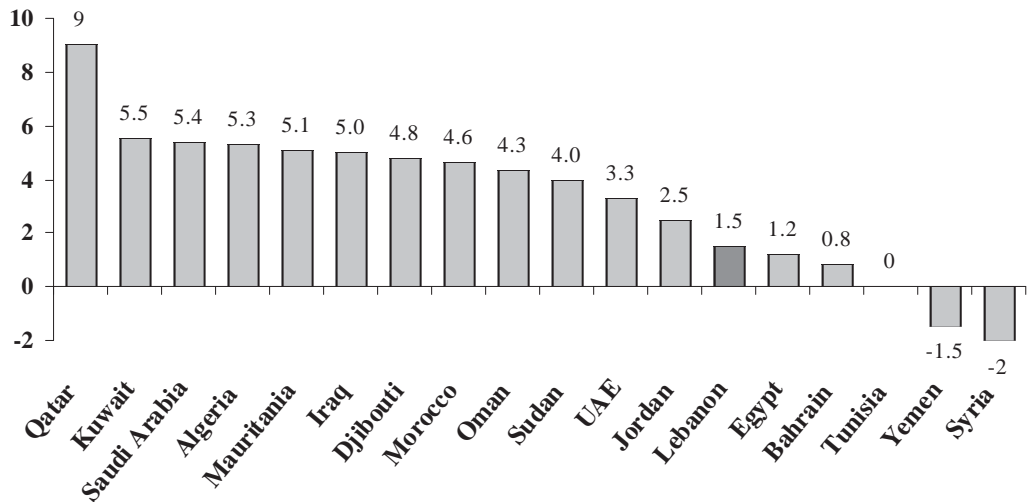
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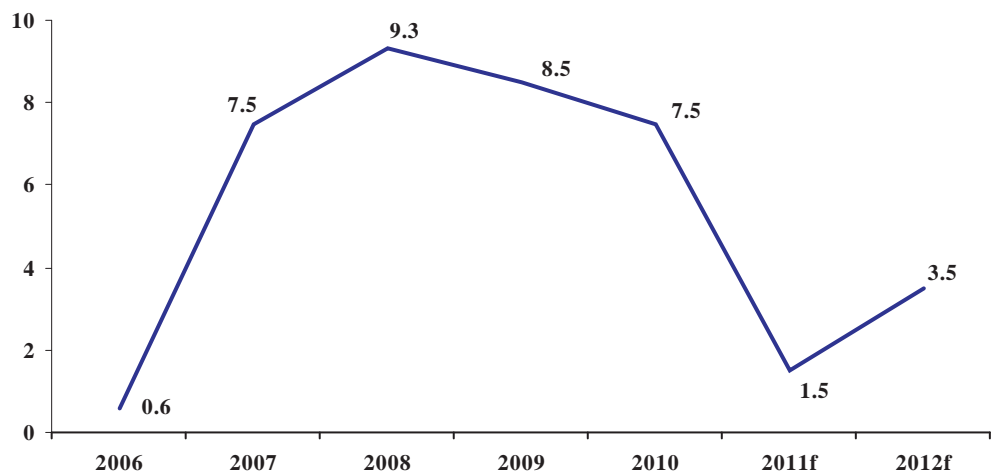
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### Charts of the Week

Projected Real Non-Oil GDP Growth of Arab Countries in 2011 (% per year)



Real GDP Growth in Lebanon (% per year)



Source: International Monetary Fund, Byblos Bank

### Quote to Note

"Lebanon will likely have to face yet another year without an official budget."

*Regional investment bank EFG Hermes, on the strong opposition from within and from outside the Cabinet to several measures in the 2012 draft budget*

### Number of the Week

**128:** Lebanon's rank among 142 countries on the level of wasteful spending by the government, according to the World Economic Forum's Global Competitiveness Index

## Economic Indicators

<b>\$m (unless otherwise mentioned)</b>	<b>2009</b>	<b>July 10</b>	<b>2010</b>	<b>May 11</b>	<b>June 11</b>	<b>July 11</b>	<b>% Change*</b>
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

<b>\$bn (unless otherwise mentioned)</b>	<b>Dec 2009</b>	<b>July 10</b>	<b>Mar 11</b>	<b>May 11</b>	<b>June 11</b>	<b>July 11</b>	<b>% Change*</b>
BdL FX Reserves	25.66	27.93	28.54	28.44	28.33	28.91	3.51
<i>In months of Imports</i>	<i>18.6</i>	<i>15.10</i>	<i>17.40</i>	<i>18.02</i>	<i>18.03</i>	<i>17.2</i>	<i>13.91</i>
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

<b>Most Traded Stocks on BSE</b>	<b>Last Price (\$)</b>	<b>% Change*</b>	<b>Total Volume</b>	<b>Weight in Market Capitalization</b>	<b>Sovereign Eurobonds</b>	<b>Coupon %</b>	<b>Mid Price \$</b>	<b>Mid Yield %</b>
Solidere "A"	14.57	(2.15)	94,617	13.91%	Mar. 2012	7.500	101.50	3.51
Solidere "B"	14.63	(0.48)	12,450	9.08%	Sep. 2012	7.750	103.88	3.09
Byblos Common	1.62	(1.22)	10,754	5.56%	June 2013	8.625	108.25	3.40
Byblos Pref. 08	100.00	0.00	0	1.91%	Apr. 2014	7.375	108.50	3.72
Byblos Pref. 09	100.10	(0.60)	50	1.91%	Jan. 2015	5.875	105.50	4.03
BLOM GDR	7.85	0.77	1,150	5.54%	Apr. 2015	10.00	119.38	3.99
BLOM Listed	7.42	(3.01)	6,350	15.23%	Jan. 2016	8.500	115.38	4.46
Audi GDR	6.60	(0.30)	22,316	6.27%	Mar. 2017	9.000	119.38	4.87
Audi Listed	6.00	0.00	195,231	19.96%	Nov. 2018	5.150	99.50	5.24
HOLCIM	16.01	(5.55)	4,800	2.98%	Apr. 2021	8.250	118.13	5.74

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

Source: Byblos Bank Capital Markets

	<b>October 24-28</b>	<b>October 17-21</b>	<b>% Change</b>	<b>Sept. 2011</b>	<b>Sept. 2010</b>	<b>% Change</b>
<b>Total Shares Traded</b>	382,849	274,559	39.44	3,302,725	3,705,098	(10.86)
<b>Total Value Traded</b>	\$3,852,202	\$3,266,399	17.93	\$28,432,174	\$49,787,087	(42.89)
<b>Market Capitalization</b>	\$10.48bn	\$10.46bn	0.10	\$10.65bn	\$12.38bn	(14.02)

Source: Beirut Stock Exchange (BSE)



### Weak institutions, underdeveloped infrastructure, and difficult economic environment are main obstacles to the competitiveness of the Lebanese economy

The Organization for Economic Co-operation and Development (OECD) and the World Economic Forum (WEF) indicated that the Lebanese economy has the potential to become more competitive in the region and to generate higher growth rates given its competitive advantages, but cautioned that reaching this potential is conditional on addressing key challenges and obstacles.

The OECD and WEF said that Lebanon has one of the best educational systems in the region, with both its quality of teaching and enrolment rates considered to be good. They added that the business community considers that the overall quality of education in Lebanon is highly advanced. The WEF's Global Competitiveness Index ranks Lebanon in 12th place globally on the overall quality of its educational system and in sixth place worldwide in terms of its math and science teaching. The two organizations also highlighted the high quality of management schools in the country, as reflected by its ranking in 18th place worldwide in this category. But they considered that Lebanese businesses should provide more opportunities for on-the-job training for students in order to improve educational outcomes and to ensure continuous learning and upgrading of skills.

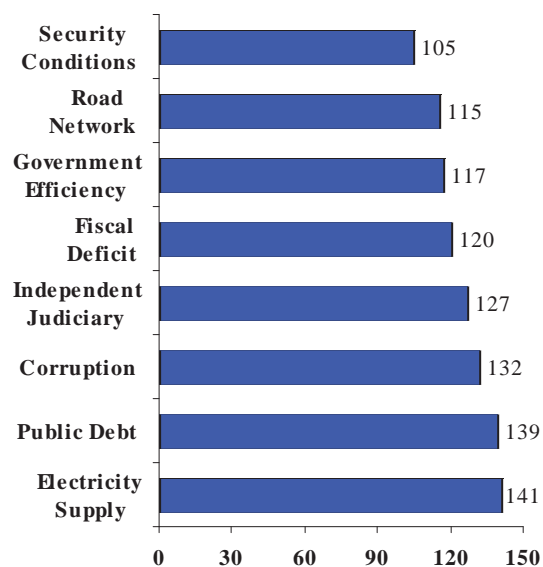
Also, they indicated that the presence of intense domestic competition in local markets constitutes another important competitive advantage, and that competition supports Lebanon's high efficiency in the goods market. According to the Global Competitiveness Index, Lebanon has the 28th most competitive market worldwide and the 35th most efficient market. They added that low administrative barriers to entering the market, as reflected by Lebanon's 23rd position on the number of procedures necessary to start a business, as well as a taxation system that limits distortions (21st place), also contribute to a healthy, competitive environment. They encouraged the streamlining of customs procedures in order to facilitate the flow of goods over the border and, eventually, to support efforts to attract FDI to Lebanon.

In parallel, the OECD and WEF indicated that the key challenges for Lebanon remain its weak institutional set-up, under-developed infrastructure, and difficult macroeconomic environment. They said that institutions suffer from corruption as reflected by the country's 132nd position among 142 countries worldwide in this category, inefficient government agencies (117th place), as well as a judiciary that does not meet the needs of businesses (105th place) and is subject to influence by others (127th place). Further, they considered that the security situation imposes significant costs on the business community, with Lebanon ranking in 105th place in this category. They added that upgrading the country's infrastructure will necessitate stabilizing electricity supply as well as investing in roads and railroads. Lebanon ranks next to last globally on the quality of electricity supply, in 115th place on the quality of its road network, and in 122nd place regarding its railroad network. But the OECD and WEF noted that investment in infrastructure may necessitate private-sector participation due to the need for fiscal consolidation resulting from repeatedly high fiscal deficits and unsustainable level of government debt. Last year, Lebanon posted the 23rd highest fiscal deficit relative to GDP worldwide and the fourth highest government debt-to-GDP ratio among 142 countries.

### Economic & Social Fund's support covers 256 projects in third quarter

The Economic & Social Fund for Development (ESFD) indicated that it has financed 256 projects worth \$3.4m in the third quarter of the year, bringing the total number of projects it has financed since the launch of its operations to 4,808 with an aggregate value of LBP 5.2bn. The ESFD's mission is to alleviate poverty and mitigate the social impact on marginalized and disadvantaged groups in Lebanon. It provides financial and technical support to micro and small enterprises through financial intermediaries to finance projects in deprived and poor regions of the country. The ESFD was established in November 2000 with the signing of a financing agreement between the European Commission and the Lebanese government, and started its operations in June 2002. It is an autonomous entity directly attached to the Council for Development & Reconstruction, and will become a permanent public institution for poverty alleviation in Lebanon by the end of the current financing agreement. The ESFD is funded by €25m from the European Union and €6m from the Lebanese government. The allocation of an additional €6m grant from the EU is currently under review. Since the launching of its mainstream activities, the ESFD has committed approximately 90% of EC funds through contracts with implementing partners; with 56% of those already successfully disbursed to ESFD implementing partners. The ESFD said it has helped create 3,355 jobs since its establishment.

### Lebanon's Global Rank on key Obstacles to Competitiveness



Source: OECD, World Economic Forum

### Size of informal economy at 30% of GDP, labor market rigidity is key factor

The International Monetary Fund estimated the size of the informal economy in Lebanon to be equivalent to 30% of GDP, similar to Tunisia, and compared to 26% of GDP in Jordan, 34% of GDP in each of Egypt and Syria, and 44% of GDP in Morocco. It attributed the large size of the informal economy to the excessive regulatory burden in product and labor markets, low quality of institutions and governance, and an excessive tax burden. The informal economy is defined as the segment of an economy that is not taxed, or monitored by any government institution, or included in GDP calculations.

The Fund said that rigid labor market regulations appear to be particularly relevant in Lebanon, as this burden explains about 37% of the size of the informal sector, similar to Egypt, and compared to 29% in each of Morocco and Syria, 20% in Jordan and 15% in Tunisia. As such, it noted that the percentage of firms identifying labor regulations as a major constraint to their business operations is, on average, greatest in these countries. It added that the low quality of institutions and/or governance explains around 32% of Lebanon's informal economy relative to around 29% in Egypt, 27% in Jordan, 22% in each of Tunisia and Syria, and 17% in Morocco. It noted that the excessive regulatory burden in product markets explains around 20% of the size of the informal sector in Lebanon, compared to 32% in Syria, 27% in Tunisia, 24% in Jordan, 22% in Egypt and 17% in Morocco. It added that the high tax burden explains nearly 12% of Lebanon's and Egypt's informal economies, relative to 37% in each of Morocco and Tunisia, 29% in Jordan and 18% in Syria.

The IMF said that these factors increase the costs of operating in the formal economy and provide strong incentives for workers and firms to operate informally where such costs can be avoided. In comparison, the regulatory burden in product markets, institutional quality, and the tax burden explain each, on average, about 24% of the overall size of the informal economy in MENA oil-importing countries; while labor market rigidities contribute about 28% on average. It said that the elevated levels of informality imply that many workers in the MENA region's oil-importing countries have little or no social protection or employment, which undermines inclusiveness in the labor market. It added that 62% of the labor force in Lebanon does not contribute to a retirement pension scheme compared to 67% in Jordan, 51% in Tunisia and 43% in Egypt.

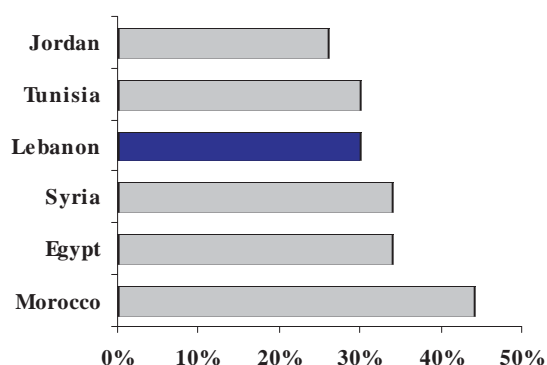
In parallel, the IMF indicated that the barriers for businesses and labor to enter the formal sector also constitute barriers to inclusive growth. It encouraged policymakers to implement reforms in order to remove these barriers by improving the regulatory framework for businesses, while at the same time creating an environment that fosters a fairer enforcement of regulations. It also encouraged policymakers to reform labor market institutions, reduce the tax burden, and provide workers in the informal sector with access to skills upgrading.

### Shura Council rejects wage increase

The Shura Council rejected the Cabinet's decision taken earlier this month to raise the minimum and other benefits. The Cabinet decided on October 11 to raise the minimum wage from LBP500,000 to LBP700,000, or \$464.3; as well as to increase by LBP200,000 salaries of up to LBP1,000,000 and to raise by LBP300,000 wages between LBP1,000,000 and LBP1,800,000. The Shura Council said the Cabinet's decision violates Article 6 of the 1967 Act by proposing a fixed increase in wages, while Article 6 stipulates determining the increase in the cost of living that would be indexed to wages. It added that the decision excludes workers with salaries exceeding LBP1,800,000, while the increase in the cost of living affects all workers and employees. Further, it considered that the government's decision to increase the transportation allowance to LBP10,000 from LBP8,000 a day and to raise the education allowance for children to a maximum of LBP1,500,000 to be beyond the scope of the government's mandate. The Shura Council's decisions are non-binding, but the Cabinet agreed to abide by the Council's opinion, which means that the wage and benefits raises will not go into effect.

The General Labor Confederation (GLC) and the private sector had strong reservations about the wage increases. 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 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.

Size of Informal Economy (% of GDP)



Source: International Monetary Fund

### IMF forecasts real GDP growth at 1.5% in 2011 and 3.5% in 2012

In its semi-annual economic outlook for the Middle East and Central Asia region, the International Monetary Fund projected Lebanon's real GDP growth at 1.5% in 2011 compared to growth of 4% for the Middle East and North Africa, 1.4% for the region's oil importers and 0.8% in Mashreq countries. It also projected real GDP growth of 3.5% in 2012 compared to 3.6% in MENA countries, 2.6% for oil importers and 1.9% in Mashreq economies. Lebanon's projected growth rate in 2011 would make it the sixth slowest economy in the Arab world and MENA region. The Fund estimated the country's nominal GDP at \$41.5bn in 2011 relative to \$39.2bn in 2010, accounting for 11.3% of the Mashreq region's aggregate GDP. It projected Lebanon's inflation to average 5.9% in 2011 compared to 10.2% in MENA economies, 7.7% for the region's oil importers and 9.7% in Mashreq countries. Also, it forecast broad money to grow by 8% this year and 10% next year, down from 12.2% in 2010.

In parallel, the Fund projected the government's fiscal balance to post a deficit of 7.8% of GDP in 2011 and 8.3% of GDP in 2012, relative to a deficit of 7.3% of GDP in 2010. It forecast government revenues at 22.3% of GDP in 2011 relative to 34.4% of GDP in the MENA countries, 23% of GDP for oil importers and 21.3% of GDP in the Mashreq region, and estimated public expenditures at 30.4% of GDP compared to 33.4% of GDP for MENA countries, 32% of GDP for oil importers and 31.6% of GDP for the Mashreq region. Further, it expected the public debt to decrease to 126.4% of GDP at end-2011 from 134.1% of GDP at end-2010. It also forecast total gross external debt at 161.7% of GDP at end-2011 and 163.8% of GDP at end-2012, up from 160.5% of GDP at end-2010 and compared to external debt in the MENA countries of 27.1% of GDP at the end of 2011 and 27.3% of GDP at the end of 2012.

The Fund estimated Lebanon's exports of goods & services to reach \$24.1bn in 2011 and \$25.8bn in 2012 compared to \$23.4bn in 2010, and for the imports of goods & services to increase to \$32.5bn in 2011 and \$34.5bn in 2012 from \$30bn in 2010. The IMF forecast the country's current account deficit at \$6.1bn or 14.7% of GDP in 2011, up from \$4.3bn or 10.9% of GDP in 2010 and compared to deficits of 4.8% of GDP for oil importers and 4.5% of GDP for the Mashreq economies. It also projected Lebanon's current account deficit at \$6.2bn or 13.8% of GDP in 2012. The Fund expected the country's gross official reserves to reach \$30.5bn at end-2011 and \$33.4bn at end-2012, up from \$30.2bn at end-2010.

	Lebanon		Oil Importers		Mashreq	
	2011P	2012P	2011P	2012P	2011P	2012P
Real GDP Growth (%)	1.5	3.5	1.4	2.6	0.8	1.9
Consumer Price Inflation (%)*	5.9	5.0	7.7	7.6	9.7	9.3
Fiscal Balance (% of GDP)	(7.8)	(8.3)	(8.4)	(7.5)	(9.7)	(8.6)
Total Debt (% of GDP)	126.4	125.0	66.5	67.5	72.9	73.1
External Debt (% of GDP)	161.7	163.8	32.8	32.4	32.4	31.8
Current Account (% of GDP)	(14.7)	(13.8)	(4.8)	(4.7)	(4.5)	(4.7)

P: projected

\*Yearly average

Source: International Monetary Fund, October 2011

### Tourism spending in Lebanon up 8% year-to-September

Figures issued by Global Blue, the VAT refund operator for international shoppers, show that total spending by tourists in Lebanon increased by 8% year-to-September, as visitors from Saudi Arabia spent the most during the first nine months of 2011 and accounted for 21% of total tourists' spending. They were followed by visitors from the UAE with 12%, Kuwait with 9%, Syria with 8% and Egypt with 5%. Spending by visitors from the UAE rose by 17%, followed by visitors from Syria (+12%) and France (+11%); while spending by visitors from Egypt contracted by 17%, followed by Jordan (-6%), Kuwait (-5%), Saudi Arabia (-4%) and Qatar (-1%). Beirut attracted 83% of total spending over the covered period, followed by the Metn area with 13%, the Keserwan region with 2%, and Saida with 1%. Fashion & clothing accounted for 74% of total spending, followed by watches with 9%, home & garden products and department stores with 4% each, souvenirs & gifts with 3%, consumer electronics & household appliances with 2%, and electronics & IT and sports equipments & clothing with 1% each. Spending on sports equipment & clothing increased by 31%, followed by fashion & clothing with a 13% growth, consumer electronics & household appliances (+12%), souvenirs & gifts (+5%), and home & garden equipments (+4%). Expenditures on electronics & IT decreased by 15% in the covered period, followed by watches with a 11% drop, and spending at department stores with a 7% decrease.

### Occupancy at Beirut hotels at 55%, room yields down 31% in first 9 months of 2011

Ernst & Young's benchmark survey of the Middle East hotel sector indicated that the average occupancy rate at hotels in Beirut was 55% in the first 9 months of 2011, decreasing from 68% in the same period last year. The occupancy rate at Beirut hotels was the eighth lowest among 21 markets in the region, unchanged from the same period last year. The survey said the average rate per room at Beirut hotels was \$222 in the first 9 months of 2011, ranking the capital's hotels as the seventh most expensive in the region.

The average rate per room at Beirut hotels decreased by 15.3% year-on-year and posted the third steepest decrease among all markets in the region, behind Hurghada and Sharm El Shaikh in Egypt. The average rate per room in Beirut came above the regional average of \$183.3, which declined by 1.3% from \$185.8 in the same period of 2010. Occupancy rates at Beirut hotels were 44% in January, 42% in February, 53% in March, 61% in April, 58% in May, 62% in June, 67% in July, 31% in August and 76% in September 2011, compared to 64% in January, 76% in February, 68% in March, 79% in April, 71% in May, 77% in June, 80% in July, 43% in August and 53% in September 2010.

Further, revenues per available room (RevPAR) were \$123 in Beirut in the first 9 months of 2011, down from \$179 in the same period last year, ranking it in 11th place in the region behind Muscat and Dubai City and ahead of Madina and Al Ain. Beirut's RevPAR was down 31.2% year-on-year, compared to a decrease of 9.8% across the region. Beirut posted RevPARs of \$99 in January, \$84 in February, \$107 in March, \$120 in April, \$119 in May, \$142 in June, \$184 in July, \$63 in August and \$187 in September 2011, compared to RevPARs of \$160 in January, \$209 in February, \$155 in March, \$208 in April, \$158 in May, \$188 in June, \$270 in July, \$120 in August and \$141 in September 2010. Dubai Beach posted the highest average room rate in the region at \$300 and the highest RevPAR at \$242, while Dubai Apartments posted the highest occupancy rate at 82% in the first 9 months of the year.

### Hotel Performance in first 9 months of 2011

	Occupancy Rate (%)	RevPAR (US\$)	RevPAR % change
Dubai Apartments	82	94	1.7
Dubai Beach	80	242	9.7
Dubai Overall	78	166	8.1
Makkah	76	211	1.3
Dubai City	76	130	6.4
Abu Dhabi	74	151	(3.9)
Jeddah	71	155	(0.3)
Madina	67	119	3.2
Al Ain	65	104	(11.6)
Hurghada	62	22	(39.8)
Muscat	62	127	(0.2)
Doha	61	162	(4.7)
Riyadh	57	133	6.1
<b>Beirut</b>	<b>55</b>	<b>123</b>	<b>(31.2)</b>
Sharm Shaikh	54	26	(49.3)
Amman	54	79	(14.2)
Cairo Pyramids	52	69	(20.8)
Kuwait	52	144	3.2
Cairo Overall	35	43	(46.9)
Cairo City	32	40	(50.9)
Manama	29	68	(57.0)

Source: Ernst & Young, Byblos Research

### Construction permits down 4.6% in first 8 months of 2011

Figures released by the Association of Engineers of Beirut & Tripoli show that construction permits issued in the first 8 months of 2011 reached 11.2 million square meters, constituting a decrease of 4.6% from 11.7 million square meters in the same period last year. Construction permits totaled 1.2 million square meters in August 2011, down 25.8% year-on-year from 1.6 million square meters in August 2010. In parallel, cement deliveries reached 3.7 million tons in the first 8 months of 2011, an increase of 4.8% from 3.5 million tons in the same period last year. Cement deliveries reached 451,000 tons in August 2011, up 6.1% from 425,000 tons in August 2010.

### Industrial activity down in second quarter of 2011

The Central Bank's quarterly business survey indicated that industrial production retreated during the second quarter of 2011, with a balance of opinion standing at -11, compared to 27 during the same quarter of 2010. 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 overall demand for industrial goods stood at -11 in the second quarter of 2011 compared to +24 in the same quarter of 2010. Also, the balance of opinion for foreign demand contracted to -13 during the second quarter of 2011, compared to +10 in the same period of 2010. 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.

### Industrial Activity: Evolution of opinions

Aggregate results	Q2-08	Q2-09	Q2-10	Q2-11
Production	4	27	27	-11
Total demand	-3	21	24	-11
Foreign demand	13	5	10	-13
Volume of investments	20	10	27	0
Inventories of finished goods	-5	2	11	-2
Inventories of raw material	-1	-4	8	5
Registered orders	-8	7	10	-14

Source: Central Bank Business Survey Q2-11

### **Cleared checks up 1%, returned checks down 3% in first 8 months of 2011**

The value of cleared checks reached \$46.3bn in the first 8 months of 2011, constituting an increase of 1.2% from the same period of 2010. The value of cleared checks in Lebanese pounds rose by 7.3% to the equivalent of \$9.5bn, while the value of cleared checks in US dollars increased by 2.7% to \$37.9bn. The dollarization rate of cleared checks increased to 82% from 80.7% in the same period last year. Also, the value of returned checks in domestic and foreign currency amounted to \$943m in the first 8 months of 2011, down 2.6% from \$968m in the same period last year. In parallel, the number of cleared checks totaled 8.6 million checks in the first 8 months of 2011, up 0.4% from the same period of 2010. Also, the number of returned checks totaled 170,000 checks and rose by 8.3% in the covered period.

### **Opened letters of credits at \$2.47bn for imports and \$2bn for exports in first half of 2011**

Figures issued by the Central Bank indicate that the value of letters of credits opened to finance imports to Lebanon totaled \$2.47bn in the first half of 2011 compared to \$2.52bn in the same period last year. Also, utilized credits for imports totaled \$2.4bn in the first half 2011, down 2% from \$2.45bn in utilized credits in the same period last year. They accounted for 97.3% of opened LCs in the first half of 2011 compared to 97.2% in the same period last year. In addition, outstanding import credits totaled \$956m in June 2011 compared to \$864.3m in June 2010. Further, the aggregate value of inward bills for collection totaled \$1bn in the first half of 2011 compared to \$1.1bn in the first half of 2010. Outstanding bills for collection reached \$148m in June 2011 relative to \$149m at end-June 2010.

In parallel, the value of documentary letters of credits opened to finance exports from Lebanon totaled \$2bn in the first half of 2011, constituting a decrease of 3.1% from \$2.1bn in the same period last year. Utilized credits for exports totaled \$1.7bn in the first half of 2011, down 14.3% from \$1.95bn of utilized credits in the same period of 2010. Further, outstanding export credits totaled \$1.25bn in June 2011, down from \$1.31bn in June 2010 and compared to \$1.13bn at end-December 2010. The aggregate value of outward bills for collection totaled \$2.1bn in the first half of 2011, down 6.6% from \$2.2bn in the same period of 2010. The outstanding value of outwards bills for collection reached \$435.3m at end-June 2011 relative to \$390.3m at the end of December 2010 and \$320.8m at June 2010.

### **Byblos Bank's profits up 6% to \$128m in first nine months of 2011**

Byblos Bank sal, one of the top 3 banking and financial services groups in Lebanon, declared consolidated net profits of \$128.1m in the first nine months of 2011, constituting an increase of 6.2% from \$120.6m in the same period last year. Total assets reached \$16.7bn at end-September 2011, constituting a rise of 9.2% from the end of 2010; while net loans & advances to customers increased by 5.4% to \$4bn at end-September 2011. Customers' deposits totaled \$12.7bn, increasing by 7% from end-2010.

Also, the Bank's capital adequacy ratio stood at 14% according to Basel II criteria. The Bank continued to maintain a high level of immediate liquidity, with a liquidity ratio of 48.6% at end-September. Further, the bank's non-performing loans reached 2.21% of gross loans at the end of September 2011, and provisions to NPLs reached 162%. The Bank's cost-to-income ratio decreased to 47.4% in the first nine months of 2011 from 48.9% in the same period in 2010. The Byblos Bank Group has a direct presence in Iraq, Syria, Sudan, the United Arab Emirates, Nigeria, Armenia and the Democratic Republic of Congo, as well as in Belgium, France, the United Kingdom and Cyprus.

### **Bank for the Poor to open local branch**

The Central Bank of Lebanon granted its approval for the opening of a branch of the Bank for the Poor in Lebanon, as part of the Arab Gulf Program for Development (AGFUND) whose mission is to reduce poverty across the Arab World. The AGFUND indicated that the bank will launch its operations in Lebanon within the coming six months with a capital of \$5m, and will extend loans to Lebanon's poorest entrepreneurs. It said that loans would start at \$500 and carry a 10% interest rate, and noted that when the loan is repaid, the client can reapply for loans of up to \$100,000. It attributed the high interest rate to the fact that the bank will rely on auto-financing to allocate loans. It expected the number of allocated loans to reach 3,000 during the first year of operations, and to increase to 7,500 in the second year, 13,000 during the third year, 25,000 in the fourth year and 35,000 during the fifth year. The Bank has 27 branches in 5 Arab countries, including 13 branches in Yemen, 10 branches in Jordan, two branches in Bahrain and one branch in each of Syria and Egypt. Lebanon's branch will constitute the bank's 28th branch in the Arab world.

### **Byblos Bank acquires on-site license for training and coaching**

Byblos Bank sal announced that it has acquired the Leadership Management International's (LMI's) On-site License for Training and Coaching, becoming the first institution in the Middle East to receive the license. The initiative is in line with the Bank's continuous efforts to develop its employees and improve their behavioral and technical skills. The association with LMI aims to achieve several objectives that include raising the Bank's competitiveness, optimizing the staff's potential, and building leaders who contribute to the sustainability of the Bank in the 12 countries where it is present. Byblos Bank has long emphasized the development of its employees. In 2008, the Bank created its own training academy, Byblos Way, to provide its staff with regular and specialized courses to expand their skill-sets and broaden their career prospects. The Bank delivered training to 80% of its workforce in 2010. LMI is a global leader in developing training programs for clients operating in numerous sectors. The company has 45 years of experience and provides services in 60 countries worldwide.

### **Launch of social venture competition in Lebanon**

The Université Saint Joseph (USJ) and business incubator Berytech, along with the French ESSEC Business School, launched the Global Social Venture Competition (GSVC) in Lebanon. The initiative aims to support new sustainable ventures that address significant social issues in the country. The GSVC is the largest and longest-running social business plan competition in the world, and provides aspiring entrepreneurs with mentoring, exposure, and prize money to develop and expand their business ideas. The competition aims to support the creation of real businesses that bring about positive social change in a sustainable manner. In order to qualify, projects in Lebanon need to have been in existence for at least three years, and one of the team members must be a current student or a recent graduate. Each year, organizers will select four projects for awards ranging between \$5,000 and \$25,000 each. The winning projects will also take part in the Francophone finals version of the GSVC.

The GSVC was established by MBA students at the University of California - Berkeley's Haas School of Business in 1999, and has evolved into a global network supported by an international community of volunteer judges, mentors and student organizers, as well as by a partnership of several business schools in the U.S., Europe and Asia. Since its inception, the GSVC has awarded over \$500,000 to promising social enterprises and introduced early-stage entrepreneurs to the venture capital community, which has helped create a new generation of sustainable social ventures. The Haas School of Business serves as the Managing Partner for the competition and hosts the Global Finals each year in April.

### **Spinneys opens seventh outlet in Lebanon**

Supermarket chain Spinneys opened a new outlet in the Hazmieh suburb of Beirut, constituting its seventh and largest supermarket in Lebanon. The new store has a retail selling space of 8,000 square meters and is the single largest investment made by the Spinneys Group in Lebanon and the Middle East. The company said that, in addition to its regular range of products, the new outlet will carry a wide range of products directly imported by Spinneys and will offer household items under its Spinneys Home Collection brand. The Group added that it plans to open additional outlets over the coming 14 months in Achrafieh, Jbeil, and Mtaileb in the Northern Metn area; and intends to open two new outlets in 2013. Spinneys re-launched its operations in Lebanon in 1998 with the opening of a supermarket in the Dbayeh area north of Beirut. It currently has outlets in Beirut, Dbayeh, Sidon, Tyr and Tripoli. It is also present in Egypt and Qatar, and plans to enter the Jordanian market. The Spinneys chain is owned and managed by Gray MacKenzie Retail sal. Its largest shareholder is the Dubai-based private equity firm Abraaj Capital.

### **Bank Audi raises capital by LBP 1.2bn**

Bank Audi sal, one of Lebanon's top 3 banks, indicated that its Extraordinary General Assembly confirmed the issuance of 962,830 common shares for shareholders who exercised their stock options. After the implementation of the above decision, the bank's share capital increased by LBP 1.21bn to LBP 455.4bn. In total, Bank Audi has 363,189,944 nominal shares with a nominal value of LBP 1,254 each.

## 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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