Issue 245

December 19, 2011 - January 5, 2012

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LEBANON THIS WEEK

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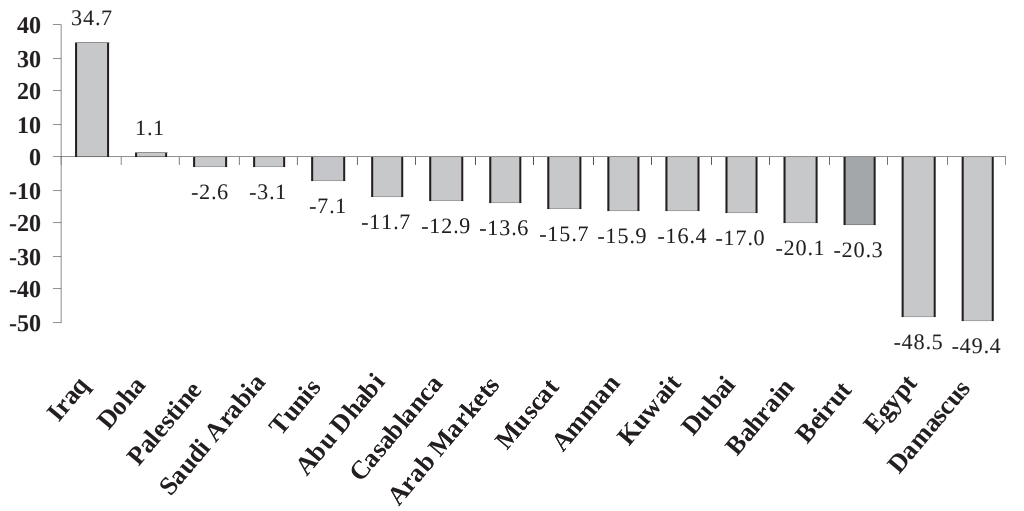
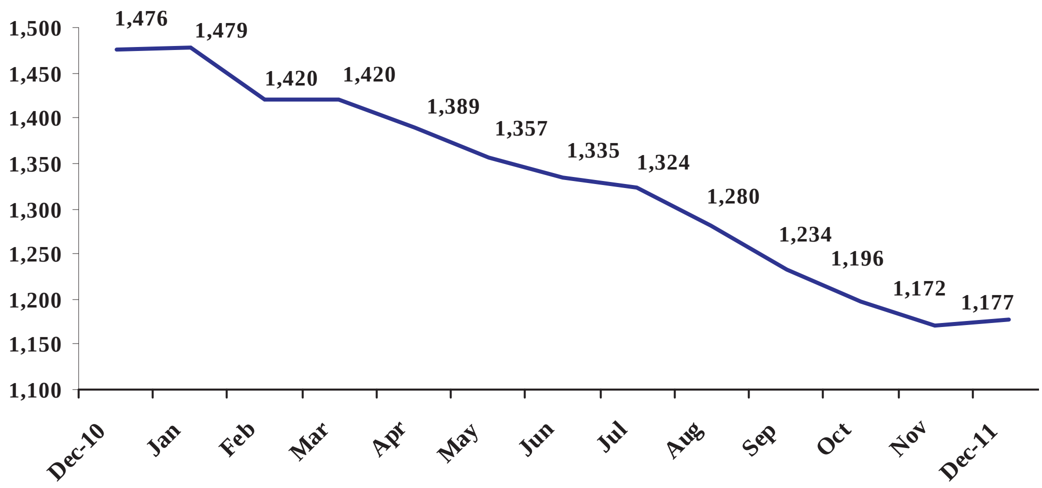
Charts of the Week

Performance of Arab Stock Markets in 2011 (% Change)



Performance of the Beirut Stock Exchange



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

Quote to Note

"There is a distinct lack of timely and accurate quarterly GDP data."

Business Monitor International, joining multilateral institutions and other private information providers in highlighting the poor statistical database of the Lebanese economy

Number of the Week

1.2%: The banking sector's interest rate spread between the weighted average rate on deposits and the weighted return on uses of funds at end-November 2011, according to the Association of Banks in Lebanon

Economic Indicators

$m *(unless otherwise mentioned)*	2009	Sep 10	2010	July 11	Aug 11	Sep 11	% Change*
Exports	3,486	290	4,256	415	373	334	15.17
Imports	16,241	1,310	17,956	1,679	1,719	1,792	36.79
Trade Balance	(12,755)	(1,020)	(13,700)	(1,264)	(1,346)	(1,458)	42.94
Balance of Payments	7,899	186	3,326	(307)	(2,143)	(302)	(262.37)
Checks Cleared in LBP	11,122	1,124	13,519	1,218	1,101	1,147	2.05
Checks Cleared in FC	45,270	4,037	53,925	5,939	5,017	5,181	28.34
Total Checks Cleared	56,392	5,161	67,444	7,157	6,118	6,328	22.61
Budget Deficit/Surplus	(2,960)	(472)	(2,892)	67	(178)	(419)	(11.15)
Primary Balance	1,078	(13)	1,232	314	75	44	(450.79)
Airport Passengers	4,986,544	550,421	5,552,260	702,265	574,924	582,383	5.81

$bn *(unless otherwise mentioned)*	Dec 2009	Sep 10	June 11	July 11	Aug 11	Sep 11	% Change*
BdL FX Reserves	25.66	28.46	28.33	28.91	30.64	30.62	7.59
In months of Imports	*18.6*	*21.73*	*18.03*	*17.2*	*17.82*	*17.09*	*(21.35)*
Public Debt	51.09	50.85	52.52	52.80	53.40	54.35	6.88
Net Public Debt	44.11	44.64	45.6	45.50	45.71	45.80	2.60
Bank Assets	115.25	126.74	135.43	136.88	138.06	138.42	9.22
Bank Deposits (Private Sector)	95.77	103.85	111.48	112.14	112.95	113.39	9.19
Bank Loans to Private Sector	28.37	33.82	37.26	38.34	38.92	38.76	14.61
Money Supply M2	34.16	39.32	36.61	36.84	37.35	37.68	(4.17)
Money Supply M3	82.08	90.06	94.23	94.65	95.21	95.63	6.18
LBP Lending Rate (%)	9.04	8.11	7.59	7.33	7.53	7.37	(74b.p.)
LBP Deposit Rate (%)	6.75	5.70	5.62	5.59	5.53	5.58	(12b.p.)
USD Lending Rate (%)	7.28	7.24	6.98	7.03	7.16	6.92	(32b.p)
USD Deposit Rate (%)	3.05	2.78	2.81	2.86	2.80	2.84	6b.p.
%* Change in CPI**	4.20	5.05	6.16	6.28	6.49	5.27	22b.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"	14.67	2.02	53,693	14.25%
Solidere "B"	14.55	0.34	3,880	9.19%
Byblos Common	1.58	(3.07)	7,617	5.52%
Byblos Pref. 08	101.00	0.00	0	1.96%
Byblos Pref. 09	101.00	0.00	0	1.96%
BLOM GDR	7.49	0.54	12,209	5.38%
BLOM Listed	7.42	0.00	0	15.50%
Audi GDR	5.99	6.21	59,606	5.82%
Audi Listed	5.70	(1.89)	76,000	19.35%
HOLCIM	16.89	(0.53)	300	3.20%

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

Sovereign Eurobonds	Coupon %	Mid Price $	Mid Yield %
Mar. 2012	7.500	100.25	6.05
Sep. 2012	7.750	100.50	6.94
June 2013	8.625	107.00	3.61
Apr. 2014	7.375	107.50	3.88
Jan. 2015	5.875	104.50	4.27
Apr. 2015	10.00	118.00	4.09
Jan. 2016	8.500	114.88	4.43
Mar. 2017	9.000	119.00	4.82
Nov. 2018	5.150	99.50	5.24
Apr. 2021	8.250	118.13	5.70

Source: Byblos Bank Capital Markets

	January 3-5	December 27-30	% Change	December 2011	December 2010	% Change
Total Shares Traded	214,382	573,919	(62.65)	9,690,264	3,399,412	185.06
Total Value Traded	$1,733,693	$3,183,852	(45.55)	$34,334,710	$33,080,487	3.79
Market Capitalization	$10.29bn	$10.29bn	0.06	$10.29bn	$12.68bn	(18.86)

Source: Beirut Stock Exchange (BSE)

Lebanon in the News

Public finance imbalances and structural weaknesses keep Lebanon's sovereign ratings at current levels

In a summary credit opinion on Lebanon, Moody's Investors Service maintained Lebanon's foreign and local currency government bond ratings at 'B1' with a 'stable' outlook. It also kept the Senior Unsecured foreign currency ratings at 'B1' and the Short Term foreign currency ratings at 'NP'. It said that these sub-investment grade ratings reflect Lebanon's significant political and economic challenges that include wide fiscal and current deficits and the second highest government debt-to-revenues ratio among rated sovereigns. It pointed out that structural challenges continue to limit the economy's longer term potential and that economic growth remains vulnerable to potential domestic and external political shocks.

In parallel, the agency indicated that Lebanon's ratings are supported by the Central Bank's high level of foreign exchange reserves and gold, which strengthen the confidence in the exchange rate peg and in the financial system despite the weak public finances. It added that the Lebanese commercial banks, the government's primary creditors, remain willing and able to purchase and rollover government debt given their significant resources. It noted that bank depositors, including Lebanese expatriates, have shown a significant resilience to political shocks over the years. It also pointed out that the government has historically had a strong willingness to service its debt and has never defaulted despite numerous political and economic crises. It noted that the government has a track record of mobilizing donor support such as $7.5bn pledged by external donors in grants and soft loans at the Paris III donors' conference in January 2007, of which $1.6bn was received for direct budgetary support. It indicated that Lebanon's balance of payments is structurally weak but that it is reinforced by inward remittances from the large number of Lebanese workers abroad.

Moody's indicated that it would downgrade Lebanon's ratings in the case of a substantial and sustained withdrawal of bank deposits from the country, which would threaten the banks' willingness and ability to finance the government. It added that a material change in the government's willingness to service its debt would also put downward pressure on the ratings. The agency said that it could raise the ratings in case of a decline in political risks and if there is a significant improvement in government finances, which would reduce the government's dependence on the local banking sector.

Growth prospects linked to domestic and regional political developments

Fitch Ratings indicated that the Lebanese economy is likely to improve in 2012 compared to 2011, but anticipated significant risks to growth prospects due to continued domestic political instability, the likely escalation of regional unrest, and the uncertain global environment. It said that the Lebanese economy and the health of the banking system are influenced by the political situation in Lebanon and to a certain extent by that in neighboring countries. It noted that the domestic economy has been stagnant in real terms last year, with the slowdown exacerbated by regional unrest, especially in Syria.

In parallel, the agency expected credit in the banking sector to grow this year but it noted that the growth level is hard to predict as the deterioration in the political situation would discourage domestic and foreign investment. It added that political instability is unlikely to have a material impact on deposit inflows, which would maintain the banking sector's very comfortable liquidity level. Fitch noted that banks operating in Lebanon continue to be exposed to the Lebanese sovereign through their substantial holdings of Lebanese government debt. It pointed out that, in the longer term, the ongoing expansion abroad by the larger Lebanese banks should allow for growth that is not dependent on the volatile domestic market. But it said that this expansion focuses largely on countries in the Middle East and North Africa that are affected by the regional unrest, which limits prospects for the growth of the banks in the short term.

Rates on medical insurance policies to increase by 10% in 2012

The Association of Insurance Companies in Lebanon (ACAL) expected insurance policy rates to increase in 2012. It projected prices on medical coverage to grow by 10% this year, given that hospitals are expected to raise the cost of hospitalization by 10% to 14% in 2012. It also anticipated rates on auto premiums to slightly increase due to the rising prices of auto parts and the cost of the labor force. Further, it anticipated that the government-imposed minimum wage increase and salary adjustment will weigh negatively on insurance companies operating in Lebanon.

In parallel, ACAL indicated that its preliminary figures show that overall insurance premiums generated in the Lebanese market grew by only 10% in 2011 relative to growth of 20% in 2010. It attributed the slowdown to the decline in marine and auto insurance premiums, as consumers preferred to buy low cost cars with lower insurance premiums instead of more expensive cars, which affected profit margins on car insurance policies. It added that the slowdown in economic growth and the regional unrest affected significantly the marine category. It said that the growth of insurance premiums last year was mainly driven by the high cost of hospitalization rather than by the increase in the number of medical insurance policies. It pointed out that most of the premium growth last year was realized in the second half of 2011 after the Cabinet formation, which helped stimulate economic growth.

Lebanon ranks 84th globally, 11th in MENA region in country risk

In its quarterly survey of the country risk of 184 countries, *Euromoney* magazine ranked Lebanon in 84th place worldwide and in 11th place among 20 countries in the Middle East & North Africa region in December 2011. Also, Lebanon came in 21st place among 44 upper middle income countries (UMICs) included in the survey. Lebanon ranked in 82nd place globally and in 11th place regionally in September 2011, in 92nd place globally and in 11th place regionally in June 2011. The survey evaluates individual country risk by assigning a weighting to six categories that cover Political Risks, Economic Performance, Access to Bank Finance & Capital Markets, Debt Indicators, Credit Ratings, and Structural Assessments.

Globally, Lebanon ranked ahead of El Salvador, Azerbaijan and Macedonia, and came behind Vietnam, Serbia and Paraguay. It also ranked ahead of Azerbaijan and behind Serbia among UMICs. Lebanon's rank on the Political Risks category improved by three spots from last September and that on the Structural Assessments by two spots. Also, Lebanon's rank on the Credit Rating, Economic Performance, and Access to Bank Finance & Capital Markets remained unchanged. *Euromoney* changed the methodology to calculate the Debt Indicators category for high income countries, which prevents comparisons of overall country risk scores with previous quarters.

In parallel, Lebanon received a score of 42.67 points, below the global average of 42.69 points and the MENA average of 43.8 points. But its score came above the Arab average score of 41.62 points and the UMICs' average score of 40.98 points. Lebanon's score remained unchanged on the Credit Ratings and Access to Bank Finance & Capital Markets categories. Its score on the Economic Performance category grew by 0.8% and that on the Political Risks category increased by 0.7%; while its score on the Structural Assessments category decreased by 0.5%.

MENA Countries Rankings & Scores

	Score	MENA Rank	Global Rank
Qatar	73.20	1	20
Kuwait	68.44	2	29
Oman	66.23	3	32
UAE	66.13	4	33
Israel	64.67	5	35
Saudi Arabia	63.58	6	36
Bahrain	52.69	7	60
Morocco	47.62	8	72
Jordan	46.36	9	76
Tunisia	45.17	10	79
Lebanon	**42.67**	**11**	**84**
Algeria	39.44	12	92
Egypt	39.31	13	93
Iraq	29.88	14	126
Iran	28.05	15	136
Syria	26.88	16	140
Sudan	26.42	17	141
Yemen	22.01	18	147
Libya	21.46	19	150
Mauritania	5.60	20	180

Source: Euromoney, Byblos Research

Lebanon ranked ahead of Papua New Guinea and behind Burkina Faso globally, while it came ahead of Algeria and behind Tunisia regionally on the Political Risks category. Also, it ranked ahead of Morocco and behind Armenia worldwide, while it came ahead of Morocco and behind Iraq regionally in Economic Performance. Further, Lebanon ranked ahead of Brazil and behind Thailand globally, and came ahead of all Arab countries on the Structural Assessments category. Finally, Lebanon ranked ahead of Georgia and behind Nicaragua globally, and came ahead of Iran and behind Tunisia regionally on the Debt Indicators category.

Country Risk Indicators for Lebanon - December 2011

	Weighting (%)	Score	MENA Rank	Global Rank	MENA Avge Score	Global Avge Score
Political Risk	30	12.20	11	98	12.21	13.74
Economic Performance	30	13.61	11	95	14.27	13.16
Structural Assessments	10	5.86	2	41	4.71	3.84
Debt Indicators	10	3.70	14	122	4.35	4.11
Credit Rating	10	1.46	12	111	3.47	3.30
Access to Bank Finance & Capital Markets	10	5.83	9	72	4.79	4.54

Source: Euromoney December 2011, Byblos Research

Occupancy at Beirut hotels at 58%, room yields down 28% in first 11 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 58% in the first 11 months of 2011, decreasing from 69% in the same period of the previous year. The occupancy rate at Beirut hotels was the ninth lowest among 21 markets in the region, while it was the eighth lowest in 2010. The survey said the average rate per room at Beirut hotels was $222 in the first 11 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 14% 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 $188.2, which declined by 1.8% from $191.7 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, 76% in September 2011, and 74% in November 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, 53% in September, and 73% in November 2010.

Further, revenues per available room (RevPAR) were $129 in Beirut in the first 11 months of 2011, down from $178 in the same period last year, ranking it in 12th place in the region behind Riyadh and Madina and ahead of Al Ain and Dubai Apartments. Beirut's RevPAR was down 27.6% year-on-year, compared to a decrease of 10% 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, $187 in September, and $182 in November 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, $141 in September, and $206 in November 2010. Makkah posted the highest average room rate in the region at $310, Dubai Beach had the highest RevPAR at $246, while Dubai Apartments posted the highest occupancy rate at 83% in the first 11 months of the year.

Hotel Performance in the first 11 months of 2011

	Occupancy Rate (%)	RevPAR (US$)	RevPAR % change
Dubai Apartments	83	97	3.9
Dubai Beach	81	246	1.1
Dubai Overall	79	172	4.5
Dubai City	77	137	7.0
Abu Dhabi	76	161	(6.2)
Makkah	73	228	1.3
Jeddah	72	158	1.2
Madina	66	134	4.1
Al Ain	65	104	(10.7)
Hurghada	64	25	(39.0)
Muscat	64	137	0.0
Doha	63	167	(4.7)
Beirut	**58**	**129**	**(27.6)**
Sharm Shaikh	57	29	(47.3)
Riyadh	57	133	4.0
Amman	56	81	(14.2)
Cairo Pyramids	54	72	(19.1)
Kuwait	53	151	4.1
Cairo Overall	36	44	(48.0)
Manama	34	76	(52.3)
Cairo City	33	40	(52.4)

Source: Ernst & Young, Byblos Research

Shura Council rejects latest government proposal on minimum wage increase and salary adjustment

The Shura Council rejected the Cabinet's latest decision to raise the minimum wage. The Cabinet approved raising the minimum wage from LBP500,000 to LBP868,000, or $575.8, constituting an increase of 73.6%. The government added a LBP236,000 transportation allowance to the previous minimum wage and applied an 18% increase on the sum. It indicated that the LBP236,000 transportation allowance will be incorporated into all basic salaries. It also approved an 18% raise on monthly salaries of up to LBP1,500,000 while an additional 10% increase will be applied on the second salary bracket between LBP1,500,000 and LBP2,500,000. It said that no additional increase will apply on salaries exceeding LBP2,500,000. This constitutes the second rejection by the Shura Council of the government's minimum wage proposals since October.

The private sector rejected the wage increase and the incorporation of the transportation allowance into all basic salaries, given that such raise would incur high costs on businesses and would inflate National Social Security Fund dues as well as end of service indemnities. The private sector favored the agreement reached between the Economic Associations and the General Labor Confederation (GLC) which stipulated raising the minimum wage to LB675,000 and increasing the transportation allowance to LBP200,000. The current official transportation allowance is LBP8,000 per working day. The agreement also stipulated an increase of LBP200,000 on salaries of up to LBP1,000,000, a rise of LBP250,000 on salaries between LBP1,000,000 and LBP1,500,000, and an increase of LBP300,000 on salaries exceeding LBP1,500,000. The GLC-private sector agreement indicated that employees whose salary increased since January 2010 may reportedly not be eligible for the full raise.

The Shura Council said that the government decision to include the transportation allowance into the basic salary violates the Lebanese Social Security law, which stipulates that the salary received by an employee should be related to work in order to be considered as part of the employee's earnings. It also considered the Cabinet's decision to increase the transportation allowance to be beyond the scope of the government's mandate. The Shura Council is a consultative body whose 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.

Central Bank amends level of interest rates subsidies

The Central Bank of Lebanon issued a set of circulars about subsidized interest rates and about reserve requirements for loans financing energy efficiency and renewable energy projects.

Intermediary Circular 10864 modified Basic Circular 7743 dated January 2, 2001. The modifications amended the levels of subsidized interest rates on loans to productive sectors in Lebanese pounds and foreign currency. The modifications stipulate that interest rates on loans extended after January 1, 2012 would receive a 4.5% subsidy. However, interest rates on loans given before January 1, 2012 were not amended. Previously, the first portion of the loan up to LBP5bn received a 7% subsidy, and rates on the portion of the loan between LBP5bn and LBP15bn received a 5% subsidy.

In parallel, Intermediary Circular 10873 modified Basic Circular 7835 dated June 2, 2001. The modifications stipulate that the repayment period of the principal for a non-housing loan should not exceed 7 years starting from the end of the grace period, which ranges between 6 months and four years. Also, they indicate that the repayment period of a housing loan should not exceed 20 years starting from the end of the grace period, which should not exceed four years. Also, they exempted Islamic banks providing housing loans from obligatory reserves on 60% of the value of the extended housing loans in Lebanese pounds and on 200% of the housing loans in foreign currencies, provided that the return on each contract is fixed and equivalent to the interest rate dictated by the Central Bank.

Further, the circular reduced the obligatory reserves requirements on loans to environmentally-friendly projects that do not benefit from interest rate subsidies. It defines environmentally-friendly energy projects as projects under the National Energy Efficiency and Renewable Energy Action (NEEREA), energy saving projects, renewable energy projects, and green buildings; while it considered recycling, waste management, and ecotourism projects as environmentally-friendly non-energy projects. The circular indicated that the exemption will be applicable on the environmental portion of loans financing an eco-friendly project. It said that banks will be exempted from obligatory reserves on 100% of the value of each environmentally-friendly energy loan extended in Lebanese pounds, provided that the interest rate on the loan does not exceed 3%. It also exempted banks from obligatory reserves on 150% of the value of each environmentally-friendly non-energy loan extended in Lebanese pounds, provided that the interest rate on the loan does not exceed 3% less 50% of the yield on one-year government bonds. In parallel, the circular exempted banks from obligatory reserves on 200% of the value of each environmentally-friendly energy loan extended in foreign currency, provided that the interest rate on the loan does not exceed the cost of funds plus 2%. It also exempted banks from obligatory reserves on 500% of the value of each environmentally-friendly non-energy loan extended in foreign currency, provided that the interest rate on the loan does not exceed the cost of funds plus 2% less 50% of the yield on one-year government bonds.

Cabinet approves formation of oil sector regulatory authority

The Cabinet approved on January 4 the implementation decrees of a draft law that authorizes offshore oil and gas exploration and drilling. The decrees include the establishment of an independent regulatory authority and a committee to oversee exploration and production. They also cover the financial, administrative, and employment frameworks at the regulatory authority. 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 called 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 were postponed.

Energy Ministry mandates Norwegian company to conduct three-dimensional offshore seismic survey

The Ministry of Energy & Water signed a contract with the Norwegian Petroleum Geo-Services (PGS) company to conduct a three-dimensional offshore seismic survey to assemble data on potential locations of petroleum deposits in Lebanon's offshore exclusive economic zone. PGS will also be in charge of marketing and reprocessing the data, as well as providing the required training for further data analysis. PGS has developed data on seismic studies across the Levantine Basin and noted signs of deposits, but cautioned that there is no indication to date of actual quantities. PGS' exploration has come at a minimal fiscal cost to the Lebanese government so far, given that the firm owns the data results and can sell them to prospective bidders in future tenders according to agreements in place. The ministry indicated that more than 25 international companies participated in the bid to buy the survey's results.

Last month, the ministry signed a contract with the French oil and gas consulting firm Beicip-Franlab to conduct an offshore survey that would complement the previous offshore two-dimensional seismic survey in Lebanon. It said that the results of the first survey provided an incentive for further in-depth analysis of Lebanese offshore waters. It added that the new survey would provide more accurate information that would prepare Lebanon for the oil and gas research and exploration phase.

Lebanon in the News

Central Bank foreign assets increase by 5.3% to $32.2bn in 2011

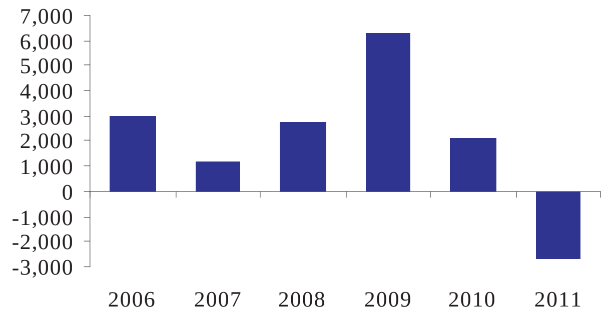
The Central Bank's interim balance sheet reached $70.3bn at the end of 2011 compared to $62.6bn at the end of 2010 and to $70.8bn at the end of September 2011. Assets in foreign currencies reached $32.24bn at the end of 2011, constituting an increase of 5.3% from $30.6bn at the end of 2010 and were almost unchanged from $32.1bn at the end of last September. The growth of assets in foreign currencies slowed year-on-year, as they grew by 8.2% in 2010. Assets in foreign currencies increased by $297.6m in November, $1.7bn in August, $574.8m in July, $87m in April and $118.7m in March; while they declined by $70.4m in December, $108.6m in October, $19.2m in September, $93.8m in June, $544.4m in May, $247.8m in February and $64.6m in January 2011. This resulted in an aggregate increase of $1.63bn in 2011 compared to a rise of $2.3bn in 2010.

The value of the Central Bank's gold reserves increased by 10.7% year-on-year but dropped by 4.5% in the fourth quarter to $14.4bn, after reaching a new all-time high of $16.75bn at end-August due to the rise in global gold prices. The value of the Central Bank's gold reserves jumped by 29.3% in 2010. Its securities portfolio rose by 20.5% annually and by 0.9% in the last quarter of the year to $11.6bn. The annual rise is mainly due to the Bank's purchase of Treasury bills given the lack of enough market demand during parts of last year. Loans to the local financial sector rose by $638.5m, or 84.7% year-on-year to $1.4bn, due in part to a loan to a small Lebanese bank. Further, deposits of the financial sector rose by $6.2bn, or 14.6% in 2011 to $49bn due to capital inflows into the banking sector, and included a rise of 4.5%, or $2bn, in the fourth quarter of the year. Further, deposits of the public sector contracted by 14.3% year-on-year and by 22.5% in the fourth quarter to $5.3bn. Assets in foreign currencies increased by $2.3bn in 2010, $28.3bn in 2009, $7.34bn in 2008, declined by $580m in 2007 and rose by $1.32bn in 2006.

Balance of payments posts deficit of $2.7bn in first 11 months of 2011

Central Bank figures show that Lebanon's balance of payments posted a deficit of $2.7bn in the first 11 months of 2011 compared to a surplus of $2.1bn in the same period last year. The balance of payments posted a deficit of $558.9m in November compared to deficits of $589.8m in October 2011 and $673.4m in November 2010. The November 2011 deficit was caused by a deficit of $958m in the net foreign assets of banks and financial institutions and a surplus of $399.2m in those of the Central Bank. The cumulative deficit over the first 11 months of 2011 was caused by a surplus of $2.2bn in the Central Bank's net foreign assets and a deficit of $4.9bn in those of banks and financial institutions. The balance of payments posted cumulative surpluses of $3.3bn in 2010, $7.9bn in 2009 and $3.5bn in 2008.

Balance of Payments* ($m)



** in first 11 months of the year*

Source: Central Bank

Consumer Price Index up 3.6% annually in November

The Central Administration of Statistics' Consumer Price Index indicates that inflation increased by 3.6% in November 2011 from November 2010. Prices of alcoholic beverages & tobacco increased by 10.8%, followed by water, electricity, gas & other fuels (+8%), education (+7.5%), food & non-alcoholic beverages (+5.8%), clothing & footwear (+4.8%), recreation & entertainment (+4.3%), restaurants & hotels (+4%), miscellaneous goods & services (+2.2%), furnishings & household equipment (+2.1%), health care (+2.1%) and transportation (+0.2%). In parallel, housing prices and communication prices remained unchanged year-on-year. 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 0.5% in November 2011 from October 2011. Prices of food & non-alcoholic beverages increased by 1.2%, followed by alcoholic beverages & tobacco (+0.8%), water, electricity, gas & other fuels (+0.8%), clothing & footwear (+0.8%), health care (+0.7%), restaurants & hotels (+0.6%), miscellaneous goods & services (+0.3%) and recreation & entertainment (+0.1%). Further, the cost of housing, communication and education remained unchanged month-on-month, and that of transportation declined by 0.1%. The Consumer Price Index grew by 3.5% year-on-year in October and increased by 4.8% year-on-year in September.

Construction permits down 7.5% in first 10 months of 2011

Figures released by the Association of Engineers of Beirut & Tripoli show that construction permits issued in the first 10 months of 2011 reached 13.6 million square meters, constituting a decrease of 7.5% from 14.4 million square meters in the same period of the previous year. Construction permits totaled 1.2 million square meters in October 2011, down 6.9% year-on-year from 1.3 million square meters in October 2010. In parallel, cement deliveries reached 4.8 million tons in the first 10 months of 2011, an increase of 8.3% from 4.4 million tons in the same period of 2010. Cement deliveries reached 619,000 tons in October 2011, up 13% from 548,000 tons in October 2010.

Cleared checks up 4%, returned checks up 1.4% in first 10 months of 2011

The value of cleared checks reached $60bn in the first 10 months of 2011, constituting an increase of 4.1% from the same period of 2010. The value of cleared checks in Lebanese pounds rose by 6.1% to the equivalent of $11.8bn, while the value of cleared checks in US dollars increased by 6% to $48.3bn. The dollarization rate of cleared checks increased to 81.8% from 80.3% in the same period of the previous year. Also, the value of returned checks in domestic and foreign currency amounted to $1.2bn in the first 10 months of 2011, constituting an increase of 1.4% from the same period of 2010. In parallel, the number of cleared checks totaled 10.8 million checks in the first 10 months of 2011, up 1.1% from the same period of 2010. Also, the number of returned checks totaled 218,000 checks and rose by 6.9% in the covered period.

Credit and debit cards reach 1.78 million cards, ATMs total 1,298 at end-September 2011

Figures released by the Central Bank of Lebanon show that the number of credit and debit cards issued in Lebanon reached 1,778,357 cards at the end of September 2011, constituting a 6.1% increase from end-2010, and a 7.5% rise on a yearly basis. Resident cardholders accounted for 97.1% of total cards issued in Lebanon. The distribution of payment cards by type shows that debit cards with residents accounted for 63.4% of the total, followed by credit cards with residents (23.9%), charge cards with residents (7.1%), resident prepaid cards (2.6%), non-resident debit cards (2.2%), non-resident charge cards (0.4%), non-resident credit cards (0.2%), and non-resident prepaid cards (0.1%). The number of ATMs decreased by 2.2% to 1,298 machines on a quarterly basis and rose by 3.4% from 1,255 ATMs at the end of September 2010. The Greater Beirut area had 604 ATMs, accounting for 46.5% of the total, followed by Mount Lebanon with 328 (25.3%), the North with 133 (10.2%), the South with 116 (8.9%), the Bekaa with 91 (7%), and Nabatiyeh with 26 (2%). Further, the aggregate number of point of sales accepting payment cards reached 48,999 by the end of September 2011, decreasing by 1.6% on a quarterly basis and increasing by 1.1% annually.

The average monthly domestic payment by residents totaled $141.6m in the third quarter of 2011, increasing by 5.8% quarter-to-quarter and rising by 20.9% from the third quarter of 2010, while the average monthly payment and cash withdrawal abroad by residents increased by 10.9% quarter-to-quarter to $87.4m and by 10.3% from the third quarter of 2010. Further, the average monthly value of cash withdrawals by residents using ATMs increased quarterly by 0.7% and rose by 7.1% from the same quarter of the previous year to $467.6m, while average monthly withdrawals by non-residents rose by 24.3% to $8.3m quarter-to-quarter and increased by 2.6% from the same period last year. Also, the average monthly purchases in Lebanon by non-residents rose by 17.7% quarter-to-quarter and increased by 17.2% annually to $2.6m. Domestic card payments by residents in Lebanese pounds accounted for 13% of aggregate payments in all currencies, while local currency withdrawals by residents represented 66.3% of the total in the third quarter of 2011.

Number and Usage of Payment Cards Issued in Lebanon (for the first 9 months of 2011 and 2010)

	end-Sep 2011	end-Sep 2010	Change
Cards			
With residents	1,726,667	1,606,364	7.5%
With non-residents	51,690	47,562	8.7%
Total	1,778,357	1,653,926	7.5%
ATMs	1,298	1,255	3.4%
Points of Sales	48,999	48,486	1.1%
Purchases (in US$m)*			
by residents in Lebanon	1,186.1	966.1	22.8%
% in Lebanese pounds	*12.9%*	*10.4%*	
by non-residents in Lebanon	20.1	17.4	15.9%
by residents outside Lebanon**	706.7	624.2	13.2%
Cash withdrawal (in US$m)*			
by residents in Lebanon	4,065.2	3,674.7	10.6%
% in Lebanese pounds	*67.0%*	*66.2%*	
by non-residents in Lebanon	62.1	59.2	4.9%

** in the first 9 months of the year*
*** including cash withdrawals*
Source: Central Bank of Lebanon, Byblos Research

Corporate Highlights

Byblos Bank Syria increases capital

Byblos Bank Syria, the Syrian affiliate of the Byblos Bank Group, increased its capital by SYP2bn through the issuance of 4,000,000 shares at a par value of SYP500 per share after the Syrian authorities decided to raise the capital of conventional banks operating in Syria to SYP10bn, and to increase foreign ownership in Syrian banks from 49% to 60%. Following the increase, the Bank's capital reached SYP6.12bn, with Byblos Bank sal increasing its stake to 52.37% from 41.5%, while the OPEC Fund for International Development maintained its share at 7.5%. Byblos Bank Syria has 265 Syrian shareholders with each of them holding a stake of 5% or less of total listed stocks. Byblos Bank Syria posted net profits of $1m in the first 9 months of 2011. It had total assets of $0.98bn, loans of $495m and customer deposits of $0.74bn at end-September. The Byblos Bank Group has a direct presence in Lebanon, Syria, Iraq, 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 72% to $515m in 2011

Figures released by the Beirut Stock Exchange indicate that total trading volume reached 77.5 million shares in 2011, constituting a decrease of 52.9% from 2010; while aggregate turnover amounted to $515.3m, down 72.4% from a turnover of $1.87bn in the previous year. Market capitalization decreased by 18.9% from end-December 2010 to $10.3bn, of which 72.8% was in banking stocks, followed by real estate stocks with 23.1%, industrial stocks with 3.5%, investment funds with 0.3% and trading stocks with 0.3%. The market liquidity ratio was 5% compared to 14.7% in 2010. Bank stocks accounted for 81.8% of aggregate trading volume, followed by real estate stocks with 16.9%, trading stocks with 0.8%, industrial stocks with 0.4% and investment funds with 0.1%. In terms of the value of shares traded, banking stocks accounted for 53.9% of aggregate value, followed by real estate stocks with 43.9%, investment funds with 0.9%, industrial stocks with 0.9%, and the trading sector with 0.3%. The average daily traded volume for the year was 320,234 shares for an average daily value of $2.1m. The figures reflect decreases of 52.5% in volume and 72.2% in value year-on-year. Overall, the market capitalization of total shares listed on the Beirut Stock Exchange declined from 32.3% of GDP at end-2010 to 24.8% of GDP at end-2011.

The price of Solidere 'A' shares decreased by 22.4%, and that of Solidere 'B' shares dropped by 22.2% year-on-year. Also, Banque Bemo's share price declined by 57.3%, Bank Audi's common stock price dropped by 30%, BLOM Bank's common share price decreased by 21.1% and Byblos Bank's stock price regressed by 10.9% from end-2010. Also, BLC Bank's share price increased by 9% and that of Bank of Beirut grew by 4.3% from end-2010. Other stock movements show that RYMCO's share price declined by 7.4% and Holcim's share price decreased by 0.1% annually. In parallel, Ciments Blancs' bearer shares increased by 18.2% from end-2010, while the firm's nominal share price increased from $0.5 at end-2010 to $2.41 at end-2011.

Standard & Poor's affirms ratings of three banks

Standard & Poor's affirmed BLOM Bank's 'B' long-term counterparty credit ratings and Bank Audi's and BankMed's 'B/B' long- and short-term counterparty credit ratings, with a 'stable' outlook on the long-term ratings. The agency attributed its action to a review last November of its bank rating criteria under its Banking Industry Country Assessment (BICRA), rather than to any change in the three banks' operating environment. It said BLOM and Audi's ratings reflect the banks' "adequate" business position, "moderate" capital and earnings, "moderate" risk position, "average" funding, and "adequate" liquidity. Further, it said BankMed's ratings reflect its "adequate" business position, "weak" capital and earnings, "moderate" risk position, "average" funding, and "adequate" liquidity. Byblos Bank sal is not rated by Standard & Poor's.

S&P indicated that the asset allocation strategy of the three banks is constrained by the Lebanese government's high borrowing needs. It said that customer deposits fund Lebanese banks, but are largely reinvested in domestic government securities. As such, it noted that Lebanese sovereign bonds represent a significant share of the banks' liquid assets and that liquidity would be uncertain in a worst-case scenario. It pointed out that deposits tend to be short-term in nature and dollar denominated, but that they remain stable and show steady annual growth in a volatile and confidence-sensitive environment.

The agency said its weighted economic risk for the three banks is close to '8' on a scale of one to 10, with one reflecting the lowest risk and '10' the highest risk level. It said the economic risk reflects the concentration of assets in the Lebanese economy, as Lebanon still accounts for between 70% and 75% of the total assets of each of the three banks. It noted that the banks' overseas subsidiaries and affiliates are still small players in their target markets and have to cope with regional unrest. S&P added that the three banks' industry risk score of '6' is based on the banks' home market, and reflects the Lebanese authorities' consistently successful ability in maintaining depositors' confidence in the relatively stable domestic competitive landscape, and in avoiding any unraveling of public finances.

S&P added that the 'stable' outlook on the three banks reflects the outlook on Lebanon. It said that any change in Lebanon's sovereign ratings will likely drive rating actions on the banks, as the strong link between the three banks' creditworthiness and that of the sovereign limits specific factors related to each bank that would prompt a change in its ratings. It noted that any upgrade of the banks is highly dependent on the Lebanese government's meaningful progress on structural and fiscal reforms. Conversely, any negative rating action on the banks would follow any factors that reduce the government's effectiveness to formulate and implement stability-oriented economic policies.

Corporate Highlights

Fitch Ratings downgrades two French banks with stakes in Lebanese institutions

Fitch Ratings downgraded Societe Generale's (SG) Viability Rating (VR) to 'a-' from 'a+' and that of Credit Agricole (CA) to 'a+' from 'aa-'. It also lowered CA's long-term Issuer Default Rating (IDR) to 'A+' from 'AA-' and affirmed that of SG at 'A+', with a 'stable' outlook to both banks' long-term IDR.

Fitch indicated that the downgrade of SG's VR reflects the challenges facing the global trading and universal banks in a difficult uncertain environment, which has put earnings prospects under pressure. It said that the downgrade also reflects the challenges posed by a more stringent regulatory framework, under which SG and many of its peers will have to adapt their business model in their investment banking activities sooner than initially planned by the Basel committee. It added that the downgrade was also prompted by tightened funding and liquidity conditions, given reduced access to international markets, and a lower capitalization level than most global trading and universal bank peers. It said that SG's other business lines will unlikely be able to offset lower profitability from its capital markets activities.

In parallel, the agency attributed CA's downgrade to its exposure to the eurozone problems; the crisis' impact on funding of capital markets that are not functioning effectively; and the bank's just 'adequate' capital ratios compared with highly rated peers. It said that the rating actions also reflect stronger headwinds facing the European banking industry as a whole. It added that CA's exposure to the Greek sovereign is low, but that the bank has significant exposure to non-sovereign risk through its Greek subsidiary. It noted that CA is also exposed to the Italian sovereign as well as non-sovereign risk through its Italian subsidiaries. It pointed out that asset quality remains manageable, but the loan book is likely to deteriorate and impairments are likely to rise as the economy slows. Société Générale has a 19% stake in Société Générale de Banque au Liban sal. Crédit Agricole has a direct presence in Lebanon through its subsidiary Crédit Agricole Suisse (Liban) Financial Services sal. The bank also has a 9% stake in Banque Libano-Française and a 6% stake in Fransabank sal.

Fund to extend senior loan facility to local bank

The Luxembourg-based SANAD Fund for micro-, small- and medium-sized enterprises (MSMEs) announced that it has signed a $5m senior loan facility with BLC Bank sal, one of Lebanon's listed banks, constituting the Fund's first investment in Lebanon. It said that the loan will help small- and medium-sized enterprises (SME) in Lebanon to gain better access to long-term credit. Established in August 2011, the SANAD Fund provides debt and equity financing to partner institutions in the Middle East and North Africa region that serve MSMEs. The Fund is initiated by KfW Entwicklungsbank (The German Development Bank) with financial support from the German Federal Ministry for Economic Cooperation and Development (BMZ) and the European Union.

Beirut bourse approves listing of Bank Audi's GDRs

The Beirut Stock Exchange (BSE) approved the trading and pricing of 500,000 Bank Audi Global Depository Receipts (GDRs), bringing the total to 100,081,430 GDRs listed on the bourse. Bank Audi sal, one of Lebanon's listed banks, converted 500,000 of its common shares to GDRs in December 2011 ahead of their listing on the bourse. It also has 349,439,944 common shares, 12,500,000 Preferred Shares Series D, and 1,250,000 Preferred Shares Series E listed on the BSE.

Ratio Highlights

(in % unless specified)	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	July 2010	June 2011	July 2011	Change*	Risk Level
Political Risk Rating	59.5	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	61.5	58.2	58.2	↓	High

Regional Average	July 2010	June 2011	July 2011	Change*	Risk Level
Political Risk Rating	64.7	59.9	59.8	↓	Moderate
Financial Risk Rating	42.1	42.0	42.1	↔	Very Low
Economic Risk Rating	38.3	36.6	36.8	↓	Low
Composite Risk Rating	72.5	69.3	69.4	↓	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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