

## LEBANON THIS WEEK

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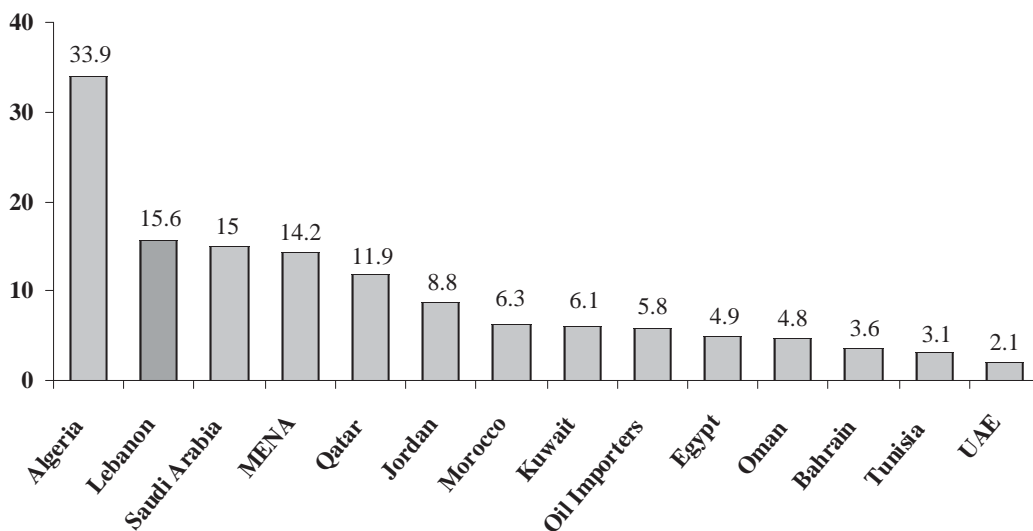
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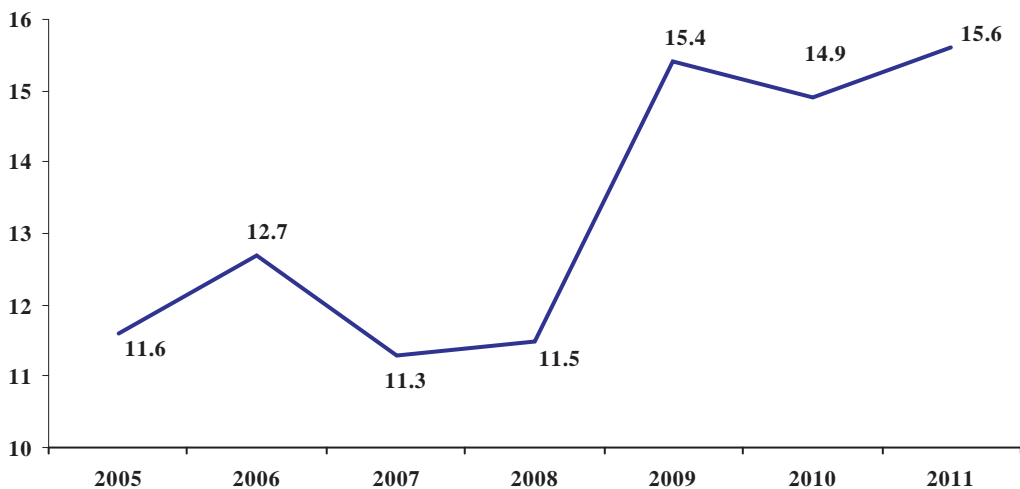
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### Charts of the Week

Foreign Currency Reserves at Arab Central Banks at end-2011 (in months of import cover)



Foreign Currency Reserves at the Central Bank of Lebanon (in months of import cover)



Source: HSBC Bank, Byblos Bank

### Quote to Note

"The narrow political and personal interests of most politicians constitute an obstacle to the proper functioning of the government."

*H.E. President Michel Suleiman, on a key problem facing the Lebanese government*

### Number of the Week

**71:** Lebanon's rank out of 179 countries in the level of trade freedom, according to the 2012 Heritage Foundation/*Wall Street Journal* Index of Economic Freedom

## Economic Indicators

<b>\$m</b> (unless otherwise mentioned)	<b>2009</b>	<b>Oct 10</b>	<b>2010</b>	<b>Aug 11</b>	<b>Sep 11</b>	<b>Oct 11</b>	<b>% Change*</b>
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

<b>\$bn</b> (unless otherwise mentioned)	<b>Dec 2009</b>	<b>Oct 10</b>	<b>July 11</b>	<b>Aug 11</b>	<b>Sep 11</b>	<b>Oct 11</b>	<b>% Change*</b>
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

<b>Most Traded Stocks on BSE</b>	<b>Last Price (\$)</b>	<b>% Change*</b>	<b>Total Volume</b>	<b>Weight in Market Capitalization</b>
Solidere "A"	14.27	(0.14)	31,086	13.98%
Solidere "B"	14.03	(1.61)	10,250	8.94%
Byblos Common	1.60	(0.62)	720,166	5.64%
Byblos Pref. 08	101.50	0.00	0	1.99%
Byblos Pref. 09	101.50	0.00	0	1.99%
BLOM GDR	7.38	1.10	34,700	5.34%
BLOM Listed	7.39	(0.40)	40,500	15.57%
Audi GDR	5.90	(1.01)	2,000	5.79%
Audi Listed	5.70	(0.18)	30,340	19.52%
HOLCIM	16.60	0.00	0	3.17%

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

<b>Sovereign Eurobonds</b>	<b>Coupon %</b>	<b>Mid Price \$</b>	<b>Mid Yield %</b>
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

	<b>January 16-20</b>	<b>January 9-13</b>	<b>% Change</b>	<b>December 2011</b>	<b>December 2010</b>	<b>% Change</b>
<b>Total Shares Traded</b>	876,872	2,483,565	(64.69)	9,690,264	3,399,412	185.06
<b>Total Value Traded</b>	\$2,672,446	\$15,227,608	(82.45)	\$34,334,710	\$33,080,487	3.79
<b>Market Capitalization</b>	\$10.21bn	\$10.24bn	(0.31)	\$10.29bn	\$12.68bn	(18.86)

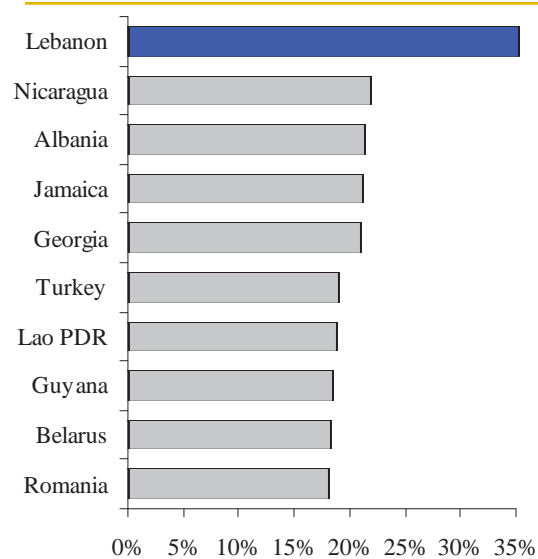
Source: Beirut Stock Exchange (BSE)



### Lebanon has highest external financing needs among developing economies in 2012

The World Bank estimated Lebanon's external financing needs at 35.1% of GDP in 2012, constituting the highest external funding requirements among developing countries this year. It defined external financing needs as the scheduled payments on short- and longer-term debt to private creditors, plus the current account deficit relative to GDP in 2011 times the projected nominal GDP for 2012. It expected Lebanon to post the highest current account deficit this year among developing economies and the third highest level of debt repayment in the developing world. It forecast Lebanon's current account deficit at 20.6% of GDP, distantly followed by Nicaragua at 16.3% of GDP and Lao at 14% of GDP. It also estimated Lebanon's debt payments at 14.5% of GDP in 2012, behind only Bulgaria at 18.6% of GDP and Latvia at 17.2% of GDP. It said that Lebanon was one of only 27 developing countries that had fiscal deficits in excess of 5% of GDP in 2011, and one of just 14 developing economies with a gross debt level in excess of 75% of GDP last year. But it noted that Lebanon, along with Egypt and Eritrea, are the only three developing countries that posted both a fiscal deficit above 5% of GDP and a gross debt level that exceeded 75% of GDP in 2011. It warned that countries with high-levels of indebtedness would be particularly vulnerable to a tightening of international credit conditions this year. It said that Lebanon could be exposed to this channel because of its relatively high external financing needs, especially its high level of short- and maturing long-term debt. Nicaragua and Albania have the second and third highest levels of external financing needs this year at 22% of GDP and 21.3% of GDP, respectively. Regionally, Jordan's external financing needs are equivalent to 12.5% of GDP and those of Tunisia at 10.2% of GDP.

Countries with Largest External Financing Needs in 2012 (% of GDP)



Source: World Bank, Byblos Research

### Real GDP growth projected at 3.8% in 2012, third highest in MENA region

The World Bank projected economic growth in Lebanon at 3.8% in 2012, compared to growth of 2.5% for the global economy, 5.4% in developing countries, 3.2% in the Middle East & North Africa, 2.5% for the MENA region's oil-importing countries, and 3.4% for countries in the region with poor resources and abundant labor. Lebanon's projected growth rate for 2012 would make it the third fastest growing economy in the MENA region behind Iraq with growth of 12.6% and Morocco with 4%. Further, the World Bank forecast Lebanon's current account deficit at 17.2% of GDP in 2012 relative to 20.6% of GDP last year, highest in the region, and compared to a surplus of 2.2% of GDP for the region this year. The Bank said Arab oil importers with links to the European Union will feel the impact of slower European and global growth, mainly through trade in goods remittances. It added that oil importers with GCC links such as Lebanon and Jordan will be more shielded, but will still feel indirect effects from lower activity in the GCC.

In parallel, the World Bank estimated economic growth in Lebanon at 3% in 2011, down from 7% in 2010 and compared to growth of 2.4% in the Middle East & North Africa and 1.8% for countries in the region with poor resources and abundant labor. Lebanon was the third fastest growing economy in the MENA region in 2011, tying with Algeria and coming behind Iraq with 9.6% and Morocco with 4.3%. It also estimated Lebanon's fiscal deficit at 5.5% of GDP in 2011, relative to a deficit of 7.3% of GDP for net oil importers in the region. It said that Lebanon's current account deficit stood at 20.6% of GDP in 2011, up from 19.7% of GDP in 2010 and compared to a surplus of 3.7% of GDP for the region. Also, the World Bank estimated Lebanon's foreign currency reserves at 18.6 months of imports in 2011 compared to 8.4 months of imports for the region's net oil importers, constituting the third highest level in the region behind Algeria with 38 months of imports and Saudi Arabia with 27.3 months of imports.

### Government launches Litani Project

The government launched the Litani River Project that aims to provide potable water for around 340,000 residents and irrigate about 15,000 hectares of agricultural land in Southern Lebanon. The Litani Project will be implemented in two phases. The first phase consists of channeling around 110 million cubic meters of water annually from the Qaraoun Dam in the Bekaa to the south of the country, and the second phase consists of building an irrigation network and water treatment plants for agricultural land. About 20 million cubic meters will be earmarked to potable water to around 100 Southern villages, and about 90 million cubic meters will be allocated for the irrigation of 14,700 hectares of agricultural land. The cost of the first phase is estimated at \$330m, of which 85% will come from the Arab Fund for Social & Economic Development and from the Kuwait Fund for Arab Economic Development. Also, the implementation of the first phase of the project is expected to start within weeks and to take five years for completion. The Council of Development & Reconstruction will start preparing this year the needed studies for the implementation of the second phase. The Litani Project is expected to contribute to the development of South Lebanon by increasing agricultural production and securing new job opportunities. The project was first announced 60 years ago, but its implementation has been repeatedly delayed. The Litani River Authority will be in charge of supervising and carrying out the project.

### Lebanon's external debt posts 16th highest returns in emerging markets, third best in the Middle East & Africa

Figures issued by Merrill Lynch indicate that Lebanon's external debt posted returns of 7.31% in 2011, constituting the fourth highest return among 28 markets in the Eastern Europe, the Middle East & Africa (EMEA) region as well as the 16th best return among the 51 emerging markets included in Merrill Lynch's Sovereign Plus Debt Index. Lebanon outperformed the EMEA region's returns of 1.74%, as well the overall emerging markets returns of 6.76% during the year. Also, Lebanon's external debt outperformed the 4.63% returns posted by similarly-rated sovereigns.

Further, Lebanon's external debt posted the third highest returns among 12 countries in the Middle East & Africa region in 2011, ahead of Ghana (5.1%), Gabon (4.46%), Bahrain (4.26%), Jordan (2.14%), Tunisia (1.9%), Morocco (1.53%), Senegal (-0.74%), Iraq (-3.75%) and Egypt (-13.3%). But it was outperformed by Nigeria with 11.9% and South Africa with 7.96%. In US dollar terms, Lebanon's external debt posted returns of 7.3% in 2011, coming in fourth place in the EMEA region and in 17th place among emerging markets.

In parallel, Lebanon's external debt posted returns of 0.52% in December, constituting the 17th highest return in the EMEA region and the 35th highest return in emerging markets during the covered month. It outperformed the EMEA returns of 0.45%, but underperformed the emerging markets returns of 1.37%, as well as the 1.27% returns of similarly-rated sovereigns for the same month. Regionally, it outperformed Nigeria (0.41%), Gabon (0.05%), Senegal (-0.27%), Ghana (-0.48%), and Egypt (-5.87%); but underperformed South Africa (1.96%), Bahrain (1.87%), Iraq (1.48%), Jordan (0.88%), Tunisia (0.81%), and Morocco (0.66%).

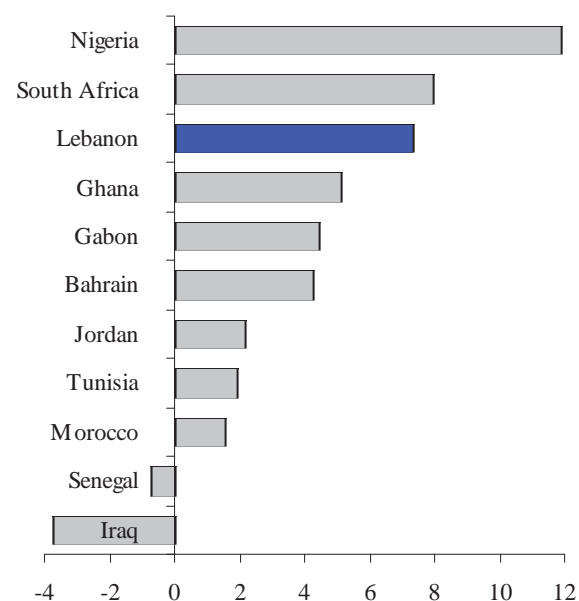
Merrill Lynch said the spread on Lebanese Eurobonds ended December 2011 at 383 basis points, constituting the ninth narrowest in the EMEA region and 20th narrowest among emerging markets. It was narrower than the EMEA spread of 482 basis points and the emerging markets overall spread of 427 basis points at end-December 2011.

Lebanon has a weight of 3.79% on Merrill Lynch's Sovereign Plus Debt Index, fourth highest in the EMEA universe behind Turkey (10.9%), Russia (8.34%) and Hungary (3.93%), and eighth highest among emerging markets. Lebanon accounted for 9.1% of the allocations in the EMEA region.

### FDI at \$4bn in 2011, equivalent to 9.6% of GDP

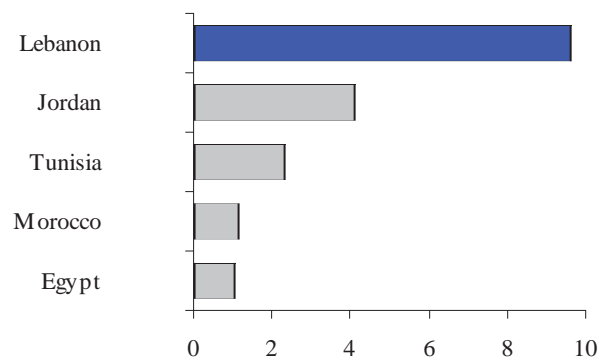
The World Bank estimated foreign direct investment (FDI) in Lebanon at \$3.96bn in 2011, constituting a decline of 20.5% from \$4.98bn in 2010, and compared to \$4.8bn in 2009. Total FDI to the Egypt, Lebanon, Tunisia, Morocco and Jordan regressed by 39.7% to \$9.56bn in 2011. FDI to Lebanon accounted for 41.4% of aggregate FDI to these countries last year, relative to 31.4% in 2010 and posted the largest share compared to the second highest share in 2010. Lebanon was followed by Egypt with a share of 23.2% in 2011, Jordan with 12.1%, Tunisia with 11.7% and Morocco with 11.4%. Further, FDI in Lebanon was equivalent to 9.6% of the country's GDP last year, compared to 12.7% of GDP in 2010, posting the highest level relative to GDP among the covered economies. It was followed by Jordan with 4.1% of GDP in 2011, Tunisia with 2.3% of GDP, Morocco with 1.1% of GDP and Egypt with 1% of GDP last year.

### External Debt Performance in the Middle East & Africa in 2011 (%)



Source: Merrill Lynch, Byblos Research

### FDI as % of GDP in 2011



Source: World Bank, Byblos Research

### **Regional tensions to affect investor sentiment**

HSBC Bank revised downwards its real GDP growth forecast for Lebanon to 2.3% in 2012 from an October estimate of 3.2%, and compared to growth of 3.5% for the Middle East, North Africa (MENA) economies, and 2.7% for the region's non-oil producers. It said that Lebanon's projected growth rate for 2012 would make it the slowest economy, along with Jordan, in the region. HSBC expected that uncertainty over the risks emanating from Syria, Iran and Israel to weigh on investor perceptions of Lebanon in 2012, and to add to an already difficult economic climate. It indicated that Lebanon narrowly avoided another government collapse in the fourth quarter of last year, but added that there are no signs that much-needed reforms will finally materialize in 2012. It said that the 2012 budget has stalled in Parliament, but noted that this is far from unusual as the government has been unable to agree on a budget since 2005. It estimated that the Finance Ministry may seek to push through some of the individual measures in the budget, such as raising VAT from 10% to 12% and increasing taxes on bank deposits, although it would be premature to factor these into budgetary revenues. It considered that the proposed measures could cause some short-term difficulties, particularly for the banking sector, given that Lebanese banks have had to cope with a slowdown in deposit growth, along with concerns over their large-scale investments in Syria. In parallel, it noted that the Cabinet agreed on the legislation to open up for tender Lebanon's recently discovered offshore oil and gas fields. It considered that if the legal issues over ownership of the reserves are resolved and if drilling begins as planned, the findings could significantly improve the country's trade balance.

In parallel, HSBC expected household consumption in Lebanon to grow by 3% in 2012, up from 2.7% in 2011. It said that Lebanon would post the seventh highest household consumption growth in the region, tying with Morocco, Jordan and Tunisia. Also, it expected Lebanon to post the second lowest nominal gross saving ratio, behind only Jordan in the region, at 5.6% of GDP this year, down from 6.3% of GDP last year and relative to 16% for non-oil producers in the region. It also projected Lebanon's total investment to grow by 2% in 2012, relative to a contraction of 2% in 2011, and to post the lowest growth rate in the region along with Egypt and Morocco. Further, it forecast the Central Bank's reserves to reach 15.4 months of imports in 2012, down marginally from 15.6 months of imports in 2011, and to post the third highest level in the region behind Algeria at 36.3 months of imports and Saudi Arabia at 17.5 months of imports.

### **Association of Banks amends reference rate on US dollar and maintains rate on Lebanese pound lending**

The Association of Banks in Lebanon (ABL) recommended to its member banks to increase the Beirut Reference Rate in US dollars to 4.72% in February 2012 from 4.68% currently. The rate, considered as the reference rate for lending in foreign currency, replaced in 2009 the London Inter-Bank Offering Rate (LIBOR) since the ABL considered that the LIBOR no longer accurately reflects the cost of funding and lending in Lebanon. Additionally, the ABL recommended to its member banks to maintain the Beirut Reference Rate in Lebanese pounds at 7.12%. The Beirut Reference Rate in US dollars and Lebanese pounds were adopted in March and May 2009, respectively. The ABL indicated that the BRR does not replace the Beirut Prime Lending Rate in each currency, but constitutes the basis to calculate the prime rate after adding the cost of liquidity and refinancing, credit risks, and the profitability of banks to the prime lending rate.

In parallel, the ABL recommended to its member banks to reduce interest rates on deposits by 50 basis points, particularly on Lebanese-pound deposits. It attributed its recommendation to the continuously shrinking margins in the sector. It said that banks can start reducing deposit rates gradually upon the maturity of deposits.

### **Number of tourists down 24% in 2011**

The number of incoming tourists to Lebanon totaled 1,655,051 in 2011, constituting a decrease of 23.7% from 2,167,989 tourists in 2010, driven by annual declines in tourist arrivals of 14.6% in December, 24.1% in November, 20.8% in October, 26.3% in September, 20% in August, 39.3% in July, 23% in June, 29% in May, 20.4% in April, 14.3% in March, 17% in February and 7.6% in January. Arab tourists accounted for 35.1% of total visitors in 2011, and were followed by visitors from Europe with 29.3%, Asia with 14.8%, the Americas with 13.5%, Africa with 3.7%, and Oceania with 3.4%. The number of Arab tourists contracted by 22.5% year-on-year, tourists from Europe declined by 2.1% annually, those from Asia dropped by 46.5%, tourists from the Americas decreased by 17.8%, from Africa by 52.3% year-on-year, while those from Oceania regressed by 6.7%. In parallel, tourists from Jordan accounted for 7.83% of total visitors in 2011, followed by visitors from Iraq with 7.8%, France with 7.8%, Saudi Arabia with 6.8%, and the U.S. with 6.7%. The number of tourists reached 130,013 in December 2011 compared to 152,234 in December 2010. Incoming tourists totaled 2.17 million in 2010, up 17% year-on-year.

### Consumer Price Index up 3.1% annually in December

The Central Administration of Statistics' Consumer Price Index indicates that inflation increased by 3.1% in December 2011 from December 2010. Prices of alcoholic beverages & tobacco increased by 11.4%, followed by education (+7.5%), water, electricity, gas & other fuels (+5.9%), food & non-alcoholic beverages (+5.8%), recreation & entertainment (+5.3%), clothing & footwear (+4.3%), restaurants & hotels (+3.9%), health care (+3.2%), miscellaneous goods & services (+2.4%) and furnishings & household equipment (+2.2%). In parallel, housing prices and communication prices remained unchanged, and those of transportation declined by 2.6% 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 remained unchanged in December 2011 from November 2011. Prices of food & non-alcoholic beverages and recreation & entertainment increased by 1.1% each, followed by alcoholic beverages & tobacco (+0.5%), clothing & footwear (+0.4%), miscellaneous goods & services (+0.2%), restaurants & hotels (+0.1%) and furnishings & household equipment (+0.1%). Further, the cost of housing, communication, education and health care remained unchanged month-on-month, and that of transportation declined by 2% and water, electricity, gas & other fuels declined by 0.4%. The Consumer Price Index grew by 3.6% year-on-year in November and increased by 3.5% year-on-year in October.

### Tourism spending in Lebanon up 10% in 2011

Figures issued by Global Blue, the VAT refund operator for international shoppers, show that total spending by tourists in Lebanon increased by 10% in 2011, as visitors from Saudi Arabia spent the most and accounted for 20% of total tourist spending last year. They were followed by visitors from the UAE with 11%, Kuwait with 10%, Syria with 8% and Egypt with 6%. Spending by visitors from the UAE rose by 20%, followed by visitors from France (+10%), Syria (+8%), Kuwait (+4%) and Qatar (+2%); while spending by visitors from Egypt contracted by 12%, followed by Jordan (-3%) and Saudi Arabia (-2%). Also, the number of refund transactions by visitors from Nigeria rose by 27%, followed by visitors from the U.S. (+17%), the UAE (+10%), Syria (+10%) and France (+4%); while refund transactions by visitors from Qatar remained unchanged, transactions by visitors from Egypt contracted by 19%, followed by Saudi Arabia (-11%), Kuwait (-8%) and Jordan (-4%).

Beirut attracted 84% of total spending over the covered period, followed by the Metn area with 12%, the Keserwan region with 2%, and Baabda with 1%. Fashion & clothing accounted for 74% of total spending, followed by watches with 9%, home & garden products and department stores with 4% each, souvenirs & gifts with 3%, consumer electronics & household appliances with 2%, and electronics & IT and sports equipments & clothing with 1% each. Spending on sports equipment & clothing increased by 24%, followed by fashion & clothing with a 15% growth, souvenirs & gifts (+13%) and consumer electronics & household appliances (+6%). Expenditures on electronics & IT decreased by 15% in the covered period, followed by watches with an 8% drop, and spending at department stores with a 5% decrease. Spending on home & garden equipments remained unchanged in the covered period.

### Industrial exports increase by 8% to \$3bn in first 11 months of 2011, imports up 2% to \$214m

Figures released by the Ministry of Industry show that industrial exports totaled \$3.22bn in the first 11 months of 2011, constituting an increase of 7.5% from \$3bn in the same period of the previous year. Industrial exports reached \$295m in November 2011, down 3.6% from \$306m in October 2011 and up 19% from \$248m in November 2010. Pearls & precious or semi-precious stones accounted for \$854.3m, or 26.5% of total industrial exports in the first 11 months of the year, followed by base metals & articles of base metals with \$493m (15.3%), and machinery and mechanical appliances with \$478.3m (14.8%). Arab countries accounted for 30.5% of total industrial exports in November, followed by African countries with 28.3%. In parallel, industrial imports reached \$213.9m in the first 11 months of the year, up 2.2% from the same period in 2010. Italy was the main source of such imports and accounted for 29.9% of total. It was followed by Germany with 14.8% and China with 14.6%. Further, imports of industrial equipment and machinery reached \$15.3m in November 2011, increasing by 14.3% year-on-year. Italy was the main source of imports of industrial equipments, accounting for 25.5% of the total, followed by China with 16.1% and Germany with 14.9%.

### Construction permits down 6% in first 11 months of 2011

Figures released by the Association of Engineers of Beirut & Tripoli show that construction permits issued in the first 11 months of 2011 reached 14.7 million square meters, constituting a decrease of 6.1% from 15.6 million square meters in the same period of the previous year. Construction permits totaled one million square meters in November 2011, down 13% year-on-year from 1.2 million square meters in November 2010. In parallel, cement deliveries reached 5.1 million tons in the first 11 months of 2011, an increase of 5.7% from 4.8 million tons in the same period of 2010. Cement deliveries reached 321,000 tons in November 2011, down 21.7% from 410,000 tons in November 2010.

### Cleared checks up 4%, returned checks up 0.4% in first 11 months of 2011

The value of cleared checks reached \$64.5bn in the first 11 months of 2011, constituting an increase of 4.4% from the same period of 2010. The value of cleared checks in Lebanese pounds rose by 5.2% to the equivalent of \$12.9bn, while the value of cleared checks in US dollars increased by 6.5% to \$49.6bn. The dollarization rate of cleared checks increased to 81.8% from 80.2% in the same period of the previous year. Also, the value of returned checks in domestic and foreign currency amounted to \$1.3bn in the first 11 months of 2011, constituting an increase of 0.4% from the same period of 2010. In parallel, the number of cleared checks totaled 11.9 million checks in the first 11 months of 2011, up 1% from the same period of 2010. Also, the number of returned checks totaled 241,000 checks and rose by 6.6% in the covered period.

### Beirut ranks 203rd worldwide, 21st in MENA region in personal safety

The 2011 survey on personal safety in 221 cities around the world by Mercer Human Resource Consulting ranked Beirut in 203rd place globally and in 21st place among 25 cities in the Middle East and North Africa region. Also Beirut ranked in 40th place among 42 Upper Middle Income Countries (UMIC) included in the survey. The survey is based on the assessment of internal stability, crime levels, law enforcement effectiveness and the host country's international relations.

On a global basis, Beirut ranked ahead of Tripoli, Caracas in Venezuela and Abuja in Nigeria; and came immediately behind Port-au-Prince in Haiti, Nouakchott in Mauritania and Dhaka in Bangladesh. It only ranked ahead of Tripoli and Caracas, and came immediately behind Moscow, Bogota in Colombia and Kingston in Jamaica among UMICs. Regionally, Beirut ranked ahead of Tripoli, Khartoum and Sana'a and behind Nouakchott, Damascus and Tehran. The survey indicated that the recent wave of protests of varying proportions across the MENA region endangered personal safety and temporarily lowered living standards in the region. Mercer Human Resource Consulting previously ranked Beirut as the 170th most desirable city for overall living standards and 16th among 25 cities surveyed in the MENA region in 2011.

Mercer said Abu Dhabi, Muscat, Dubai and Doha are the only MENA cities to rank among the top 50 safest cities in the world, mainly due to their internal stability and low crime levels; while 12 regional cities, including nine Arab cities, were among the bottom 50 worldwide. Luxembourg was the safest city globally, while Baghdad was the world's least safe city. The data for the survey was collected between September and November 2011 and has been regularly updated to take account of changing circumstances.

MENA Cities Rankings		
Country	MENA Rank	Global Rank
Abu Dhabi	1	23
Muscat	2	29
Dubai	3	39
Doha	4	67
Kuwait City	5	105
Djibouti	6	120
Rabat	6	120
Manama	8	123
Amman	8	123
Tunis	10	140
Riyadh	11	145
Jeddah	11	145
Casablanca	13	147
Cairo	14	176
Tel Aviv	15	177
Algiers	16	185
Istanbul	17	187
Tehran	18	188
Damascus	19	191
Nouakchott	20	201
<b>Beirut</b>	<b>21</b>	<b>203</b>
Tripoli	22	204
Khartoum	23	211
Sanaa	24	214
Baghdad	25	221

Source: Mercer Human Resource Consulting, Byblos Research

## Corporate Highlights

### **New car sales down 3% in 2011**

Figures released by the Association of Automobile Importers in Lebanon indicate that a total of 32,455 new passenger cars were sold in 2011, constituting a decrease of 2.9% from the 33,412 cars sold in 2010. Korean cars accounted for 42.1% of total auto sales, followed by Japanese cars with a 29.6% share, European automobiles with 21.2%, American vehicles with 6.4%, and Chinese cars with 0.8%. The number of Korean cars sold grew by 28% year-on-year, followed by Chinese autos with a 7.3% increase and American vehicles with a 4.1% rise. In parallel, the number of Japanese cars sold posted a drop of 25.7% year-on-year followed by European cars with a 9.7% retreat. Kia is the leading brand in the Lebanese market with 8,305 cars sold in 2011, followed by Nissan with 5,840 cars sold, Hyundai with 5,341 cars, Chevrolet with 1,440 cars sold, Toyota with 1,425 cars, Renault with 1,192 cars, and Peugeot with 877 cars. In parallel, a total of 2,066 new commercial vehicles were sold in 2011, down 23.5% from the 2,700 vehicles sold in 2010.

### **Qatari investment bank acquires 15% stake in Al Rifai**

Qatar First Investment Bank (QFIB), a Doha-based Islamic financial institution, announced that it has acquired a 15% stake in Al Rifai International Holding, the Lebanese manufacturer of nuts, kernels, light snacks and delicacies. It noted that Al Rifai is well positioned to take advantage of the rapidly growing global savory snack market due to its diversified products and presence in European and regional markets. Al Rifai International Holding products are branded under the name of Al Rifai and Nutisal. The holding owns 100% of the Nutisal and Rifai business worldwide, with the exception of the GCC and North Africa market where the business is operated through a joint venture with the Kuwaiti Homaizi Group. It has also a direct presence in Europe through a manufacturing facility in Sweden. Euromonitor International expected the retail sales volume of sweet and savory snacks in the Middle East to grow by 21% during the 2010-14. The bank said the transaction constitutes its first investment in the food & beverage manufacturing sector. It added that Al Rifai's presence in European markets would offer QFIB an opportunity to enter new geographical regions.

## Ratio Highlights

(in % unless specified)	2008	2009	2010	Change*
Nominal GDP <sup>(1)</sup> (\$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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**Economic Research & Analysis Department**  
**Byblos Bank Group**  
**P.O. Box 11-5605**  
**Beirut – Lebanon**  
**Tel: (961) 1 338 100**  
**Fax: (961) 1 217 774**  
**E-mail: [research@byblosbank.com.lb](mailto:research@byblosbank.com.lb)**  
**[www.byblosbank.com](http://www.byblosbank.com)**

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# BYBLOS BANK GROUP

## LEBANON

---

Byblos Bank S.A.L  
Achrafieh - Beirut  
Elias Sarkis Avenue - Byblos Bank Tower  
P.O.Box: 11-5605  
Riad El Solh - Beirut 1107 2811 - Lebanon  
Phone: (+ 961) 1 335200  
Fax: (+ 961) 1 339436

## SYRIA

---

Byblos Bank Syria S.A  
Abu Roummaneh Head Office  
Al Chaalan - Amine Loutfi Hafez Str.  
P.O.Box: 5424 Damascus - Syria  
Phone: (+ 963) 11 9292 - 3348240 / 1 / 2 / 3 / 4  
Fax: (+ 963) 11 3348207  
E-mail: byblosbanksyria@byblosbank.com

## IRAQ

---

Erbil Branch, Kurdistan, Iraq  
Street 60,  
Near Sports Stadium  
P.O.Box: 34 - 0383 Erbil - Iraq  
Phone: (+ 964) 66 2233457 / 9  
Fax: (+ 964) 66 2233458  
E-mail: iraqbranch@byblosbank.com.lb

Baghdad Branch, Iraq  
Karada - Salman Faeq Street  
Facing Al Sheruk Building  
P.O.Box: 3085 Al Elweyah - Iraq  
Phone: (+ 964) 1 7177493  
(+ 964) 1 7177294  
E-mail: aabdelkader@byblosbank.com

## UNITED ARAB EMIRATES

---

Byblos Bank Abu Dhabi Representative Office  
Intersection of Muroor and Electra Streets  
P.O.Box: 73893 Abu Dhabi - UAE  
Phone: (+ 971) 2 6336400  
Fax: (+ 971) 2 6338400  
E-mail: byblosbankuae@byblosbank.com

## ARMENIA

---

Byblos Bank Armenia CJSC  
18/3 Amiryan Street  
Yerevan, 37500 - Republic of Armenia  
Phone: (+ 374) 10 530 362  
Fax: (+ 374) 10 535 296

## CYPRUS

---

Limassol Branch  
1, Arch. Kyprianou / St. Andrew Street  
P.O.Box 50218  
3602 Limassol - Cyprus  
Phone: (+ 357) 25 341433 / 4 / 5  
Fax: (+ 357) 25 367139  
E-mail: bybloscyprus@byblosbank.com

## BELGIUM

---

Byblos Bank Europe S.A  
European Head Office  
10, Rue Montoyer  
B-1000 Brussels - Belgium  
Phone: (+ 32) 2 551 00 20  
Fax: (+ 32) 2 513 05 26  
E-mail: byblos.europe@byblosbankeur.com

## UNITED KINGDOM

---

London Branch  
Berkeley Square House - Suite 5  
Berkeley Sq.  
GB - London W1J 6BS - United Kingdom  
Phone: (+ 44) 207 493 35 37  
Fax: (+ 44) 207 493 12 33  
E-mail: byblos.europe@byblosbankeur.com

## FRANCE

---

Paris Branch  
15 Rue Lord Byron  
F- 75008 Paris - France  
Phone: (+ 33) 1 45 63 10 01  
Fax: (+ 33) 1 45 61 15 77  
E-mail: byblos.europe@byblosbankeur.com

## SUDAN

---

Byblos Bank Africa Ltd.  
Khartoum - Sudan  
El Amarat -Street 21  
P.O.Box: 8121 El Amarat - Khartoum - Sudan  
Phone: (+ 249) 183 566 444  
Fax: (+ 249) 183 566 454  
E-mail: byblosbankafrica@byblosbank.com

## NIGERIA

---

Byblos Bank Nigeria Representative Office  
10-14 Bourdillon Road  
Ikoyi, Lagos - Nigeria  
Phone: (+ 234) 1 6653633  
(+ 234) 1 8990799  
E-mail: nigeriarepresentativeoffice@byblosbank.com.lb

## DEMOCRATIC REPUBLIC OF CONGO

---

Byblos Bank RDC  
4, Avenue du Marche  
C/Gombe, Kinshasa, Democratic Republic of Congo  
Phone: (+ 243) 817 070701  
(+ 243) 991 009001  
E-mail: melamm@byblosbank.com.lb

## ADIR INSURANCE

---

Dora Highway - Aya Commercial Center  
P.O.Box: 90-1446  
Jdeidet El Metn - 1202 2119 Lebanon  
Phone: (+ 961) 1 256290  
Fax: (+ 961) 1 256293