



LEBANON THIS WEEK

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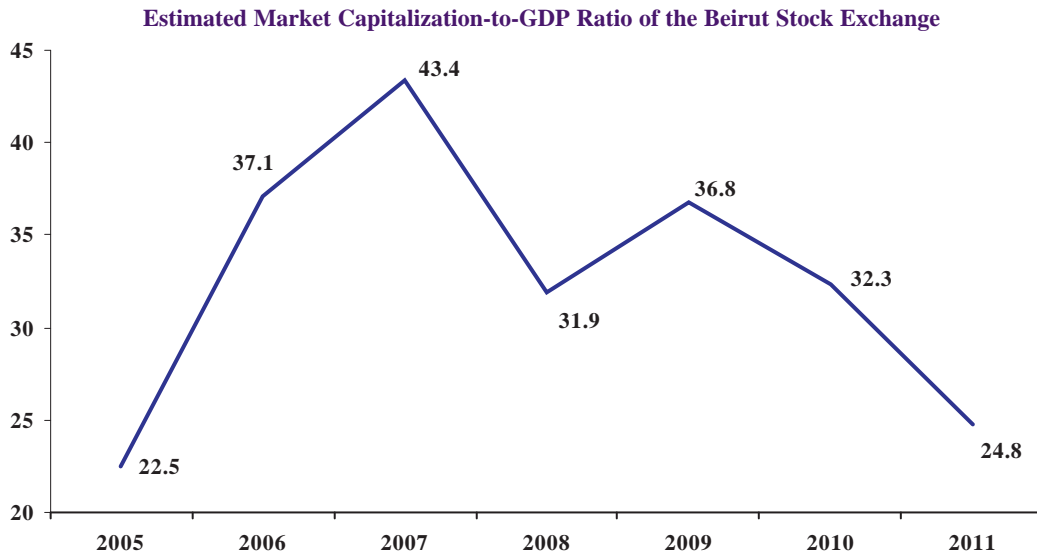
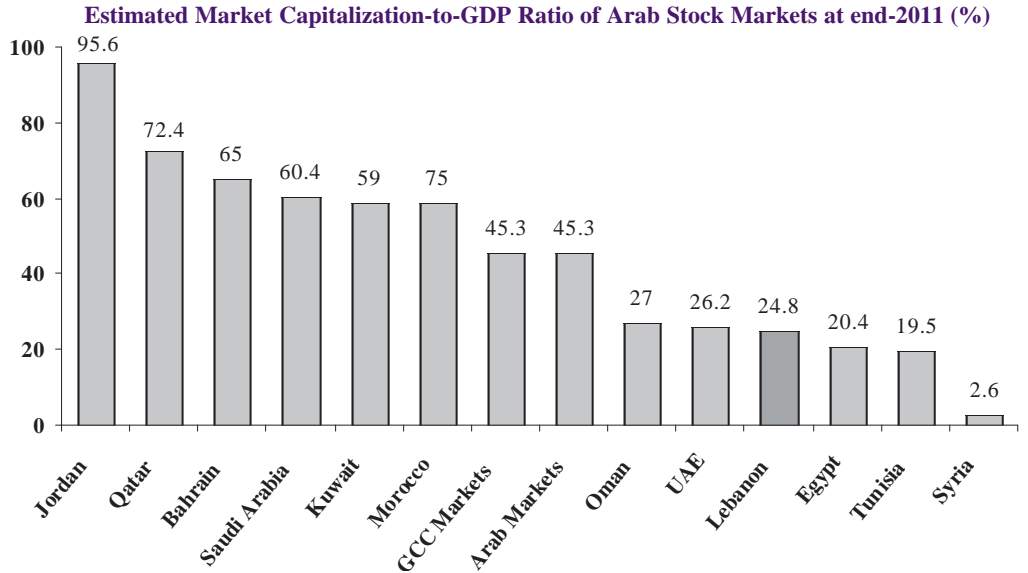
Kafalat loan guarantees down 2.6% year-on-year to \$165m in 2011

Fitch affirms Allianz ratings at 'AA-', outlook stable

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Charts of the Week



Source: Local Stock Markets, International Monetary Fund, Byblos Bank

Quote to Note

"Bank depositors, including those from the extensive Lebanese Diaspora, have displayed a remarkable resilience to political shocks over the years."

Moody's Investors Service, on the trust of depositors in the Lebanese banking system

Number of the Week

9.28%: Weighted average rate on Lebanese-pound Certificates of Deposits issued by the Central Bank of Lebanon at end-November 2011, according to the Association of Banks in Lebanon

Economic Indicators

\$m (unless otherwise mentioned)	2009	Oct 10	2010	Aug 11	Sep 11	Oct 11	% Change*
Exports	3,486	435	4,256	373	334	351	(19.31)
Imports	16,241	1,486	17,956	1,719	1,792	2,508	68.78
Trade Balance	(12,755)	(1,051)	(13,700)	(1,346)	(1,458)	(2,157)	105.23
Balance of Payments	7,899	(185)	3,326	(2,143)	(302)	(590)	218.92
Checks Cleared in LBP	11,122	1,227	13,519	1,101	1,147	1,233	0.49
Checks Cleared in FC	45,270	4,526	53,925	5,017	5,181	5,123	13.19
Total Checks Cleared	56,392	5,753	67,444	6,118	6,328	6,356	10.48
Budget Deficit/Surplus	(2,960)	(460)	(2,892)	(178)	(419)	(118)	(74.25)
Primary Balance	1,078	(118)	1,232	75	44	280	(337.63)
Airport Passengers	4,986,544	417,378	5,552,260	574,924	582,383	448,620	7.49

\$bn (unless otherwise mentioned)	Dec 2009	Oct 10	July 11	Aug 11	Sep 11	Oct 11	% Change*
BdL FX Reserves	25.66	28.20	28.91	30.64	30.62	30.51	8.19
<i>In months of Imports</i>	18.6	18.98	17.2	17.82	17.09	12.17	(35.90)
Public Debt	51.09	51.13	52.80	53.40	54.35	54.22	6.04
Net Public Debt	44.11	44.93	45.50	45.71	45.80	45.78	1.89
Bank Assets	115.25	126.65	136.88	138.06	138.42	139.54	10.18
Bank Deposits (Private Sector)	95.77	104.18	112.14	112.95	113.39	114.19	9.61
Bank Loans to Private Sector	28.37	34.39	38.34	38.92	38.76	39.22	14.04
Money Supply M2	34.16	39.31	36.84	37.35	37.68	37.90	(3.59)
Money Supply M3	82.08	90.57	94.65	95.21	95.63	92.26	1.87
LBP Lending Rate (%)	9.04	8.15	7.33	7.53	7.37	7.27	(88b.p.)
LBP Deposit Rate (%)	6.75	5.72	5.59	5.53	5.58	5.60	(12b.p.)
USD Lending Rate (%)	7.28	7.08	7.03	7.16	6.92	7.10	2b.p
USD Deposit Rate (%)	3.05	2.81	2.86	2.80	2.84	2.82	1b.p.
%* Change in CPI**	4.20	6.92	6.28	6.49	5.27	3.14	(378b.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"	14.29	(2.59)	69,131	13.96%
Solidere "B"	14.26	(1.99)	6,168	9.05%
Byblos Common	1.61	1.90	481,747	5.65%
Byblos Pref. 08	101.50	0.50	1,250	1.98%
Byblos Pref. 09	101.50	0.50	9,047	1.98%
BLOM GDR	7.30	(2.54)	755,539	5.27%
BLOM Listed	7.42	0.00	0	15.58%
Audi GDR	5.96	(0.50)	31,600	5.83%
Audi Listed	5.71	0.18	1,120,543	19.49%
HOLCIM	16.60	(1.72)	1,720	3.16%

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 9-13	January 3-5	% Change	December 2011	December 2010	% Change
Total Shares Traded	2,483,565	214,382	1058.5	9,690,264	3,399,412	185.06
Total Value Traded	\$15,227,608	\$1,733,693	778.33	\$34,334,710	\$33,080,487	3.79
Market Capitalization	\$10.24bn	\$10.29bn	(0.52)	\$10.29bn	\$12.68bn	(18.86)

Source: Beirut Stock Exchange (BSE)



Lebanon ranks 90th globally, 9th among Arab countries in economic freedom, economy remains "moderately free"

The Heritage Foundation/*Wall Street Journal* Index of Economic Freedom for 2012, a broad indicator of economic freedom in 179 countries, ranked Lebanon in 90th place worldwide and in ninth place among 17 Arab countries. Lebanon also ranked in 26th place among the 42 Upper Middle Income countries (UMICs) included in the survey. Lebanon ranked in 89th place globally and in eighth place regionally in the 2011 index.

The survey maintained Lebanon's economic freedom status in the "moderately free" category. It upgraded Lebanon to the "moderately free" category in 2010 from the "mostly unfree" category of economic freedom where it remained for more than 10 years. The index evaluates individual economies on the basis of 52 independent variables divided into 10 broad factors of economic freedom that are equally weighted. The factors are business freedom, trade freedom, fiscal freedom, government spending, monetary freedom, investment freedom, financial freedom, property rights, freedom from corruption, and labor freedom.

Globally, Lebanon ranked ahead of Azerbaijan, Italy and Honduras and came immediately behind Kyrgyz Republic, the Dominican Republic and Morocco. It also came ahead of Azerbaijan, Serbia and Brazil and behind the Dominican Republic, Dominica and Namibia among UMICs. Lebanon's level of economic freedom in 2012 is 60.1%, above the global level of economic freedom of 59.5% and the Arab level of 59.7%, and similar to the economic freedom level of UMICs. Lebanon's score remained unchanged year-on-year, as the small gains in labor freedom and the control of government spending were offset by small declines in business freedom and monetary freedom.

Lebanon ranked ahead of Brazil and behind Ecuador globally and came ahead of Mauritania and behind Syria regionally on the Business Freedom sub-index, which reflects the ability to create, operate, and close an enterprise. The survey noted that the overall freedom to establish and run a business in Lebanon remains limited by its regulatory environment, as the cost of starting a business is high and the process of closing a business is lengthy and costly. Also, Lebanon tied with Belarus, ranked ahead of the Dominican Republic and came behind Micronesia globally; and ranked ahead of Jordan and behind Yemen regionally on the Trade Freedom sub-index. This category measures the absence of tariff and non-tariff barriers that affect imports and exports of goods and services.

Further, Lebanon ranked ahead of Kazakhstan and behind Cambodia globally, while it came ahead of Egypt and behind Jordan regionally on the Fiscal Freedom sub-index, which measures the tax burden of government. Further, Lebanon ranked ahead of Saint Lucia and behind Uruguay globally, while it came ahead of Jordan and behind Tunisia among Arab countries on the Government Spending sub-index.

Lebanon tied with Tunisia and Laos, ranked ahead of Ireland and came behind Samoa worldwide on the Monetary Freedom sub-index; while it tied with Tunisia, came ahead of Algeria and behind Qatar in the Arab region. This category combines price stability with an assessment of price controls. The survey noted that Lebanon's score reflects measures that distort domestic prices. In parallel, Lebanon tied with 12 countries that include Japan, Serbia and Greece on the Investment Freedom sub-index, which is an assessment of the free flow of capital. Regionally, it came ahead of Oman and behind Egypt.

Arab Countries Rankings & Scores

Country	Arab Rank	Global Rank	Score
Bahrain	1	12	75.2%
Qatar	2	24	71.3%
Jordan	3	29	69.9%
UAE	4	35	69.3%
Oman	5	47	67.9%
Kuwait	6	71	62.5%
Saudi Arabia	6	71	62.5%
Morocco	8	87	60.2%
Lebanon	9	90	60.1%
Tunisia	10	95	58.6%
Egypt	11	99	57.9%
Yemen	12	121	55.3%
Djibouti	13	127	53.9%
Mauritania	14	131	53.0%
Syria	15	138	51.2%
Algeria	16	140	51.0%
Libya	17	176	35.9%

Source: Heritage Foundation 2012, Byblos Research

Economic Freedom in Lebanon by Category

	Arab Rank	Global Rank	Lebanon Score	Change in Score	Arab Average	Global Average
Business Freedom	14	137	53.9%	▼	63.5%	64.7%
Trade Freedom	9	71	80.4%	▼	76.8%	74.5%
Fiscal Freedom	8	25	90.8%	▼	88.7%	76.9%
Government Spending	8	80	68.2%	▲	60.6%	59.8%
Monetary Freedom	6	77	76.9%	▼	73.8%	74.4%
Investment Freedom	6	64	60.0%	↔	47.1%	50.7%
Financial Freedom	2	39	60.0%	↔	46.5%	48.6%
Property Rights	15	137	25.0%	↔	39.7%	43.4%
Freedom from Corruption	13	129	25.0%	↔	39.2%	40.4%
Labor Freedom	10	93	60.6%	▲	61.5%	61.4%

Source: Heritage Foundation 2012, Byblos Research

Limited prospects for reforms to keep growth below potential

Business Monitor International maintained its projection of 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 this year is below the 8.3% average rate of expansion between 2007 and 2010 as well as considerably below potential in light of the country's underlying infrastructure deficit. 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. It noted that much of growth prospects this year may depend on how badly the tourism sector will continue to be affected by the regional crisis and the global slowdown. It added that there is little to suggest that this all-important sector will support economic growth in the near term.

BMI considered the medium-term outlook for the Lebanese economy to be relatively favorable beyond 2012, and projected an average real GDP growth rate of 5.3% between 2013 and 2016, which would raise GDP per capita to about \$15,125. It noted that politics will remain an important determinant of underlying growth and will continue to present a downside risk to the outlook. It added that growth will remain well below potential during the 2013-16 period, given the low prospects of implementing the necessary reforms to address some of the most pronounced structural weaknesses in the economy.

In parallel, BMI indicated that Lebanon's failure to pass an official budget since 2005 has been instrumental in containing the fiscal deficit, which topped 13.5% of GDP in 2006 and which has steadily declined since then. It considered that political instability and bickering have proven to be beneficial in this respect, as the failure to agree on a budget has meant that the government could not implement any new spending plans. It said that data from the Ministry of Finance show the budget deficit has been contracting while the primary surplus has been increasing in the first 9 months of 2011. But it warned that these figures take into account a one-off payment from the Ministry of Telecommunications, which has not yet actually taken place. It noted that when removing this payment from budget figures, revenues show an actual decline and the budget deficit shows a significant expansion. As a result, it said that considerable risks exist depending on when, or if, this payment is eventually made.

BMI indicated that the current government needs to walk a fine line between carrying through with its announced capital spending projects and ensuring that debt levels and servicing costs do not spiral out of control. But it expected the government to be more inclined to focus on politically popular current spending measures, such as its ongoing attempts to raise the minimum wage, given that growth momentum is slowing across the board.

Macroeconomic Indicators				
	2011F	2012F	2013F	2014F
Real GDP Growth (%)	1.6	3.2	5.7	5.7
Private consumption (% of GDP)	82.7	82.5	82.8	83
Private final consumption (LBP real growth, %)	4.5	3.0	6.0	6.0
Government final consumption (% of GDP)	13.9	14.0	13.1	12.1
Fixed capital formation, (% total GDP)	13.3	12.7	11.8	10.7
Consumer prices (avge, %)	5.3	4.4	4.5	6.0
Budget balance (% of GDP)	(7.2)	(9.1)	(8.9)	(8.6)

Source: Business Monitor International

Economic recovery dependent on regional political environment

Standard Chartered Bank projected Lebanon's real economic growth at 3.8% in 2012 relative to an estimated growth of 1.5% in 2011 and compared to an average growth rate of 8% during the 2008-10 period. It attributed the slowdown in economic activity last year to a combination of domestic political instabilities, regional tensions and rising global risk aversion. But it expected a steady return to the previous real GDP growth trends, barring a substantial further deterioration in the regional political environment. It noted that Lebanon continues to benefit from a strong services sector, robust domestic consumption, and reconstruction development needs following the war years.

Further, it said that Lebanon's comfortable primary surplus in 2010 allowed the government to adopt an accommodative fiscal policy during the 2011 downturn, while managing to maintain a modest surplus. It expected this prudent macroeconomic policy to continue in 2012. It pointed out that the 2012 draft budget includes the possibility of sharp tax increases, including a jump in the VAT rate to 12% from 10%. It indicated that Lebanon can afford this increase, which would help address structural fiscal deficits, as the VAT has proven to be a very efficient tax collection channel. It projected Lebanon's fiscal deficit to narrow to 7% of GDP in 2012 relative to an estimated deficit of 7.5% of GDP in 2011. It also expected Lebanon's current account deficit to decrease to 16% of GDP relative to an estimated deficit of 17.5% of GDP last year.



Lebanon's CDS spreads widen by 4% in fourth quarter

Figures released by CDS and bond pricing firm CMA Datavision show that spreads on 5-year credit default swaps (CDS) for Lebanon ended the fourth quarter of 2011 at 447.5 basis points, widening by 17.8bps from 429.7bps at the end of the third quarter, 96.5bps from 351bps at the end of the second quarter and by 99.8bps from 347.7bps at the end of the first quarter of 2011. As such, Lebanon's 5-year CDS spreads widened by 149.4 bps in 2011 compared to 28.5bps in 2010. Lebanon's CDS spreads widened particularly during the first and second quarter of 2011 due to the deterioration of political conditions in the country as well as to the turmoil across the Middle East & North Africa. The firm said that Lebanon's CDS spreads widened by just 4.1% in the fourth quarter, compared to the worst performers during the quarter such as Greece that posted a widening of 56.8%, followed by Slovenia with 46.3%, Egypt with 34.7%, Slovakia with 23.8% and Sweden with 22%.

Further, CMA Datavision indicated that Lebanon ended the fourth quarter of 2011 with a five-year cumulative probability of default (CPD) of 27.6%, deteriorating from 26.6% at the end of the third quarter, 22.2% at the end of the second quarter and 21.9% at the end of the first quarter of 2011. It said the CPD quantifies the probability of an issuer being unable to honor its debt obligations over a given time period. It added that the CPD is a function of the market's recovery level, which varies according to several factors and distance to default. It calculates the CPD using an industry standard model and proprietary credit data.

Lebanon's CPD at end-December shows that Lebanese debt was less risky than 14 other sovereigns such as Dubai (28%), India (30.2%), Italy (34.9%), Egypt (36.3%), Ukraine (45.5%), Portugal (60.8%), and Greece (93.8%). Norway, the U.S. and Finland had the lowest CPDs among the 68 sovereigns covered in the survey, with rates of 3.9%, 4.3% and 5.9%, respectively.

Further, the firm maintained Lebanon's rating at 'CMA_bb' in the fourth quarter of 2011, which is based on its proprietary CMA Implied Ratings methodology. It also maintained the ratings of Turkey, Tunisia, Israel, Saudi Arabia, Abu Dhabi and Qatar in the region, while it downgraded the ratings of Egypt, Bahrain, Morocco and Iraq. It only upgraded the ratings of Dubai in the region during the fourth quarter.

Net public debt at \$46bn at end-November 2011

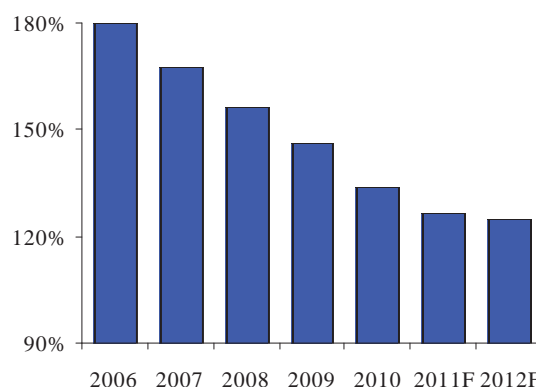
Lebanon's gross public debt reached \$54.1bn at the end of November 2011, up 2.8% from the end of 2010, and constituting an increase of 4.4% from end-November 2010. Domestic debt reached \$33bn at end-November, up by 6.8% annually and by 3% from end-2010, while external debt stood at \$21.1bn, up by 0.9% year-on-year and up by 2.4% from end-2010. Local currency debt accounted for 61% of gross public debt at end-November 2011 compared to 59.7% a year earlier, while foreign currency-denominated debt represented 39% of the total at the end of November relative to 40.3% a year earlier. The weighted interest rate on outstanding Treasury bills was 6.84%, while the weighted interest rate on Eurobonds was 7% at the end of November. Further, the weighted life on Eurobonds was 5.74 years, while that on Treasury bills was 941 days.

Commercial banks accounted for 51.4% of the local public debt at the end of November 2011 compared to 57.6% a year earlier. They were followed by the Central Bank with 32.9%, up from 23.8% at end-November 2010; while public agencies, financial institutions and the general public accounted for 15.7% of local debt, compared to 16.8% in November 2010. Eurobond holders, foreign private sector loans and special T-bills in foreign currencies accounted for 87.4% of the external debt, followed by multilateral institutions with 6.7%, foreign governments with 4.7%, and Paris II loans with 1.1%. Net public debt, which excludes the public sector's deposits at the Central Bank and at commercial banks from overall debt figures, increased annually by 2.4% to \$46.1bn. In parallel, the gross market debt accounted for about 63% of total public debt. Gross market debt is the total public debt less the portfolios of the Central Bank, the National Social Security Fund, bilateral and multilateral loans, as well as Paris II and Paris III related debt.

Launch of net-metering system

Electricité du Liban announced the launch of the net-metering system in Lebanon. It said that net metering would link both the flow of electricity from residential, commercial and industrial customers that generate their own renewable electricity to the grid, and the electricity from the grid to the customer through a single bi-directional meter. It added that net metering is a low-cost and easily administered system of promoting direct customer investment and involvement in renewable energy production. The implementation of net-metering is part of the Policy Paper of the Electricity Sector adopted by the Council of Ministers in June 2010 as well as the National Energy Efficiency Action Plan for Lebanon adopted by the Cabinet in November 2011. The net-metering system is expected to help generate between 50 Megawatts to 100 Megawatts of renewable energy capacity in Lebanon in the next 5 years.

Total Government Debt (% of GDP)



Source: International Monetary Fund

Fiscal deficit down 40% to \$1.5bn in first 10 months of 2011 when assuming \$1.2bn in telecom revenues

Figures released by the Finance Ministry show that the fiscal deficit reached \$1.5bn in the first 10 months of 2011, down 39.7% from \$2.5bn in the same period of the previous year. The deficit was equivalent to 16.2% of total budget and Treasury expenditures compared to 26.6% of overall spending in the same period of 2010. Overall government expenditures reached \$9.37bn, down 0.6% year-on-year, while total revenues increased by 13.6% to \$7.85bn. Budgetary expenditures rose by 3.7% to \$8.8bn and included \$1.43bn in transfers to Electricité du Liban and \$608m in outlays from previous years, while budget revenues rose by 14% to \$7.5bn. Tax revenues contracted by 1.6% year-on-year to \$5.64bn, of which 34%, or \$1.9bn, were in VAT receipts that grew by 2.7% from the same period of the previous year. Tax revenues accounted for 75.5% of budgetary revenues and for 71.8% of total Treasury and budget receipts. The narrowing of the deficit and the increase in revenues is due to the inclusion of \$1.22bn in telecommunications receipts in budget revenues. The figure is based on the Telecommunications Ministry's assumption that telecom receipts would total \$1.22bn in the first 10 months of the year, rather than on the Treasury actually receiving the funds from the Telecom Ministry. On a cash basis, public revenues decline by 4% and the fiscal deficit widens by 9% to \$2.7bn and 29% of expenditures.

The distribution of other tax revenues shows that customs revenues declined by 23% year-on-year to \$1.2bn; income, profits & capital gains tax receipts grew by 17.7% to \$1.46bn, revenues from property taxes increased by 1% to \$600m, and other tax receipts, mainly stamp fees, grew by 0.3% to \$257m. Further, the distribution of income tax revenues shows that taxes on profits accounted for 44.4% of total income tax receipts, followed by the tax on interest deposits with 24.8%, taxes on wages & salaries with 19.3%, and capital gains tax with 10.2%. Revenues from taxes on profits increased by 26.6% year-on-year, income from capital gains taxes grew by 19.4%, tax receipts on wages & salaries improved by 15.3%, 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 3.7% to \$447m, receipts from built property taxes decreased by 12.4% to \$76m, and revenues from inheritance tax grew by 76% to \$77.5m. In parallel, non-tax budgetary revenues rose by 125% to \$1.83bn, with revenues from government properties increasing by 212% to \$1.5bn and administrative fees & charges growing by 2.6% to \$284m. Based on the ministry's assumption, receipts from telecommunications services, which account for 83% of income from government properties and for 66.8% of non-tax revenues, jumped by 455% to \$1.22bn in the first 10 months of 2011.

Debt servicing decreased by 4.1% year-on-year to \$3.2bn, and accounted for 33.7% of total expenditures and for 36% of budgetary spending. It absorbed 40% of overall revenues and 42.2% of budgetary receipts. Interest payment on domestic debt declined by 5.8% to \$2bn, while interest disbursement on foreign debt contracted by 1% to \$1.2bn. Repayment of principal on foreign debt increased by 6.4% to \$191.3m. Excluding debt servicing, the primary budget balance posted a surplus of \$2bn, or 23% of budget expenditures compared to a surplus of \$1.5bn, or 18% of budget spending in the same period last year. The overall primary balance posted a surplus of \$1.55bn, or 19.5% of spending, relative to a surplus of \$956m or 10.2% of total expenditures in the first 10 months of 2010.

Fiscal Results in First 10 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	7,464	14.1%	6,245	-4.5%
Tax revenues	5,638	-1.6%	5,638	-1.6%
Non-tax revenues	1,826	125.1%	607	-25.1%
<i>of which Telecom revenues</i>	1,219	455.1%	-	-
Budget expenditures	8,788	3.7%	8,788	3.7%
Budget Deficit	(1,323)	-31.6%	(2,542)	31.4%
<i>In % of budget expenditures</i>	<i>(15.1%)</i>		<i>(28.9%)</i>	
Budget Primary Surplus	2,020		801	-47.7%
<i>In % of budget expenditures</i>	<i>23%</i>		<i>9.1%</i>	
Treasury receipts	388	5.1%	388	5.1%
Treasury expenditures	578	-38.7%	578	-38.7%
Total Revenues	7,853	13.6%	6,634	-4%
Total Expenditures	9,366	-0.6%	9,366	-0.6%
Total Deficit	(1,514)	-39.7%	(2,733)	8.9%
<i>In % of total expenditures</i>	<i>(16.2%)</i>		<i>(29.7%)</i>	
Total Primary Surplus	1,830	19.5%	611	-36.6%
<i>In % of total expenditures</i>	<i>19.5%</i>		<i>6.5%</i>	

* Cash basis

Source: Ministry of Finance, Byblos Research

Economic activity continues to stagnate in October

The Central Bank's Coincident Indicator, an index of economic activity in Lebanon, reached 259.5 points in October 2011 compared to 248.1 points in September 2011 and to 248 in October 2010. The Coincident Indicator, an average of 8 weighted economic indicators, increased by 4.6% month-on-month in October and rose by 4.6% year-on-year. The indicator averaged 255.4 in the 12-months ending October 2011 compared to 254.4 in the 12-months ending September 2011 and to 246.2 in the 12-months ending October 2010. As a result, the average coincident indicator grew marginally by 0.4% month-on-month and rose by 3.7% year-on-year, which reflects economic stagnation in real terms. The indicator posted its sixth increase this year, as it grew by 4% in March, 6.7% in April, 1.3% in June and 4.8% in September. The indicator reached an all-time high of 269.9 in April 2011 after peaking at 266.7 in November 2010. In parallel, the indicator improved 16 times and regressed two times in the month of October since 1993. The indicator averaged 249.5 in 2010 and 225.9 in 2009.

Trade deficit up 12% to \$18.5bn in first 11 months of 2011, volume of non-hydrocarbon imports down 5%

Total imports reached \$18.5bn in the first 11 months of 2011 constituting an increase of 12% from the same period last year, while aggregate exports rose by 4.3% to \$3.9bn, leading to a trade deficit of \$14.56bn, up 14.4% year-on-year. This trade deficit constituted the highest deficit in five years in both value and volume terms and was prompted by a rise of \$2bn in imports from the same period of the previous year despite an increase of \$159m in exports. Imports of oil and mineral fuels increased by 21% year-on-year to \$4.2bn, and non-hydrocarbon imports grew by 9.8% to \$14.3bn. In volume terms, imports reached 14 million tons in the first 11 months of 2011, constituting a marginal increase of 0.2% from the same period in 2010; while exports posted an 11% drop to 2.5 million tons in the covered period, leading to a trade deficit of 11.5 million tons, up 3% year-on-year. Imports of oil and mineral fuels decreased by 7% year-on-year to 5.2 million tons, while non-hydrocarbon imports dropped by 5% annually to 8.3 million tons. The trade deficit was \$1.2bn in November 2011, down 18% from the same month of the previous year. Imports averaged \$1.7bn and exports averaged \$357 on a monthly basis year-to-November, resulting in an average monthly trade deficit of \$1.3bn during the covered period. The coverage ratio reached 21.3% in the first 11 months of 2011 compared to 22.8% in the same period in 2010, while it reached 22% in November 2011 relative to 17.5% in November of the previous year.

The United States was the main source of imports with \$1.9bn or 10.3% of the total, followed by Italy with \$1.7bn (9%), China with \$1.5bn (8%), France with \$1.4bn (7.5%), and Germany with \$1bn (5.6%). Imports from Italy rose by 32% year-on-year, from France by 26% and from the U.S. by 9%; while imports from Germany decreased by 11%, and those from China by 1% during the covered period. Switzerland was the main export destination with \$468m or 12% of the total, followed by the UAE with \$294m (7.5%), Saudi Arabia with \$280m (7%), Turkey with \$257m (6.5%), Syria with \$189m (4.8%) and Iraq with \$185m (4.7%). Exports to Saudi Arabia rose by 24%, they increased by 22% to Turkey and grew by 2% to Switzerland; while exports to Iraq dropped by 24%, they regressed by 23% to the UAE and contracted by 7% to Syria. Lebanon's main export was jewelry at \$1.4bn or 35% of the total, followed by base metals with \$493m (13%), machinery & mechanical appliances with \$478m (12%), prepared foodstuff with \$338m (9%) and chemical products with \$351m (9%). Re-exports totaled \$539m in the first 11 months of 2011, compared to \$137m in the same period of the previous year.

Treasury transfers to Electricité du Liban up 41% in first 10 months of 2011

Figures released by the Finance Ministry show that Treasury transfers to the money-losing state-owned utility Electricité du Liban (EdL) totaled \$1.43bn in the first 10 months of 2011, constituting an increase of 41% from the same period last year. The ministry said that reimbursements to the Kuwait Petroleum Corporation (KPC) and to Algerian energy conglomerate Sonatrach accounted for \$1.3bn, or 93% of transfers in the covered period; reimbursements to the Egyptian Natural Gas Holding Company (Egas) accounted for \$36.4m or 2.6% of transfers; while EdL's debt servicing represented \$63.4m or 4.4% of the total. The ministry attributed the increase in transfers to a \$377m rise in payments for fuel and gas oil purchases and to a \$36.4m in payments for natural gas to Egas. It said that payments for fuel and gas oil purchases posted a 40% increase in the first 10 months of the year, reflecting a 27% rise in average oil prices according to which the payments were made, as well as a 14% rise in the volume of gas oil supplied by KPC and Sonatrach. It indicated that EdL contributed just 6.4% of the total oil bill in the first 10 months of the year compared to 11.4% in the same period of the previous year. The ministry noted that EdL's financial contribution in the covered period is in line with that of 2009, which represented 7% of the total bill. EdL transfers accounted for 23.7% of primary expenditures in the first 10 months of 2011, constituting the second highest share of primary spending in the last five years after the peak in 2008, and relative to 17% in 2010. EdL transfers constitute the third largest expenditures item after debt servicing and salaries & wages in overall fiscal spending. Transfers to EdL were equivalent to 3% of GDP in 2010 compared to 4.3% of GDP in 2009 and to 5.4% of GDP in 2008.

Grant of \$1.5m to improve satellite imagery

The Ministry of Finance signed a \$1.5m grant agreement with the World Bank and the Global Environment Facility to finance the construction of a ground station at the National Council for Scientific Research in order to receive daily satellite images from U.S. satellites. The ministry indicated that the project will provide a mechanism to monitor Lebanon's daily groundwater, earth temperature and fires. It added that the analysis of the satellite images will also allow the monitoring of drought resulting from climate change and its impact on Lebanon's water resources and agricultural investments. The National Council for Scientific Research will implement the four-year project, and the data will be available for the ministries of energy, water, agriculture, and environment.

Comprehensive healthcare coverage to be introduced before end of 2012

The Ministry of Health announced that it will implement a comprehensive healthcare coverage plan before the end of 2012. It said the plan aims to provide healthcare coverage at affordable cost for uninsured Lebanese citizens who have been residing in Lebanon for at least one year. It estimated the cost of the plan at \$1.3bn, adding that will be financed through health-related taxes such as taxes on tobacco, alcohol and goods that cause harm to health, as well as from other taxes such as taxes on real estate profits and taxes levied on interest bank deposits. It added that the ministry is considering imposing taxes on obligatory car insurance, which would generate additional financing of \$70m. It noted that the government will also contribute to the funding of the plan. In parallel, the ministry pointed out that people eligible for the plan will only have to pay a contribution to benefit from the healthcare coverage. It said that the poorest citizens, who account for around 375,000 citizens and the physically disabled citizens who total around 100,000 will automatically receive full coverage without any contribution or payments in return. It added that the remaining uninsured Lebanese, who number around 1.5 million citizens, would pay an annual fee of \$65 per person or \$200 per family.

Libya lifts trade and economic embargo on Lebanon

The Libyan government lifted its trade and economic embargo on Lebanon that was imposed by the regime of Muammar Gaddafi. It said that it will have normal trade relations and economic cooperation with Lebanon. The embargo had prevented companies in both countries from engaging in trade transactions as well as Lebanese companies from registering in Libya. Lebanon's exports to Libya totaled \$9.7m and accounted for 0.2% of Lebanese exports in 2010. Its exports to Libya totaled \$10.9m in 2009, \$11.1m in 2008 and \$4.2m in 2007. Lebanon imported \$51.7m worth of goods from Libya in 2010, representing 0.3% of Lebanese aggregate imports for the year. Its imports from Libya totaled \$26.1m in 2009, \$38m in 2008 and \$26.9m in 2007.

Governor Salameh is Best Central Bank Governor in the Middle East

The Banker magazine awarded Central Bank Governor Riad Salameh its prize of Best Central Bank Governor in the Middle East for 2012, constituting the third time he receives the award after 2008 and 2009. The magazine said it selected Governor Salameh in appreciation of his excellent financial and monetary performance that helped the country overcome major financial and regional crisis. Governor Salameh has received numerous awards in recognition of his achievements that include Best Central Bank Governor in the World in 2006 and, for three consecutive years, best Central Bank Governor in the Middle East from *Euromoney* magazine.

Lebanon represented in list of top 50 Arab billionaires

Arabian Business magazine's annual survey of the Arab world's top 50 billionaires for 2011 included five persons from Lebanon on its list. The survey ranked former Prime Minister Saad Hariri in 28th place, down one spot from 27th place in the previous year, with an estimated fortune of \$3.8bn relative to \$3.7bn in 2010. It said he is the head of Saudi Oger, the family's \$9bn construction company and holds large stakes in the company as well as in a number of large firms. He is followed by Mr. Bahaa Hariri in 32nd place, up seven places from the previous survey, with an estimated fortune of \$3.35bn compared to \$3bn in 2010. The survey said he derives the bulk of his fortune from investment management, and is also involved in real estate development and logistics. Also, Mr. Ayman Hariri ranked in 36th place, up from 44th place in 2010, with an estimated fortune of \$3.15bn relative to \$2.41bn in the previous year. The magazine indicated that he is involved in technology, construction and industry. It noted that he is the deputy general manager and a board member of Saudi Oger and is handling the construction and facilities management for some of Saudi Arabia's most important projects. Further, *Arabian Business* ranked Nayla and Nick Hayek in 38th place with a combined fortune of \$3.1bn. The magazine said that the two members of the Hayek family, who are newcomers to the list, run the Swatch Group, the world's largest watch-making company.

The aggregate fortunes of the five Lebanese on the list reached \$13.4bn and accounted for 5.2% of the total net worth of the top 50. Saudi Prince Al-Waleed bin Talal topped the list with \$21.3bn, up \$0.9bn from 2010. The survey estimated the aggregate wealth of the 50 wealthiest Arab families or individuals at \$257bn, up nearly 5% from the previous year.

Customs receipts down 22% to \$1.4bn in first 11 months of 2011

Figures released by the Customs Directorate indicated that customs revenues reached \$1.4bn in the first 11 months of 2011, constituting a decline of 22% from \$1.8bn in the same period of the previous year. Customs revenues totaled \$122.7m in November 2011, down by 7% from the previous month and by 20% from \$153.2m in November 2010. The Port of Beirut continues to be the main point of customs receipts, as it accounted for 86.8% of the total during the first 11 months of the year, and was followed by the Hariri International Airport with 7%, the Port of Tripoli with 3%, the Masnaa crossing point with 2.3%, and the crossing point of Abboudieh by 0.5%. Customs receipts from the value-added tax totaled \$1.4bn year-to-November, constituting a marginal decrease of 0.5% from the same period last year. The Port of Beirut accounted for 75.3% of such receipts, and was followed by the Hariri International Airport with 9%, the Port of Tripoli with 7%, the Masnaa crossing point with 6%, and the Port of Saida with 2.5% of the total. As such, overall customs receipts reached \$2.8bn year-to-November, with the Port of Beirut accounting for 81% of the total, and was followed by the Hariri International Airport with 8%, the Port of Tripoli with 5%, and the Masnaa crossing point with 4%. In addition, other entry points represented the balance, with the port of Saida accounting for 1.4%, the crossing point of Abboudieh for 0.4%, and the port of Tyre for 0.2%. They reached \$294.4m in November 2011 when including revenues from the value-added tax that totaled \$126.7m in the same period.



Byblos Bank has potential to generate additional value

FFA Private Bank maintained its assessment of the shares of Byblos Bank sal at "Market Weight" and estimated the fair value of the common share price over the near term at \$1.75, which corresponds to a 9% upside from its January 13 closing price. It said Byblos Bank is well-positioned in its domestic market and has solid fundamentals, as reflected by its sustained earnings generation, sizeable liquidity buffers, solid capitalization, and superior asset quality metrics such as a well-contained NPLs ratio and superior coverage, all of which validate management's prudent approach. It considered that Byblos shares have the potential to generate additional value, including through expansion or an acquisition. It expected Byblos Bank to maintain its conservative approach to domestic and regional growth, and to continue looking for interesting acquisition opportunities in order to enter new markets or to grow certain segments, while also cautiously rolling out branches in existing markets.

In parallel, FFA said that Byblos Bank's main strategic objective is to strengthen its capital base to comfortably meet regulators' requirements. It added that the Bank has high levels of capitalization as reflected by a Tier One capital ratio of 13.4% and a capital adequacy ratio of about 14% at end-June 2011, which allows it flexibility to capitalize on any attractive acquisition opportunities. It noted that Byblos Bank has the highest capital adequacy ratio among the top 3 Lebanese banks, compared to 13.2% and 11.3% for BLOM Bank and Bank Audi, respectively. FFA noted that management has been adopting a liquidity accumulation strategy in the wake of softer economic conditions and regional developments in order to assess the increased geopolitical risks and reevaluate attractive investment avenues. It added that Byblos Bank has a high liquidity level, as reflected by a loans-to-deposits ratio of 31.2% and an immediate liquidity ratio of 48.6% as at end-September 2011.

FFA indicated that another pillar of Byblos Bank's strategy is to strengthen private banking and the Bank's potential to benefit from cross-selling opportunities with its wide retail and corporate client base. It expected the Bank's net profits to grow by 9% in 2012 on the back of continued balance sheet growth, relatively stable interest margins, continued fees and commissions' generation, gradual improvement in cost efficiencies, and stable provisioning levels.

Byblos Bank Armenia receives loan to support micro- and small enterprises

The European Fund for Southeast Europe (EFSE), a microfinance investment fund, announced that it has extended a \$5.3m loan to Byblos Bank Armenia. The loan, which includes a \$3m portion in US dollars and the equivalent of \$2.3m in Armenian drams, aims to support lending to low-income households and micro- and small enterprises in Armenia. Byblos Bank is one the largest Lebanese investors in Armenia and is the first Lebanese bank to establish a direct presence in the country with its acquisition of a 100% stake in the Yerevan-based International Trade Bank in 2007. Byblos Bank Armenia operates as an independent subsidiary of the Byblos Bank Group and mainly focuses on commercial and retail activities, as well as serves the needs of the Armenian Diaspora. Byblos Bank Armenia had total asset of AMD36bn, equivalent to \$93.5m, at the end of September 2011; while its net profit reached AMD330m, equivalent to \$855,000 in the first 9 months of the year. 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. Established in 2005, the EFSE aims to foster economic development in southeastern Europe and parts of Central Asia by supporting the provision of financial services to micro- and small enterprises and to low-income households in these regions through local financial institutions. The fund is supported by the European Commission and the German Federal Ministry for Economic Cooperation and Development.

Kafalat loan guarantees down 2.6% year-on-year to \$165m in 2011

Figures released by the Kafalat Corporation show that loans extended to small- and medium-sized companies under the guarantee of Kafalat reached \$165m in 2011, down 2.6% from \$169.4m in 2010. The number of loan guarantees totaled 1,272 in 2011 compared to 1,404 in 2010. The average loan size reached \$129,720 compared to \$120,640 in 2010. Mount Lebanon accounted for 41.2% of guarantees, followed by the South & Nabatieh with 19.2%, the Bekaa with 17.9%, the North with 15.6%, and Beirut with 6.1%. Agriculture accounted for 41% of total guarantees, followed by the industrial sector with 38.2%, tourism with 17%, handicraft with 2.3%, and specialized technologies with 1.7%. Kafalat is a state-sponsored organization that provides financial guarantees for loans up to \$400,000 earmarked for the set up and expansion of small and medium-sized companies in productive sectors. It guarantees up to 75% of the loan amount and a similar percentage of the interest that accrues during the grace period.

Fitch affirms Allianz ratings at 'AA-', outlook stable

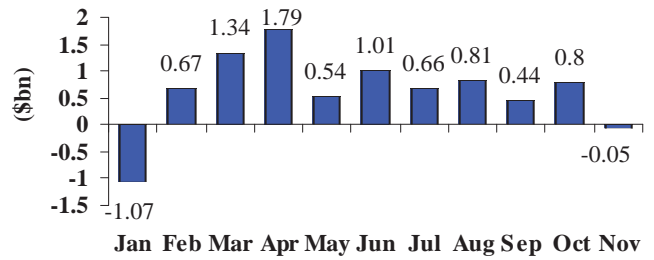
Fitch Ratings affirmed Germany-based insurance group Allianz SE's Insurer Financial Strength (IFS) rating and Long-term Issuer Default Rating (IDR) at 'AA-', with a 'stable' outlook. It also affirmed the IFS ratings of the main Allianz subsidiaries at 'AA'. The group fully owns Allianz-SNA, one of Lebanon's largest insurance firms. The agency attributed its decision to the group's strong technical profitability, strong consolidated group capital position, broad diversification by geography and by product, and solid business position in its key markets. It added that the group's ratings benefit from an investment mix of sound credit quality. It noted that the group's supportive rating factors are partly offset by the currently reduced technical profitability in the non-life business segment, due in part to claims from severe weather-related events and natural catastrophes in 2010 and 2011. Fitch expected Allianz's sound underwriting profitability from the non-life business to help it offset earnings from life insurance and investments that are likely to be under pressure in 2012. The group is active in both the non-life and life segments as well as in asset management. Allianz SNA generated in the Lebanese market total premiums of \$94.8m in 2010 that include \$40.8m in life premiums and \$54m in non-life premiums. It ranked in second and sixth place in the Lebanese market in terms of life and non-life premiums, respectively, in 2010.

Commercial banks' assets reach \$139bn at end-November 2011

The consolidated balance sheet of commercial banks operating in Lebanon shows that total assets reached \$139.4bn at the end of November 2011, constituting an increase of 8.2% from end-2010 and a rise of 9.3% from end-November 2010. Private sector deposits totaled \$114.1bn, increasing by 6.5% from end-2010 and rising by 8.7% from a year earlier. Deposits in Lebanese pounds reached \$39.1bn, down 0.9% from end-2010 and up 0.2% year-on-year, while deposits in foreign currencies totaled \$75.1bn and rose by 10.8% from the end of last year and by 13.7% from end-November 2010. Non-resident foreign currency deposits totaled \$17.9bn at end-November 2011, up by 14.6% from end-2010 and by 20% year-on-year. Total private sector deposits decreased by \$1.1bn in January, and rose by \$673m in February, \$1.34bn in March, \$1.79bn in April, \$539m in May, \$1bn in June, \$656m in July, \$813m in August, \$440m in September, \$798m in October and declined by \$45m in November 2011. In parallel, deposits of non-resident banks reached \$6.5bn, an increase of 44.8% from end-2010 and of 26.7% year-on-year. The dollarization rate of deposits reached 65.8% at the end of November relative to 63.2% at end-2010 and 62.9% at end-November 2010. Further, the average deposit rate in Lebanese pounds reached 5.59% in November, down from 5.68% a year earlier, while the same rate in US dollars was 2.84% compared to 2.8% in November 2010.

Loans to the private sector totaled \$39.6bn at end-November, constituting an increase of 13.4% from end-2010 and up 13.41% year-on-year. Lending to the non-resident private sector reached \$5.8bn and rose by 24.8% from end-2010. The dollarization rate in private sector lending reached 78.8%, down from 80.3% at end-2010 and compared to 80.7% a year earlier. The average lending rate in Lebanese pounds was 7.31% in November 2011 compared to 7.98% a year earlier, while the same average in US dollars was 6.99% compared to 6.96% in November 2010. In addition, claims on non-resident banks reached \$13.4bn at end-November, posting a decrease of 15.4% from end-2010. Claims on the public sector stood at \$29.5bn, up 2.6% year-on-year and 0.6% from end-2010, and accounted for 42.7% of the banking sector's total claims. The ratio of private sector loans to deposits in foreign currencies stood at 41.5%, well below the Central Bank's limit of 70%, and below the ratio of 42.7% a year earlier. In parallel, the same ratio in Lebanese pounds was 21.5%, up from 17.2% a year earlier. The ratio of total private sector loans to deposits was 34.7% compared to 33.3% a year earlier. The banks' aggregate capital base stood at \$10.5bn, up by 14% from end-2010 and 15.6% from \$9.1bn in November 2010.

Private sector deposit change in first 11 months of 2011



Source: Association of Banks in Lebanon

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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