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BYBLOS BANK SAL

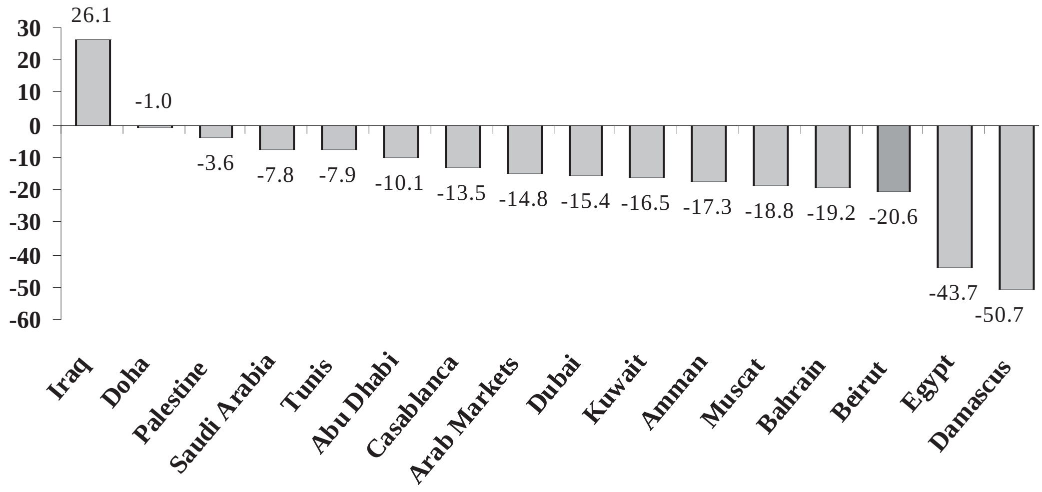
Economic Research & Analysis Department

LEBANON THIS WEEK

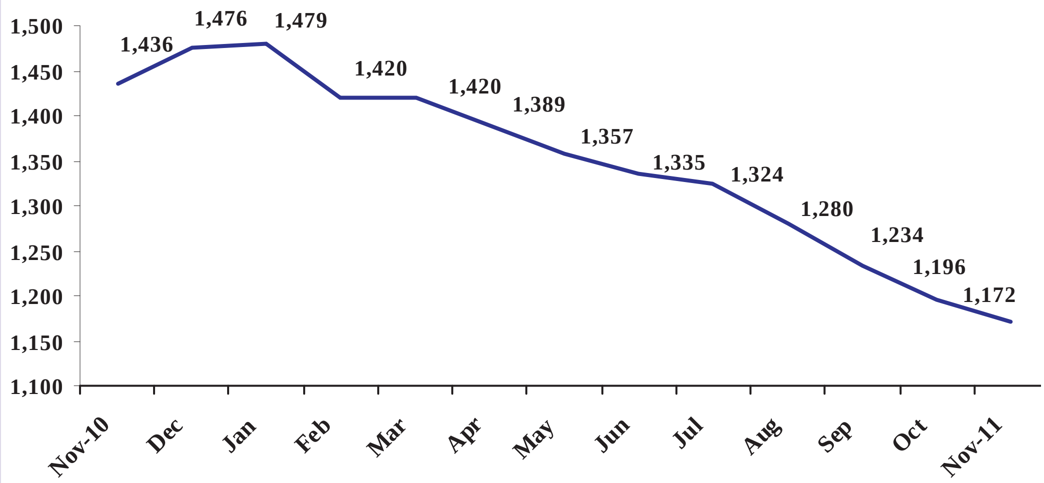
In This Issue

Charts of the Week

Performance of Arab Stock Markets in First 11 Months of 2011 (% Change)



Performance of the Beirut Stock Exchange



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

Quote to Note

"National accounts, balance of payments statistics, and social and labor market indicators remain weak."

The International Monetary Fund, on the poor statistical base of the Lebanese economy

Number of the Week

8.8%: Unemployment rate in Lebanon among university graduates, according to the Central Administration of Statistics

Economic Indicators

$m *(unless otherwise mentioned)*	2009	Aug 10	2010	June 11	July 11	Aug 11	% Change*
Exports	3,486	312	4,256	411	415	373	19.55
Imports	16,241	1,449	17,956	1,571	1,679	1,719	18.63
Trade Balance	(12,755)	(1,137)	(13,700)	(1,160)	(1,264)	(1,346)	18.38
Balance of Payments	7,899	447	3,326	564	(307)	(2,143)	(579.42)
Checks Cleared in LBP	11,122	1,152	13,519	1,156	1,218	1,101	(4.43)
Checks Cleared in FC	45,270	4,470	53,925	4,716	5,939	5,017	12.24
Total Checks Cleared	56,392	5,622	67,444	5,872	7,157	6,118	8.82
Budget Deficit/Surplus	(2,960)	(358)	(2,892)	350	67	(178)	(50.31)
Primary Balance	1,078	(69)	1,232	459	314	75	(209.28)
Airport Passengers	4,986,544	578,452	5,552,260	517,860	702,265	574,924	(0.61)

$bn *(unless otherwise mentioned)*	Dec 2009	Aug 10	May 11	June 11	July 11	Aug 11	% Change*
BdL FX Reserves	25.66	28.24	28.44	28.33	28.91	30.64	8.50
In months of Imports	*18.6*	*19.49*	*18.02*	*18.03*	*17.2*	*17.82*	*(8.57)*
Public Debt	51.09	50.18	52.72	52.52	52.80	53.40	6.42
Net Public Debt	44.11	44.42	45.70	45.6	45.50	45.71	2.90
Bank Assets	115.25	124.63	134.04	135.43	136.88	138.06	10.78
Bank Deposits (Private Sector)	95.77	102.72	110.47	111.48	112.14	112.95	9.96
Bank Loans to Private Sector	28.37	33.24	37.45	37.26	38.34	38.92	17.09
Money Supply M2	34.16	38.78	37.22	36.61	36.84	37.35	(3.69)
Money Supply M3	82.08	88.90	94.11	94.23	94.65	95.21	7.10
LBP Lending Rate (%)	9.04	8.05	7.67	7.59	7.33	7.53	(52b.p.)
LBP Deposit Rate (%)	6.75	5.72	5.64	5.62	5.59	5.53	(19b.p.)
USD Lending Rate (%)	7.28	7.04	7.04	6.98	7.03	7.16	12b.p
USD Deposit Rate (%)	3.05	2.78	2.84	2.81	2.86	2.80	2b.p.
%* Change in CPI**	4.20	3.18	7.30	6.16	6.28	6.49	331b.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"	13.42	(1.68)	201,781	13.13%
Solidere "B"	13.47	(0.15)	67,698	8.57%
Byblos Common	1.60	0.00	227,926	5.63%
Byblos Pref. 08	101.00	0.00	1,750	1.98%
Byblos Pref. 09	101.00	0.00	1,242	1.98%
BLOM GDR	7.90	0.00	0	5.71%
BLOM Listed	7.43	0.13	34,036	15.63%
Audi GDR	6.30	(2.17)	1,000	6.14%
Audi Listed	5.86	(2.01)	104,852	20.04%
HOLCIM	16.40	2.82	3,000	3.13%

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

Sovereign Eurobonds	Coupon %	Mid Price $	Mid Yield %
Mar. 2012	7.500	100.50	5.74
Sep. 2012	7.750	100.50	7.05
June 2013	8.625	108.38	3.07
Apr. 2014	7.375	108.50	3.60
Jan. 2015	5.875	105.50	3.98
Apr. 2015	10.00	118.75	4.04
Jan. 2016	8.500	115.25	4.42
Mar. 2017	9.000	119.38	4.82
Nov. 2018	5.150	99.75	5.19
Apr. 2021	8.250	118.00	5.74

Source: Byblos Bank Capital Markets

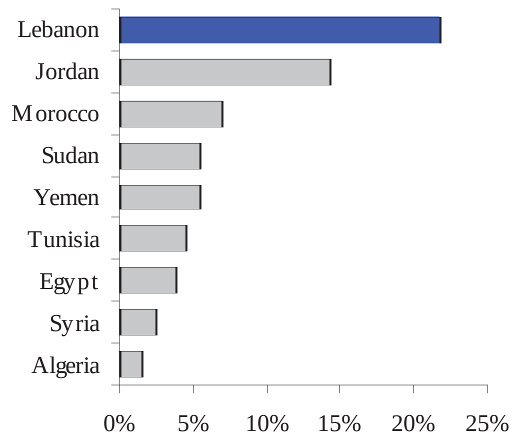
	November 21-25	November 14-18	% Change	November 2011	November 2010	% Change
Total Shares Traded	657,723	430,138	52.91	1,749,640	15,207,803	(88.50)
Total Value Traded	$5,881,682	$4,952,512	18.76	$18,138,922	$115,946,913	(84.36)
Market Capitalization	$10.22bn	$10.29bn	(0.68)	$10.26bn	$12.35bn	(16.94)

Source: Beirut Stock Exchange (BSE)

World Bank reviewing estimates of expatriates' remittances to Lebanon due to weak data

In its semi-annual update on remittance inflows to developing economies, the World Bank indicated that data inconsistency has prevented it from providing a forecast of remittance inflows to Lebanon for 2011 and has led it to review its estimate for 2010. Therefore, the most recently-available credible data on remittance inflows to Lebanon is for 2009, where such flows totaled $7.6bn. The World Bank said it is facing issues with consistency of definitions and coverage of migrant remittances. It added that preliminary Balance of Payments data on workers' remittance flows to Lebanon report a significant decline in 2010, but statements by officials at the Central Bank of Lebanon suggest that these flows have remained relatively resilient. The World Bank decided that, in the absence of reliable information, to keep remittance flows to Lebanon for 2010 and 2011 at the same level as in 2009. It noted that the International Monetary Fund has recently concluded an Article IV consultation mission to Lebanon, and that it is waiting for clarification about the balance of payments data.

Remittance Inflows in 2009 (as % of GDP)



Source: In Focus, May 2011; Byblos Bank

The World Bank stated that remittance data at the national level is of relatively poor quality in many countries and remittance inflows often include items other than those sent by migrants, such as small value trade and payments transactions, and even transfers to non-government organizations and embassies in some cases. It stressed on the urgent need to improve data on remittances at the national and bilateral corridor levels.

Last May, the World Bank revised upward its estimate for expatriates' remittances inflows to Lebanon to $8.4bn in 2010 from a forecast of $8.2bn in November 2010, constituting a year-on-year increase of 11.3%. As a result, Lebanon posted the second fastest growth rate in remittances among the 10 largest recipients in developing economies in 2010. However, these estimates are no longer valid following the Bank's concern about the quality and consistency of available data. It said the remittance inflows estimate released in May 2010 was based on the available information at that time. It added that it has received new information since then and that it is trying to clarify data collection methodology and the coverage of remittance inflows to Lebanon.

In parallel, the World Bank said that it, along with the IMF, the OECD and Eurostat, have worked together with central banks and national statistical offices to introduce new definitions of "Personal Remittances" in the sixth edition of the IMF's Balance of Payment Manual. It noted, however, that some countries still compile remittances data using the fourth edition of the Balance of Payments Manual, which can result in significant distortions of inflows. It is not clear if local authorities have been involved in these consultations.

Lebanon was the 14th largest recipient of remittances globally, the 8th largest recipient among developing economies, and the largest in the MENA region in 2009. It ranked ahead of Egypt and Indonesia, and behind Pakistan and Nigeria among developing countries. Further, Lebanon was the second largest recipient of remittances among 43 Upper Middle Income Countries (UMICs). It ranked ahead of Russia, Romania and Brazil, and came only behind Mexico in this income category.

Remittances inflows to Lebanon accounted for 1.8% of the global remittance flows, 2.5% of flows to developing economies, 21.6% of inflows to Arab countries, and for 9.8% of remittance inflows to UMICs in 2009. Lebanon became the largest recipient of remittances in the Arab world in 2009 in nominal terms, relative to its GDP and on a per capita basis; as such flows to Lebanon were equivalent to 21.7% of GDP and to $1,790 per capita.

Economic activity stagnates in September

The Central Bank's Coincident Indicator, an index of economic activity in Lebanon, reached 248.1 points in September 2011 compared to 236.7 points in August 2011 and to 229 in September 2010. The Coincident Indicator, an average of 8 weighted economic indicators, increased by 4.8% in September and rose by 8.3% year-on-year. The indicator averaged 254.4 in the 12-months ending September 2011 compared to 252.8 in the 12-months ending August 2011 and to 245 in the 12-months ending September 2010. As a result, the average coincident indicator grew marginally by 0.6% month-on-month and rose by 3.8% year-on-year, which reflects economic stagnation in real terms. The indicator posted its fifth increase this year, as it grew by 4% in March, 6.7% in April and 1.3% in June. The indicator reached at an all-time high of 269.9 in April after peaking at 266.7 in November 2010. In parallel, the indicator improved 8 times and regressed 11 times in the month of September since 1993. The indicator averaged 249.5 in 2010 and 225.9 in 2009.

Lebanon ranks 134th globally, 14th among Arab countries on corruption index

Transparency International's 2011 Corruption Perceptions Index (CPI) ranked Lebanon in 134th place among 183 countries around the world and in 14th place among 20 Arab countries. Lebanon came in 127th place globally and in 13th place among Arab countries in the 2010 survey. Lebanon also came in 36th place among 41 upper-middle income countries (UMICs) included in the survey. The CPI is a composite index that uses surveys of business people and assessments by country analysts that reflect perceptions of the degree of corruption in each country. The rankings are based on scores that range between 10, representing countries with a clean reputation, and zero, reflecting economies perceived as highly corrupt.

Globally, Lebanon tied with Eritrea, Cameroon, Guyana, Maldives, Nicaragua, Niger, Pakistan, and Sierra Leone. It ranked ahead of Azerbaijan, Belarus, Comoros, Mauritania, Nigeria, Russia, Timor Leste, Togo and Uganda; and came behind Armenia, the Dominican Republic, Honduras, the Philippines and Syria. It also ranked ahead of Russia, Belarus and Azerbaijan and came behind the Dominican Republic, Kazakhstan and Iran among UMICs. Lebanon received a score of 2.5 points, unchanged from 2010 and 2009 but down from 3 points in each of the 2008 and 2007 surveys. Its score came below the global average of 4 points and the UMICs average of 3.8 points, as well as below the Arab average of 3.5 points. Lebanon's CPI scores for the past three years marked the country's lowest score since its inclusion in the index. The scores of 6 Arab countries improved, 4 were unchanged and 10 regressed, while the rankings of 2 countries improved, 4 remained unchanged and 14 regressed. New Zealand was perceived as the least corrupt country globally, while Somalia was considered the most corrupt country in the world.

CPI Arab Rankings & Scores in 2011

Country	Score	Arab Rank	Global Rank
Qatar	7.2	1	22
UAE	6.8	2	28
Bahrain	5.1	3	46
Oman	4.8	4	50
Kuwait	4.6	5	54
Jordan	4.5	6	56
Saudi Arabia	4.4	7	57
Tunisia	3.8	8	73
Morocco	3.4	9	80
Djibouti	3.0	10	100
Algeria	2.9	11	112
Egypt	2.9	11	112
Syria	2.6	13	129
Lebanon	**2.5**	**14**	**134**
Mauritania	2.4	15	143
Yemen	2.1	16	164
Libya	2.0	17	168
Iraq	1.8	18	175
Sudan	1.6	19	177
Somalia	1.0	20	182

Source: Transparency International, Byblos Research

Transparency International indicated that Lebanon has more room for civil society participation than in many other Arab countries, but it noted that the country's deeply entrenched nepotism networks make it difficult to get things done without connections. It added that legislation that would lead to anti-corruption reforms exists in Lebanon, but that it is not enforced. Previously, the Lebanese Transparency Association, the local chapter of Transparency International, indicated that political paralysis has prevented the passage of several legal reforms and anti-corruption initiatives such as the draft law against illicit enrichment, access to information draft law, whistle blower protection draft law, and the formation of the National Commission Against Corruption, among others.

Finance Ministry exchanges maturing Eurobonds

The Ministry of Finance issued three dual-tranche Eurobonds series under the Republic of Lebanon's Global Medium Term Note Program to refinance $1.2bn and €535.6m in Eurobonds maturing in 2012. The first $500m dual-tranche Eurobonds series consist of 8-year $433.2m and $66.8m issues that mature on November 2019 and carry each a coupon rate of 5.45% to be paid semi-annually; while the second $375m dual-tranche series consist of 15-year $235.5m and $139.5m issues that mature in November 2026 and carry each a coupon rate of 6.6% to be paid semi-annually. Both dual-tranche Eurobonds series will be used to refinance a $600m bond that matures in September 2012 and that carry a coupon rate of 7.75% and a $600m bond that matures in March next year and carries a coupon rate of 7.50%. The third €445m dual-tranche Eurobond series consist of 7-year €420.9m and €24m issues that mature in November 2018 and carry each a coupon rate of 5.35% to be paid annually. Both dual-tranche Eurobonds series will be used to refinance €535.6m in Eurobonds that maturing in April 2012 and that carry a coupon rate of 5.875%. The Ministry of Finance appointed Fransa Invest Bank sal, Standard Chartered Plc, and Deutsche Bank AG as dealer managers for the issuance.

Lebanon's gross public debt reached $54.3bn at the end of September 2011, up 3.3% from the end of 2010, and constituting an increase of 6.9% from end- September 2010. Domestic debt reached $33.4bn and external debt stood at $21bn at end-September. Local currency debt accounted for 61.4% of gross public debt at end-September 2011 compared to 58.7% a year earlier, while foreign currency-denominated debt represented 38.6% of the total at the end of September relative to 41.3% a year earlier. The weighted interest rate on outstanding Treasury bills was 6.94%, while the weighted interest rate on Eurobonds was 7.10% at the end of September. Further, the weighted life on Eurobonds was 5.24 years, while that on Treasury bills was 937 days.

Populist policies are key near-term risk to the Lebanese economy

Business Monitor International projected Lebanon's real GDP growth at 3.2% in 2012, relative to an estimated growth of 1.6% in 2011. It said the projected growth rate for next year is below the 8.3% average rate of expansion between 2007 and 2010 as well as considerably below the economy's potential in light of the country's underlying infrastructure deficit. It noted that the low level of growth next year does not represent a worst-case scenario, given Lebanon's chronic current and fiscal account deficits, as well as regional and global political and economic uncertainties. It added that the downside risks to the economy are becoming increasingly pronounced due to the ongoing crisis in Syria and political paralysis in Lebanon. It expected the economy to suffer from uncertainties in the coming quarters as consumption, trade and investment indicators are all showing a marked slowdown. But it noted that the economy is still some way off from entering a recession despite the crisis in Syria.

In parallel, BMI expected private consumption to remain the core of economic activity next year, and to account for over 80% of GDP despite that a general rise in risk aversion may lead to sluggish consumption patterns in the early stages of 2012. It added that growth in new credit is slowing and that the impact on private consumption may depend on the employment situation and the effect of the regional crisis and the global slowdown on the tourism sector. As such, it expected remittance inflows to likely continue providing support for private consumption, and to help contain a more pronounced decline in household spending.

Further, BMI indicated that the Lebanese government has a very small margin to implement any type of stimulus program, such as the projected 15% increase in current spending in 2012, as the fiscal deficit is likely to exceed 9% of GDP along with a debt-to-GDP ratio that is still one of the highest in the world. It said that populist policies, such as the proposed hike to the minimum wage, which are difficult to reverse later on, constitute the key risk in the near-term. It added that the near-term outlook on the prospects for capital spending over the coming years remains pessimist, but that the outlook over the medium- to long-term is relatively optimistic in the context of ongoing efforts at addressing the infrastructure deficits.

In parallel, BMI said that Lebanon's already precarious net export position deteriorated sharply year-to-date, as the jump in global commodity prices pushed the import bill significantly higher. It said that Lebanon is importing significantly more expensive refined hydrocarbon products, which constitutes a drag on growth. As such, it expected net exports to have a negative impact of 1.4 percentage points on headline growth in 2012.

IDAL suggests amendments to investment law

The Investment Development Authority of Lebanon (IDAL) announced that it recommended amendments to Investment Law No. 360 to align the current legal framework with national and international needs. It said that the law needs to be more aligned with the current investment environment that is dominated by technology-oriented industries and by industries with higher use of technologies and innovation. It noted that the current investment environment in Lebanon is different than it was in 2001 when the law was ratified, and when the country was undergoing a massive reconstruction effort. It added that the legal framework that regulates investment is usually amended on average every 5 years in other emerging economies, in line with evolving government priorities. IDAL pointed out that its recommendations to amend Investment Law No. 360 consist of activating some of its key functions and prerogatives that have not been implemented since 2001, mainly the role of IDAL as a One-Stop-Shop in issuing licenses and permits. It added that it will also recommend amending the criteria upon which investment projects are granted incentives, and potentially amend the types of incentives granted to projects to be more aligned with sectoral needs and regional incentives. IDAL indicated that the recommendations have yet to be approved by the Council of Minister.

IDAL indicated that it has facilitated the implementation of 35 projects in Lebanon that mobilized $1.1bn in investments and created 4,760 jobs between 2003 and 2010. It said tourism accounted for 37% of the total number of projects, followed by industry with 17%, technology and agro-industry with 14% each, information, communication & technology with 12%, and media and agriculture with 3% each. It said 60% of these projects were Greenfield operations, and 80% of projects were initiated by Lebanese investors. In value terms, tourism accounted for $860m or 79% of the total during the seven-year period, followed by industry with $131m (12%), technology with $40m (4%), agro-industry with $22m (2%), ICT with $16m (1.5%), and media and agriculture with $11m each (1% each). Beirut attracted 34% of projects and 54% of investments, followed by Mount Lebanon with 31% of projects and 31% of total investments during the covered period.

Lebanon and Sudan sign industrial cooperation agreement

The Ministry of Industry and its Sudanese counterpart signed a Memorandum of Cooperation which aims at strengthening industrial bilateral relations between Lebanon and Sudan. The agreement would promote scientific, technical, technological and administrative cooperation in the industrial sector. It stipulates the exchange of information as well as technical, scientific, administrative and legislative expertise in the industrial field in general and the industrial modernization programs in particular. It also aims at securing favorable conditions to encourage the private sector to establish joint industrial projects in order to promote industrial exports. Industrial exports to Sudan accounted for around 1.1% of Lebanon's $2.6bn industrial exports in the first 9 months of 2011 while industrial imports from Sudan remain insignificant.

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Employment rate at 44.6% in Lebanon

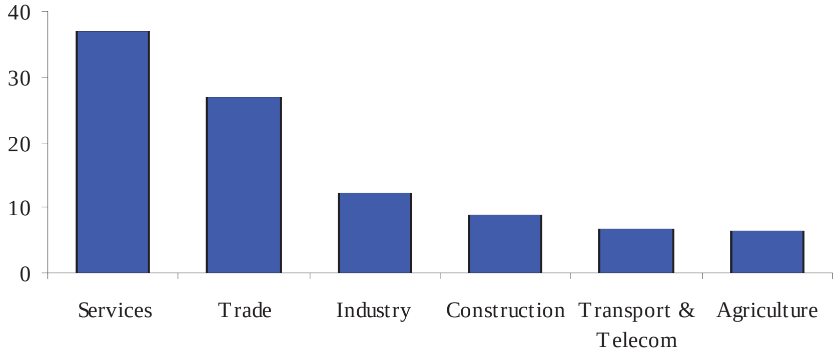
Figures issued by the Central Administration of Statistics (CAS) as part of a cluster survey indicate that the employment rate in Lebanon was 44.6% in 2009, where 77% of the employed are males and 23% are females. The survey results show that 4.6% of the employed population in Lebanon is 15 to 19 years old; 11.5% are in the 20-24 years bracket; 14.5% of the employed population is aged between 25 to 29 years; 11% are in the 30-34 year bracket; 11.5% are between 35 and 39 years; and 11.3% are in the 40-44 year bracket. It noted that only 4% of the employed population is in the 60-64 year bracket.

The results of the survey indicate that 25.4% of the employed population in Lebanon has an intermediate-level of education, 25.3% have university degrees, 23.1% posses a primary level of education, and 17.7% have a secondary education. The illiterate segment of the labor force accounted for only 4.2% of the employed population in 2009.

In parallel, the survey noted that 27.9% of the employed population were located in the Beirut suburbs in 2009, followed by the rest of the Mount Lebanon governorate with 16.3%, the Beirut administrative district with 10.8%, the South governorate with 9.8%, the other Northern districts with 9.3%, the Akkar and Minieh-Denniyeh districts with 8.8%, the Baalbek and Hermel districts with 6.2%, the Nabatiyeh governorate with 6%, and the rest of the Bekaa's districts with 5%.

The survey also shows that 36.9% of working Lebanese are employed in the services sector; 27% work in the trade sector; 12.1% in the industrial sector; 8.9% in construction; 6.8% in transportation & telecommunications; 6.3% in agriculture; and 2% in financial intermediation & insurance. The CAS conducted the cluster survey in collaboration with the United Nations Children's Fund (UNICEF). It adopted the International Labor Organization's definitions and guidelines to measure the level of economic activity in Lebanon and its main characteristics.

Distribution of Employment by Sector (% of total)



Source: Central Administration of Statistics, Byblos Research

Lebanon signs cooperation agreements with Ukraine

The Central Bank of Lebanon and its Ukrainian counterpart signed a financial and economic cooperation agreement that aims at strengthening bilateral ties between the two entities. The Central Bank indicated that it agreed with its Ukrainian counterpart to exchange information and reports on the banking system in each of the two countries as well as to strengthen the coordination between the two institutions in order to enhance the efficiency of their personnel. It added that the agreement is valid for three years and will be renewed automatically unless one of the parties decides otherwise.

In parallel, the Ministry of Economy and Ukraine's Ministry of Regional Development, Construction, Housing & Communal Services signed a cooperation agreement in the agriculture, renewable energy, industrial and transportation sectors. The Ministry of Economy indicated that the agreement would enhance cooperation in the trade, economy, science, tourism, health, energy, water, agricultural and industrial fields between the two countries. Lebanon's imports from Ukraine totaled $289m in the first 9 months of 2011, constituting a 14% increase from the same period last year and relative to imports of $338m in 2010. Lebanon's aggregate exports to Ukraine reached $1.1m in 2010 compared to $0.23m in 2009.

Industrial exports increase by 8% to $2.4bn in first 9 months of 2011, imports stagnate at $176m

Figures released by the Ministry of Industry show that industrial exports totaled $2.62bn in the first 9 months of 2011, constituting an increase of 7.6% from $2.4bn in the same period last year. Industrial exports reached $270m in September 2011, down 13.2% from $311m in August 2011 and up 9.2% from $247m in September 2010. Pearls & precious or semi-precious stones accounted for $661.5m, or 25.2% of total industrial exports in the first 9 months of the year, followed by base metals & articles of base metals with $438m (16.7%), and machinery and mechanical appliances with $400.2m (15.3%). Arab countries accounted for 36.5% of total industrial exports in September, followed by European countries with 30.5%. In parallel, industrial imports reached $176.2m in the first 9 months of the year, down marginally 0.2% from the same period in 2010. Italy was the main source of such imports and accounted for 30.4% of total. It was followed by China with 15.2% and Germany with 12.6%. Further, imports of industrial equipment and machinery reached $16.8m in September 2011, decreasing by 3.9% year-on-year. Italy was the main source of imports of industrial equipments, accounting for 20.1% of the total, followed by China with 19.6% and Turkey with 12.2%.

Fiscal deficit down 32% to $1.4bn in first 9 months of 2011 when assuming $1.1bn in telecom revenues

Figures released by the Finance Ministry show that the fiscal deficit reached $1.4bn in the first 9 months of 2011, down 32% from $2bn in the same period last year. The deficit was equivalent to 16.7% of total budget and Treasury expenditures compared to 25% of overall spending in the same period of 2010. Overall government expenditures reached $8.35bn, up 1.4% year-on-year, while total revenues increased by 12.4% to $6.95bn. Budgetary expenditures rose by 4.6% to $7.83bn and included $1.1bn in transfers to Electricité du Liban and $608m in outlays from previous years, while budget revenues rose by 12.8% to $6.6bn. Tax revenues contracted by 2.3% year-on-year to $5bn, of which 32.4%, or $1.6bn, were in VAT receipts that grew by 2% from the same period last year. Tax revenues accounted for 75.3% of budgetary revenues and for 71.4% of total Treasury and budget receipts. The narrowing of the deficit and the increase in revenues is due to the inclusion of $1.1bn in telecommunications receipts in budget revenues. The figure is based on the Telecommunications Ministry's assumption that telecom receipts would total $1.1bn in the first 9 months of the year, rather than on the Treasury actually receiving the transfers from the Telecom Ministry. On a cash basis, public revenues declined by 5.1%, the fiscal deficit widened by 21% to $2.5bn, and was equivalent to 30% of expenditures in the first 9 months of 2011.

The distribution of other tax revenues shows that customs revenues declined by 24.3% year-on-year to $1.1bn; income, profits & capital gains tax receipts grew by 18.6% to $1.36bn, revenues from property taxes decreased by 1% to $534m, and other tax receipts, mainly stamp fees, regressed by 1% to $222m. Further, the distribution of income tax revenues shows that taxes on profits accounted for 48% of total income tax receipts, followed by the tax on interest deposits with 24.3%, taxes on wages & salaries with 16.4%, and capital gains tax with 10.4%. Revenues from taxes on profits increased by 26.8% year-on-year, income from capital gains taxes grew by 20%, tax receipts on wages & salaries improved by 16.7%, and income from the tax on interest rose by 4%. Also, the distribution of property taxes shows that revenues from real estate registration fees regressed by 5% to $393m, receipts from built property taxes decreased by 14% to $72.3m, and revenues from inheritance tax grew by 71% to $69m. In parallel, non-tax budgetary revenues rose by 113.2% to $1.63bn, with revenues from government properties increasing by 187% to $1.3bn and administrative fees & charges growing by 1% at $253m. Based on the ministry's assumptions, receipts from telecommunications services, which account for 82.8% of income from government properties and for 66.6% of non-tax revenues, jumped by 393% to $1.1bn in the first 9 months of 2011.

Debt servicing decreased by 6.1% year-on-year to $2.8bn, and accounted for 33.3% of total expenditures and for 35.5% of budgetary spending. It absorbed 40% of overall revenues and 42.2% of budgetary receipts. Interest payment on domestic debt declined by 8.7% to $1.74bn, while interest disbursement on foreign debt contracted by 1.5% to $1bn. Repayment of principal on foreign debt increased grew by 1% to $164.3m. Excluding debt servicing, the primary balance posted a surplus of $1.7bn, or 21.8% of budget expenditures compared to a surplus of $1.5bn, or 20% of budget spending in the same period last year. The overall primary balance posted a surplus of $1.55bn, or 18.6% of spending, relative to a surplus of $1.1bn or 13.1% of total expenditures in the first 9 months of 2010.

Fiscal Results in First 9 Months of 2011

	Including Assumed Telecom Receipts		**Excluding Assumed Telecom Receipts***	
	US$m	**year-on-year % change**	**US$m**	**year-on-year % change**
Budget revenues	6,593	12.8%	5,511	-5.7%
Tax revenues	4,967	-2.2%	4,967	-2.2%
Non-tax revenues	1,626	113.2%	544	-28.7%
of which Telecom revenues	1,082	393%	-	-
Budget expenditures	7,829	4.6%	7,829	4.6%
Budget Deficit	**(1,236)**	-24.6%	**(2,318)**	41.4%
In % of budget expenditures	*(21.9%)*		*(29.6%)*	
Budget Primary Surplus	**1,709**	**15%**	**626**	**-57.8%**
In % of budget expenditures	*21.8%*		*8%*	
Treasury receipts	359	0.1%	359	0.1%
Treasury expenditures	519	-30.8%	519	-308%
Total Revenues	6,952	12.4%	5,870	-5.1%
Total Expenditures	8,347	1.4%	8,347	1.4%
Total Deficit	**(1,395)**	**-31.9%**	**(2,478)**	**21%**
In % of total expenditures	*(16.7%)*		*(29.7%)*	
Total Primary Surplus	**1,549**	**43.9%**	**467**	**-56.6%**
In % of total expenditures	*18.6%*		*5.6%*	

** Cash basis*

Source: Ministry of Finance, Byblos Research

Corporate Highlights

Byblos Bank launches first electronic banking branch in Lebanon

Byblos Bank sal, one of Lebanon's top 3 banking and financial services groups, launched the first electronic banking branch in Lebanon. The e-Branch aims at filling a gap in the provision of banking services in Lebanon, as the evolution of lifestyles in the country has required flexible and round-the-clock access of clients to bank services. The e-Branch is accessible 24 hours a day and allows cash, check, and envelope deposits in Lebanese pounds and US dollars, as well as cash withdrawals in local currency, US dollar and Euro. The e-Branch services are accessible to clients through Visa Debit, Credit or Charge Cards, and are free of charge to Byblos clients. Byblos Bank plans to expand its e-Branch network across Lebanon in the coming few months.

Byblos Bank sal 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.

Stock market activity down 74% to $481m in first 11 months of 2011

Figures released by the Beirut Stock Exchange indicate that total trading volume reached 67.8 million shares in the first 11 months of 2011, constituting a decrease of 57.9% from the same period last year; while aggregate turnover amounted to $481m, down 74% from a turnover of $1.84bn in the first 11 months of 2010. Market capitalization decreased by 17% from end-November 2010 to $10.3bn, of which 74.2% was in banking stocks, followed by real estate stocks with 21.8%, industrial stocks with 3.4%, investment funds with 0.3% and trading stocks with 0.3%. The market liquidity ratio was 4.7% compared to 15% a year earlier. Bank stocks accounted for 80.5% of aggregate trading volume year-to-November, followed by real estate stocks with 18.1%, trading stocks with 0.9%, industrial stocks with 0.5% and investment funds with 0.1%. In terms of the value of shares traded, banking stocks accounted for 53.4% of aggregate value, followed by real estate stocks with 44.3%, investment funds with 0.9%, industrial stocks with 0.9%, and the trading sector with 0.4%. The average daily traded volume for the period was 305,434 shares for an average daily value of $2.2m. The figures reflect decreases of 57.6% in volume and 73.6% in value year-on-year.

Launch of $50m investment fund

The European Investment Bank, Cisco Systems Inc., and Riyada Enterprise Development announced the launch of a $50m fund that will invest in Lebanese companies. Riyada Enterprise Development is part of the Dubai-based private equity firm Abraaj Capital. The Lebanon Growth Fund Capital is expected to provide long-term capital and institutional support to small- and medium-sized enterprises (SMEs) in Lebanon. It plans to target investments in 13 to 15 companies with high growth potential and with the prospects to expand into new regional and international markets. Further, the fund intends to allocate up to 40% of its capital to technology-oriented companies. In parallel, Cisco Systems announced that it will invest $7m in the Fund as part of the Partnership for Lebanon program, while the EIB will invest $6.75m in it. The fund achieved a first closing of $30m with the EIB, Cisco Systems and Abraaj Capital serving as the anchor investors.

Major shareholder to exit Banque BEMO Group

The Riyadh-based Banque Saudi Fransi announced that it will sell its 10% share in the capital of Banque BEMO sal and its 27% share in the capital of its Syrian affiliate Banque Bemo Saudi Fransi Syria. It attributed its decision to the increasing financial risks in Syria that do not allow the bank to continue as a partner in either ventures. It said that it will assume the statutory and contractual formalities to complete the sale of its share in the two institutions. It noted that the directors representing Banque Saudi Fransi submitted their immediate resignations from the boards of directors of Banque BEMO sal and Banque BEMO Saudi Fransi. Banque Bemo sal posted net profits of $7m in the first 9 months of 2011, constituting an increase of 2% from the same period last year. It had assets of $1.42bn, loans of $0.55bn, and customer deposits of $1.1bn at end-September 2011. In parallel, Banque BEMO Saudi Fransi launched its operations in January 2004 and was the first private bank in Syria in almost 40 years. It is the largest private bank in Syria and has 36 branches across the country. Banque BEMO Saudi Fransi had total assets of $1.75bn at end-September, constituting a decline of 26.3% from end-2010, while its customer deposits totaled contracted by 31.3% to $1.47bn over the same period. It posted net profits of $14m in the first 9 months of 2011, up 33.5% from the same period last year. Credit Agricole Corporate & Investment Bank holds a 31% equity stake in Banque Saudi Fransi.

Corporate Highlights

Banque Libano-Française nets $50m in first 9 months of 2011

Banque Libano-Française sal, one of Lebanon's top 10 banks, posted unaudited consolidated net profits of $50m in the first 9 months of 2011, constituting a decrease of 20.2% from the same period last year. Net operating income dropped by 5.8% to $146.7m, with net interest income decreasing by 2.4% to $107.3m and non-interest receipts dropping by 7.5% to $43.3m year-on-year. Further, operating expenditures increased by 8% to $86.5m, with staff expenses increasing by 6.4% to $49.9m. Total assets reached $9.8bn at end-September 2011, constituting a 14.3% rise from end-September 2010 and a 12.9% rise from end-2010, while loans & advances to customers increased by 18.7% year-on-year and by 14.6% from end-2010 to $3.3bn. Customer deposits totaled $8.2bn at end-September, constituting an increase of 16.5% from a year earlier and a growth of 10.9% from end-2010.

CMA CGM signs partnership agreement with competitor

The Lebanese-owned and France-based container shipping group CMA CGM agreed to form a broad-based operating partnership with MSC Mediterranean Shipping Company, the world's second-largest container shipping firm. CMA CGM is the third largest shipping firm globally. The partnership will cover several trade routes that include Asia-Northern Europe, Asia-Southern Africa, and all of the South American markets. The firms will try to find operating synergies and aim to improve client servicing. The partnership will also enable the two companies to increase the number of ports of call and frequency of sailings. In parallel, CMA CGM said that it will implement a cost reduction plan to save $400m annually. It said the plan will cover rationalizing lines and capacity, renegotiating vessel charter rates, implementing innovative technical solutions to improve vessel fuel efficiency, and continuing to implement the ship and container asset disposal program.

CMA CGM declared net profits of $13.2m in the first 9 months of 2011 and earnings before interest and taxes (EBITDA) of $672m year-to-September. It had revenues of $11.1bn in the first 9 months of 2011, up 5.2% from the same period last year. It said that volumes carried increased by 10% to 7.4 million twenty-foot equivalent unit (TEU) in the first 9 months of the year, constituting a 9.4% year-on-year increase. The firm owns 97 ships, charters-in 297 others, and employs 17,500 people. Last September, Moody's Investors Service downgraded the corporate family and probability of default ratings of CMA CGM to 'B1' from 'Ba3' and changed the outlook to 'negative'. It also downgraded to 'B3' from 'B2' the company's $325m and $475m worth of senior unsecured notes that mature in 2019 and 2017, respectively. It attributed the downgrades to the combined effect of several negative factors that have emerged in recent months and that are affecting CMA CGM's credit profile, and which may have prolonged negative implications.

Ratio Highlights

(in % unless specified)	2008	2009	2010	Change*
Nominal GDP*(1)* ($bn)	30.1	34.9	39.2	
External Debt / GDP	70.7	60.9	52.5	(840)
Local Debt / GDP	86.5	85.5	81.7	(380)
Total Debt / GDP	157.3	146.4	134.2	(1,220)
Total External Debt / GDP	172.4	175.2	160.5	(1,470)
Trade Balance / GDP	(42.3)	(36.5)	(35.0)	150
Exports / Imports	21.6	21.5	23.7	220
Budget Revenues / GDP	23.5	24.1	21.4	(270)
Budget Expenditures / GDP	33.3	32.6	28.8	(380)
Budget Balance / GDP	(9.8)	(8.5)	(7.5)	(100)
Primary Balance / GDP	2.0	3.1	3.1	0
BdL FX Reserves / M2	68.9	75.1	72.6	(250)
M3 / GDP	229.6	235.2	235.1	(10)
Bank Assets / GDP	315.2	330.2	328.9	(130)
Bank Deposits / GDP	260.1	274.4	273.5	(90)
Private Sector Loans / GDP	83.7	81.3	89.1	780
Dollarization of Deposits	69.6	64.5	63.2	(130)
Dollarization of Loans	86.6	84.0	80.3	(370)

** Change in basis points 09/10*
(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	June 2010	May 2011	June 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	June 2010	May 2011	June 2011	Change*	Risk Level
Political Risk Rating	64.8	60.3	59.9	▼	Moderate
Financial Risk Rating	41.7	41.8	42.0	▲	Very Low
Economic Risk Rating	38.4	36.8	36.6	▼	Low
Composite Risk Rating	72.4	69.5	69.3	▼	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 Ratings	B	B	Stable	B		Stable
Standard & Poor’s	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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