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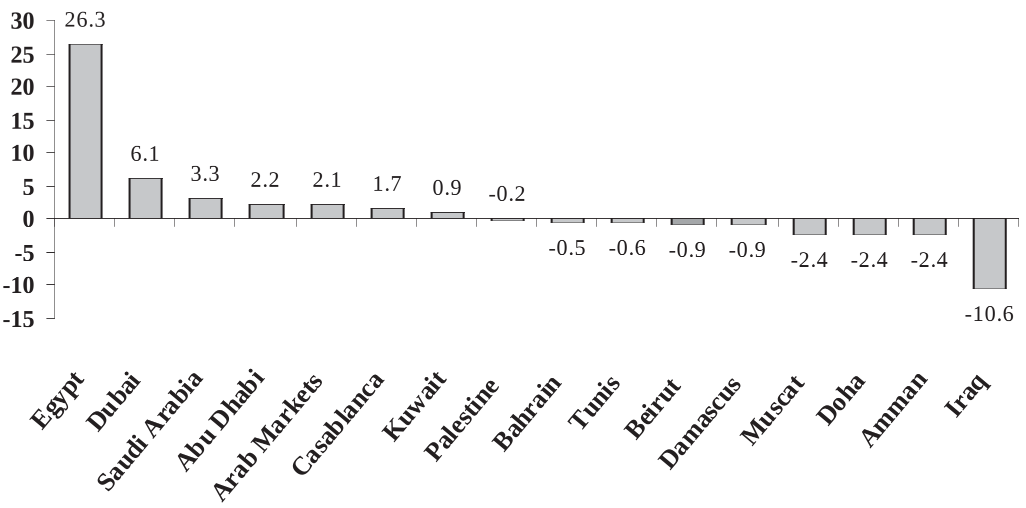
# LEBANON THIS WEEK

## *In This Issue*

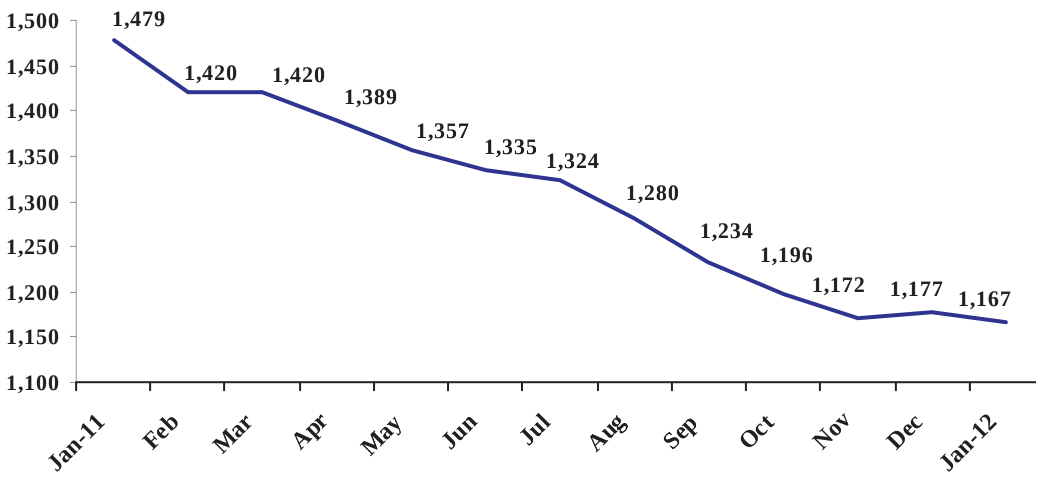


## Charts of the Week

**Performance of Arab Stock Markets in January 2012 (% Change)**




**Performance of the Beirut Stock Exchange**




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

## Quote to Note

"There is no sign that 2012 will be the year in which much-needed reforms finally materialize."

*HSBC Bank, on the impact of political divisions within the Lebanese Cabinet on the prospects of structural reforms*

## Number of the Week

**2,364:** Number of loan applications that were approved for solar water heaters under the Central Bank's national financing program, according to the Lebanese Center for Energy Conservation

## 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 |
| *In months of Imports* | *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" | 14.09 | 0.00 | 152,116 | 13.68% |
| Solidere "B" | 13.95 | (1.55) | 30,827 | 8.81% |
| Byblos Common | 1.58 | 0.00 | 73,293 | 5.52% |
| Byblos Pref. 08 | 102.00 | 0.49 | 900 | 1.98% |
| Byblos Pref. 09 | 102.00 | 0.49 | 2,466 | 1.98% |
| BLOM GDR | 7.54 | 1.34 | 440,600 | 5.41% |
| BLOM Listed | 7.40 | 0.00 | 388,822 | 15.45% |
| Audi GDR | 6.00 | 0.17 | 73,692 | 5.83% |
| Audi Listed | 5.75 | 0.00 | 107,193 | 19.51% |
| HOLCIM | 16.41 | (1.14) | 5,700 | 3.11% |

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

| Sovereign Eurobonds | Coupon % | Mid Price $ | Mid Yield % |
|---|---|---|---|
| Mar. 2012 | 7.500 | 100.25 | 5.40 |
| Sep. 2012 | 7.750 | 100.50 | 6.86 |
| June 2013 | 8.625 | 107.38 | 3.12 |
| Apr. 2014 | 7.375 | 107.75 | 3.67 |
| Jan. 2015 | 5.875 | 104.50 | 4.24 |
| Apr. 2015 | 10.00 | 117.50 | 4.15 |
| Jan. 2016 | 8.500 | 114.88 | 4.37 |
| Mar. 2017 | 9.000 | 119.25 | 4.73 |
| Nov. 2018 | 5.150 | 99.50 | 5.24 |
| Apr. 2021 | 8.250 | 118.50 | 5.64 |

*Source: Byblos Bank Capital Markets*

| | Jan. 30- Feb. 3 | January 23-27 | % Change | January 2012 | January 2011 | % Change |
|---|---|---|---|---|---|---|
| **Total Shares Traded** | 1,315,509 | 902,547 | 45.76 | 4,698,553 | 5,322,427 | (11.72) |
| **Total Value Traded** | $12,262,059 | $6,858,292 | 78.79 | $30,077,731 | $47,601,150 | (36.81) |
| **Market Capitalization** | $10.30bn | $10.30bn | (0.07) | $10.29bn | $12.66bn | (18.74) |

*Source: Beirut Stock Exchange (BSE)*

# Lebanon in the News

## Standard & Poor's affirms Lebanon's ratings, warns from weak fiscal profile

Standard & Poor's affirmed Lebanon's long- and short-term foreign and local currency sovereign credit ratings at 'B' with a 'stable' outlook; and affirmed the transfer and convertibility assessment at 'BB-'. It said that the ratings are constrained by the country's high public debt burden, large current account imbalances, and the divisive political environment. It added that the ratings are supported by Lebanon's stable resident and non-resident depositor base, which underpins the country's relatively strong and well-regulated financial system and meets both the banks' and the government's funding needs.

The agency considered that Lebanon continues to face internal and external political challenges that constrain growth, hinder fiscal consolidation, and increase the country's vulnerability to a balance of payments crisis. It said that Lebanon has not been immune to the political and economic turmoil in the region. It noted that the growing instability in Syria, and the uncertainty caused by the domestic political instability in the first half of last year depressed investments and weighed heavily on the tourism and financial services sectors. It expected the regional instability, mainly the turmoil in Syria, to continue to constrain Lebanese consumer and investment sentiment in the near term. It noted that it is unlikely that economic growth will reach its pre-2011 levels in the medium term, since those levels largely resulted from a convergence of key factors, including political and macroeconomic stability, as well as the global low interest environment, which attracted capital inflows to Lebanon.

In parallel, it said that Lebanon's fiscal profile remains weak as the government has not passed a budget since 2005. It added that subsidies to Electricité du Liban exceeded 4% of GDP in 2011 due to higher oil prices. It estimated the fiscal deficit at 7% of GDP in 2011 and expected Lebanon to run similar fiscal deficits over the medium term. It forecast Lebanon's public debt to stabilize at around the 2011 level of 132% of GDP due to weaker growth levels. It noted that the public debt level dropped to 133% of GDP in 2010 from 180% of GDP in 2006 due to high real and nominal economic growth and modest real interest rates, rather than from fiscal reforms. It noted that expectations that the Mikati Cabinet would be able to implement the key reforms that its predecessor could not execute have not been realized yet.

Further, S&P pointed out that the banking sector remains highly exposed to the sovereign debt as it holds over 50% of local currency government debt, while the Central Bank holds 32% of it. It said that banks reduced the share of government debt on their balance sheets last year in favor of private sector lending, forcing the Central Bank to finance the difference. S&P warned that it would lower Lebanon's ratings if domestic or regional security conditions deteriorate and lead to a fall in deposits levels, which would put pressure on public finances and on the Central Bank's ability to maintain its currency peg. It added that the 'stable' outlook balances Lebanon's political risks, high level of government debt and extensive dollarization level, against the country’s level of economic development and international reserves.

## Economic activity to remain subdued

Barclays Capital projected Lebanon's real GDP growth at 3.6% in 2012 compared to an estimated growth of 1.6% in 2011. It considered that the escalating crisis in Syria raises risks significantly in Lebanon and across the Levant region. It added that the economic outlook in the Levant largely depends on developments in Syria, where an imminent solution to the escalating crisis looks unlikely. It pointed out that the Lebanese economy has not yet recovered from the slowdown posted since the beginning of 2011. It said that the coincident indicator has resumed its decline since September 2011, reflecting a generalized slowdown in activity after the summer season. It added that tourist arrivals in Lebanon remained significantly below their 2010 levels in the fourth quarter of 2011; while the construction and real estate sectors are still showing a contraction in activity. It projected Lebanon's fiscal deficit at 9% of GDP this year, up from 7.7% of GDP in 2011. It also expected Lebanon's current account balance to post a deficit of 13.6% of GDP in 2012, similar to the deficit posted last year.

In parallel, Barclays Capital indicated that commercial banks are growing increasingly cautious about further expanding their loan books, as reflected by the slowdown of private sector credit growth to around 13.6% year-on-year in November relative to lending growth of 22% at the beginning of 2011. It added that banks have recently raised their provisions, notably at banks with affiliates operating in Syria, which put downward pressure on their earnings.

## Lebanon posts sixth steepest decline in tourist arrivals in the world in 2011

Preliminary figures issued by the United Nations World Tourism Organization indicate that Lebanon posted the sixth steepest decline in tourist arrivals in the world during 2011 with a 24.4% decrease from the previous year. In comparison, tourist arrivals grew by 4.4% globally, by 5% in advanced economies and by 3.8% in emerging markets. Also, tourist arrivals dropped by 8% in the Middle East and fell by 12% in North Africa. They grew by 6% in Europe, expanded by 5.6% in Asia & the Pacific and rose by 4.2% in the Americas, while they remained unchanged in Africa.

Globally, Lebanon's fall in tourist arrivals was higher than those of Tonga and Jordan with declines of 17.4% and 15.7%, respectively, and lower than those of Japan and Tunisia with decreases of 29.1% and 30.7%, respectively. Regionally, Lebanon posted the fifth steepest decline in tourist arrivals, coming ahead of Jordan that posted a decline of 15.7% in tourist arrivals, Palestine (-11.6%) and Israel that posted growth of 0.6%, Morocco (+1.6%), Turkey (+8.9%), the UAE (+9.6%), Cyprus (+10.2%), Oman (+12.9%) and Saudi Arabia (+82.8%). Lebanon was preceded by Tunisia with a drop of 30.7%, Bahrain (-32.7%), Egypt (-33.2%) and Syria (-41%).

In parallel, the WTO said tourism receipts in Lebanon totaled $8bn in 2010, up 18.3% from 2009 and constituting the sixth highest growth rate in the Arab world and the third highest when excluding countries with tourism receipts of less than $1bn. Further, Lebanon ranked in 34th place globally in terms of tourism receipts in 2010, behind Croatia ($8.3bn) and ahead of Indonesia ($7bn); while it ranked third regionally behind Egypt ($12.5bn) and the UAE ($8.6bn). Further, tourism expenditures in Lebanon totaled $4.7bn in 2010 compared to $4bn in 2009. Lebanon ranked in 39th place globally in tourism expenditures in 2010, up from 41st place in the previous year. Lebanon ranked ahead of Finland and behind Turkey in this category.

Figures issued by the Ministry of Tourism show that 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 and compared to an increase of 17% in 2010. 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%, and those from Africa by 52.3% year-on-year, while tourists from Oceana regressed by 6.7%.

## Occupancy at Beirut hotels at 57%, room yields down 28% in 2011

Ernst & Young's benchmark survey of the Middle East hotel sector indicated that the average occupancy rate at hotels in Beirut was 57% in 2011, decreasing from 68% in the preceding year. The occupancy rate at Beirut hotels was the eighth lowest among 21 markets in the region, unchanged from 2010. The survey said the average rate per room at Beirut hotels was $220 in 2011, ranking the capital's hotels as the eighth most expensive in the region.

The average rate per room at Beirut hotels decreased by 13.6% 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 $186.7, which declined by a marginal 0.4% from $187.5 in 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, 65% in October, 74% in November and 64% in December 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, 71% in October, 73% in November and 65% in December 2010.

Further, revenues per available room (RevPAR) were $126 in Beirut in 2011, down from $174 in 2010, ranking it in 11th place in the region behind Riyadh and Dubai City and ahead of Madina and Al Ain. Beirut's RevPAR was down 27.5% year-on-year, compared to a decrease of 8.3% 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, $134 October, $182 in November and $149 in December 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, $151 in October, $206 in November and $159 in December 2010. Dubai Beach posted the highest average room rate in the region at $315 as well as the highest RevPAR at $255, while Dubai Apartments posted the highest occupancy rate at 83% in 2011.

**Hotel Performance in 2011**

| | Occupancy Rate (%) | RevPAR (US$) | RevPAR % change |
|---|---|---|---|
| Dubai Apartments | 83 | 96 | 3.4 |
| Dubai Beach | 80 | 255 | 8.0 |
| Dubai Overall | 78 | 174 | 8.1 |
| Dubai City | 77 | 136 | 7.3 |
| Abu Dhabi | 75 | 155 | (6.6) |
| Makkah | 73 | 207 | 12.1 |
| Jeddah | 71 | 155 | 0.5 |
| Muscat | 65 | 139 | (0.4) |
| Madina | 65 | 123 | 14.7 |
| Al Ain | 64 | 103 | (10.8) |
| Doha | 63 | 171 | (2.5) |
| Hurghada | 62 | 23 | (40.9) |
| Riyadh | 58 | 135 | 4.5 |
| **Beirut** | **57** | **126** | **(27.5)** |
| Sharm Shaikh | 56 | 28 | (48.0) |
| Amman | 55 | 80 | (13.6) |
| Cairo Pyramids | 53 | 71 | (19.3) |
| Kuwait | 52 | 147 | 2.6 |
| Cairo Overall | 35 | 43 | (48.6) |
| Manama | 32 | 73 | (53.8) |
| Cairo City | 32 | 39 | (53.2) |

*Source: Ernst & Young, Byblos Research*

# Lebanon in the News

## Lebanon's real GDP growth at 4.5% in 2012, wage increase to affect inflation

The United Nation's Economic and Social Commission for Western Asia (ESCWA) projected Lebanon's real GDP growth at 4.5% in 2012 relative to 2.5% in 2011 and compared to a growth rate of 4.7% for the ESCWA countries. Lebanon's projected growth rate in 2012 would make it the fifth fastest growing economy in the ESCWA region, while it was the fourth slowest economy in the region last year. It said that political instability in Lebanon holds significant downside risks for the country’s economic outlook.

It pointed out that Lebanon's financial account decreased significantly last year due to the decline by 50% of investments and a substantial drop in portfolio investments. It noted that domestic and regional instability adversely impacted remittances, tourism receipts and capital inflows to Lebanon. It added that investors were either reluctant to invest in Lebanon or were even pulling out investments due to local and regional political instability last year. It expected the lack of security and transparency to likely lead to further decreases of capital flows to the region. It said that remittance inflows to Lebanon dropped to $5.1bn in 2010 after peaking at $7.5bn in 2007. It noted that FDI to Lebanon increased by 3.1% to $6bn in 2010 from $4.8bn in 2009. Further, it said that political instability affected the construction and tourism sectors and led to increasing layoffs across the country last year. It added that political and security turbulences are also strongly impacting job creation in Lebanon. It expected inflation to increase this year due to the recent rise in wage levels. It estimated Lebanon's inflation rate at 6% in 2011 relative to 4.5% in 2010.

In parallel, ESCWA anticipated that the slowdown in economic activity to adversely affect the government's budget. It said that Lebanon's public debt continues to be denominated mostly in Lebanese pounds, which constrains monetary policy decisions on interest rates. It added that raising interest rates in Lebanon would increase debt servicing, thereby burdening the fiscal balance and forcing the government to borrow more or to implement contraction-oriented fiscal policies. It estimated Lebanon's public debt at 133.8% of GDP in 2011 relative to 136.7% of GDP in 2010.

## Salaries to increase by average of 6.5% in 2012

The Hay Group, a global management consultancy firm, expected salaries in Lebanon to increase by 6.5% on average in 2012 relative to an increase of 6.9% in 2011. It attributed the modest salary raise to the time needed by organizations in Lebanon to implement the wage increase passed recently by the Cabinet. It said that salaries in Lebanon posted a real growth rate of 1.9% in 2011 due to a 5% inflation rate. It forecast inflation in Lebanon at 5.8% this year. It expected the increase in minimum wage and the potential changes in education and transportation allowances to lead to over-inflated pay raises in late 2012 or 2013 as was the case in 2009.

In parallel, it anticipated a long period of uncertainty for employees in Lebanon and expected employers to face challenges over the coming months in motivating and engaging their employees. It said that Lebanon has a highly educated and skilled workforce that includes a sizeable Diaspora working in the GCC countries. It also noted that Lebanon has a relatively high unemployment rate, mainly among the younger generation. According to the Hay Group, the construction and the construction materials sectors constitute the highest paying sectors in Lebanon as employees in these sectors are paid 6% above the general market average salaries, followed by employees in the consumer goods sector with a premium of 4%. The Hay Group analyzed data for 13,000 employees from more than 100 organizations in Lebanon.

## Central Bank encourages commercial banks to prioritize deposit growth, warns of increasing foreign lending

In the monthly meeting between the Association of Banks in Lebanon and the Central Bank, Governor Riad Salamé noted that the banking sector deposits exceeded $120bn by end-2011 and increased by 7% annually, while total loans rose by 14% annually. He noted that the deposits at Lebanese banks abroad increased from $27bn to $30bn, reflecting the outflow of deposits from Lebanon to the banks' overseas subsidiaries. Also, he attributed the balance of payments deficit in 2011 to the political developments in the country in the first half of 2011, as well as to the turmoil in the region. He encouraged commercial banks to make deposit growth their priority by avoiding a reduction in deposit interest rates, as local rates have become lower than those across the region. In parallel, Governor Salamé indicated that the Central Bank's policy about lending will keep the current incentives but without amending the level of exemptions on reserve requirements. Further, he cautioned banks from expanding their Arab, regional and European lending, given the expected low growth rates in these regions and the austerity measures needed to solve the European debt crisis.

In parallel, Governor Salamé noted that the Central Bank will maintain its policy of currency stability, and stressed the availability of resources and willingness to control liquidity and to stabilize interest rates in case of need, just as when the Central Bank had to buy Treasury bills last July when banks abstained. He also supported Prime Minister Mikati's announcement that the government plans to maintain a fiscal deficit below 7% of GDP, and that the government will primarily revert to the market rather than to the Central Bank to finance the deficit.

## Lebanon ranks 94th globally, 6th in MENA region in environmental performance

The Environmental Performance Index for 2012 ranked Lebanon in 94th place globally among 132 countries, and in 6th place among 19 countries in the Middle East & North Africa (MENA) region. Lebanon also ranked in 24th place among 35 Upper Middle-Income Countries (UMICs) included in the survey.

The EPI ranks countries on 22 indicators grouped into 10 established policy components that are Environmental Burden of Disease, Air Pollution (effects on humans), Water (effects on humans), Air Pollution (effects on nature), Water (effects on nature), Biodiversity & Habitat, Forestry, Fisheries, Agriculture, and Climate Change & Energy. Further, the 10 components are divided into two core categories. The first category is Environmental Health, which measures environmental stresses to human health and includes the first three components; while the second category is Ecosystem Vitality, which measures ecosystem health and natural resource management, and includes the seven remaining policy components. The Environmental Health category represents 30% of the final EPI score while the Ecosystem Vitality component represents 70% of the final score.

The 2012 EPI uses a methodology that quantitatively tracks national performance on a core set of environmental policy goals for which every government can be held accountable. It identifies specific targets for environmental performance and measures how close each country comes to these goals. The Environmental Performance Index is issued by Columbia and Yale universities in collaboration with the Joint Research Center of the European Commission and the World Economic Forum.

**MENA Rankings and Scores**

| Country | Score | MENA Rank | Global Rank |
|---|---|---|---|
| Egypt | 55.18 | 1 | 60 |
| Israel | 54.64 | 2 | 61 |
| UAE | 50.91 | 3 | 77 |
| Saudi Arabia | 49.97 | 4 | 82 |
| Algeria | 48.56 | 5 | 86 |
| **Lebanon** | **47.35** | **6** | **94** |
| Tunisia | 46.66 | 7 | 99 |
| Qatar | 46.59 | 8 | 100 |
| Sudan | 46.0 | 9 | 104 |
| Morocco | 45.76 | 10 | 105 |
| Turkey | 44.8 | 11 | 109 |
| Oman | 44.0 | 12 | 110 |
| Syria | 42.75 | 13 | 113 |
| Iran | 42.73 | 14 | 114 |
| Jordan | 42.16 | 15 | 117 |
| Libya | 37.68 | 16 | 123 |
| Kuwait | 35.54 | 17 | 126 |
| Yemen | 35.49 | 18 | 127 |
| Iraq | 25.32 | 19 | 132 |

*Source: Columbia and Yale universities, Byblos Research*

Globally, Lebanon ranked ahead of Congo, Trinidad & Tobago, and Macedonia and came behind Armenia, the Democratic Republic of the Congo and Ghana. It ranked ahead of Trinidad & Tobago and behind Romania among UMICs. It received a score of 47.4 points, lower than the global average of 53.1 points and the UMICs' average of 51.6 points, but higher than the MENA and Arab averages of 44.3 points and 43.7 points, respectively.

Lebanon ranked in 45th place worldwide, in 7th place among UMICs and in 5th place in the MENA region on the Environmental Health category. Globally, it came ahead of Argentina, Uruguay and Brunei Darussalam, and behind Albania, Lithuania and Kuwait. Also, it ranked ahead of Argentina and Uruguay and behind Albania and Lithuania among UMICs; while it came ahead of Libya and Jordan and behind Kuwait and the UAE in the MENA region.

Also, Lebanon ranked in 119th place worldwide, in 31st place among UMICs, and in 12th place in the MENA region on the Ecosystem Vitality category. Globally, it came ahead of Oman, South Africa and Malta, and behind the Turkey, Serbia and the UAE. Also, it ranked ahead of South Africa and behind Turkey among UMICs; while it ranked ahead of Oman, Syria and Qatar and behind Turkey, the UAE and Iran in the MENA region.

**Components of the 2012 Environmental Performance Index for Lebanon**

| Category | Global Rank | MENA Rank | UMIC Rank | Lebanon Score | Global Average Score | MENA Average Score | UMIC Average Score |
|---|---|---|---|---|---|---|---|
| **Environmental Health** | 45 | 5 | 7 | 81.8 | 65.7 | 69.4 | 67.0 |
| Environmental burden of disease | 70 | 13 | 18 | 69.7 | 67.3 | 70.2 | 67.9 |
| Air Pollution (effects on humans) | 1 | 1 | 1 | 100 | 71.7 | 80.4 | 76.2 |
| Water (effects on humans) | 35 | 4 | 3 | 88.1 | 57.2 | 56.8 | 55.9 |
| | | | | | | | |
| **Ecosystem Vitality** | 119 | 12 | 31 | 32.6 | 47.6 | 33.6 | 45.0 |
| Air Pollution (effects on nature) | 101 | 14 | 21 | 26.1 | 40.4 | 31.0 | 31.0 |
| Water (effects on nature) | 129 | 18 | 34 | 3.4 | 31.0 | 13.1 | 30.6 |
| Biodiversity & Habitat | 112 | 11 | 30 | 26.1 | 58.6 | 34.8 | 54.5 |
| Forestry | 55 | 13 | 16 | 85.4 | 74.8 | 86.4 | 75.8 |
| Fisheries | 22 | 5 | 8 | 35.2 | 28.0 | 30.2 | 28.6 |
| Agriculture | 48 | 11 | 12 | 63.7 | 52.3 | 58.5 | 52.7 |
| Climate Change | 101 | 10 | 27 | 28 | 45.6 | 29.4 | 42.6 |

*Source: Columbia and Yale universities, Byblos Research*

# Lebanon in the News

## Government renews management contracts of mobile operators

The government extended the management contracts of Orascom Telecom and Zain, which operate Mobile Interim Company 1 (MIC 1) and MIC 2, respectively, for a period of one year as of February 1, 2012. It said that the mobile operators approved the Telecommunications Ministry's amendments to the terms and size of profits. It added that the new agreement stipulates the implementation of 12 clauses, such as the introduction of a national roaming system across the country; the implementation and the supervision of the quality control system to ensure that mobile conversations are not interrupted; and the installation of 400 stations with 1,200 antennas to guarantee good coverage across Lebanon. It indicated that 60% of the companies' revenues would be fixed and the remaining 40% would depend on the full implementation of the 12 clauses. The government also requested the Telecommunications Ministry to present quarterly update reports to the Cabinet. It noted that the first report will include the terms and conditions to launch an international tender for the operation of the two mobile companies within four months of the adoption of the terms and conditions. The government did not disclose the value of the contracts but said that they are lower than the amount received by the companies under the previous agreements.

In June 2004, the Kuwait-based Zain Group won a four-year management contract to operate one of Lebanon's two government-owned GSM networks. In May 2010, the agreement was extended for three months from July 31, 2010 to October 2010 and was renewed for another three months until the end of January 2011. In February 2011, the contract was renewed for a 12-month period. Alfa is the brand name of the Lebanese mobile network managed by Orascom Telecom Holding (OTH) since February 2009.

## IDAL launches Agri Plus Program

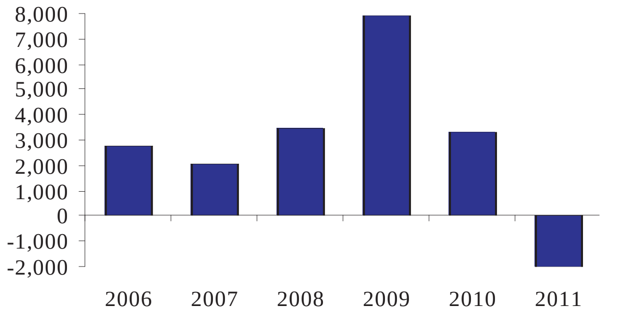
The Investment Development Authority of Lebanon (IDAL) launched the Agri Plus Program, a new program that aims to develop agricultural exports by providing financial incentives to exporters and farmers in Lebanon. IDAL indicated that Agri Plus aims at increasing the volume of agricultural exports, sustaining the traditional markets and opening new markets, contributing to strengthening foreign consumers' confidence in Lebanese agricultural products, and developing the knowledge and technical capacities of producers and exporters. Also, IDAL noted that competing through prices is no longer possible on its own, which necessitates focusing on producing value-added products and ensuring high-quality packaging.

Further, IDAL affirmed that the implementation of the new program will take place based on several criteria, such as participating in specialized international exhibitions held in Lebanon and abroad, encouraging the development of packaging and refrigerating centers, establishing training programs to grant these centers quality certificates, elaborating studies on potential markets and performing different promotional and marketing activities. The Agri Plus program will replace the Export Plus program.

## Balance of payments posts deficit of $2bn in 2011

Central Bank figures show that Lebanon's balance of payments posted a deficit of $2bn in 2011 compared to a surplus of $3.3bn in 2010. The balance of payments posted a surplus of $691.5m in December compared to a deficit of $558.9m in November 2011 and a surplus of $1.24bn in December 2010. The December 2011 surplus was caused by a surplus of $612m in the net foreign assets of banks and financial institutions and a surplus of $79.9m in those of the Central Bank. The cumulative deficit over the year was caused by a surplus of $2.3bn in the Central Bank's net foreign assets and a deficit of $4.3bn 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)**




*Source: Central Bank*

## Labor Ministry signs MoU with the Philippines' Department of Labor & Employment

The Lebanese Ministry of Labor and the Philippines' Department of Labor and Employment signed a Memorandum of Understanding (MoU) on Labor Cooperation and a Protocol on Regulating the Recruitment and Employment of Domestic Workers. The agreements aim to lift the ban on the deployment of workers from the Philippines to Lebanon and improve the process of recruitment and deployment in the country. Under the provisions of the Protocol, both parties will exert their best efforts to create a mutually acceptable unified work contract within a period of 30 days after the MoU enters into effect. The Protocol also requires that Lebanese employers deposit their domestic helper's salary in a bank account under the worker's name.

## KFAED and AFESD to finance Litani Project, World Bank funds water project

The Kuwait Fund for Arab Economic Development (KFAED) and the Arab Fund for Economic and Social Development (AFESD) announced the start of the implementation of the first phase of the newly launched Litani River Project through the signature of the contract document with the Council for Development and Reconstruction. The cost of the first phase is estimated at $330m and consists of two parts. The first part requires around $200m, 80% of which will be financed by KFAED, AFESD and the Lebanese government. The project will transport around 110 million cubic meters of water annually from the Qaraoun Dam in the Bekaa to the south of the country and is expected to irrigate land up to 800 meters above sea level.

In parallel, the Ministry of Finance, the World Bank and the National Council for Scientific Research (NCSR) signed a project agreement entitled "Regional Coordination on Improved Water Resources Management and Capacity Building Program". The total budget of the project amounts to $5.3m, of which $1.1m is allocated to Lebanon while the remaining $4.2m is allocated to Egypt, Jordan, Morocco and Tunisia. The project aims to establish a land station that will allow the NCSR to monitor vegetation, forest fires and land temperature on a daily basis. Also, the Lebanese Ministry of Agriculture and its Catalonian counterpart signed a cooperation agreement for the provision of consultancy and technical assistance for the sustainable management and conservation of oaks in Lebanon. The cooperation budget amounts to $100,000 and covers a period of 10 months.

## Union of Arab Banks signs MoU with ESA

The Union of Arab Banks and the Ecole Supérieure des Affaires (ESA), a private French business school, signed a memorandum of understanding (MoU) to strengthen mutual cooperation between the two sides. The MoU aims to facilitate the exchange of experts, consultants and specialists for the implementation of joint research and training programs and the organization of conferences, forums and workshops that address economic, financial and banking issues at all levels.

## Byblos Bank's credit quality is resilient, loan and deposit growth outperform peers

Regional investment bank EFG Hermes estimated that Byblos Bank's share price has a 9% upside potential under its fair value price of $1.72 per share. It noted that the Bank's earnings in the fourth quarter of 2011 were 46% higher than the forecast due to stronger-than expected trading income. It added that the stock trades at about 30% P/E premium to BLOM Bank and Bank Audi's shares, despite Byblos Bank's lower return on average assets and return on average equity. It indicated that Byblos Bank has been growing rapidly over the past few years due to its regional expansion in countries with low banking penetration or with a large base of Lebanese expatriates.

In parallel, EFG Hermes said that the Bank's customer deposits increased by 8% in 2011 and outperformed deposit growth at other Lebanese banks.  It added that the Bank's NPL ratio saw a marginal increase in 2011 to 2.95%, but noted that its credit quality remains resilient. It said the Bank continued to allocate credit provisions, mainly collective, due to the unsettled political environment in Syria and the possibility of higher NPLs over the next few months, despite the high quality of its loan portfolio. It added that NPL coverage for Byblos' NPL book is high at 139% as of end-2011, the highest such ratio by far among the top 3 Lebanese banks. It estimated Byblos Bank's capital adequacy ratio at 14% at end-2011, well above the minimum 8% required by the Central Bank and better than that of its Lebanese peers. EFG Hermes indicated that some of Byblos Bank's strengths include its strong consumer and SME franchise that places it in a strong position, as well as its expansionary strategy in markets where there is a large Lebanese Diaspora. It added that the Bank has shown strong growth in assets and earnings over the past three years, but growth momentum has slowed in 2011 due to a decline in investment and private consumption in Lebanon, as well as in regional markets on political uncertainties.

**Lebanese Banks Current Valuation Multiples**

| | P/E | | P/BV | | Div. Yield | CAR |
|---|---|---|---|---|---|---|
| | 2011E | 2012E | 2011E | 2012E | 2011E | 2011E |
| Byblos Bank | 6.4 | 7.6 | 0.8 | 0.8 | 7.8% | 14.0% |
| BLOM Bank | 5.1 | 5.3 | 1.0 | 0.9 | 5.5% | 12.6% |
| Bank Audi | 5.6 | 5.4 | 1.1 | 1.0 | 6.4% | 10.1% |

*Source: EFG Hermes*

## Aggregate profits of listed banks rise 2% in 2011

Financial results issued by five banks listed on the Beirut Stock Exchange show that their aggregate net profits reached $989.2m in 2011, constituting an increase of 2% from $969.6m in 2010, and compared to an increase of 20% in 2010. The average growth of the net profits of the five banks reached 3.8% in 2011, constituting a deceleration from the average growth in net profits of 21.7% in 2010. The aggregate net interest income of the five banks reached $1.47bn in 2011, up 6.2% from $1.39bn in 2010, while their total net fees and commission income increased by 14% annually to $468.4m. Total operating income of the listed banks reached $2.48bn in 2011, up 9.8% from $2.26bn in 2010.

In parallel, the aggregate assets of the five banks rose by 5.6% from end-2010 to 79.8$bn, while their total loans, excluding loans to related parties, increased by 8.4% to $21.7bn. Also, the banks' customer deposits rose by 5.1% from end-2010 to reach $66bn. BLOM Bank posted the lowest loans-to-deposits ratio at 27.6% compared to 26.6% at end-2010, followed by Byblos Bank with a ratio of 31.5% compared to 31.9% a year earlier, Bank Audi with 34.2% relative to 34% at end-2010, Bank of Beirut with a 43.2% ratio relative to 38.7% at end-2010, and Banque BEMO with 49.5% up from 47.3% a year earlier.

BLOM Bank had the lowest cost-to-income ratio at 38.7%, slightly up from 38.4% at end-2010. It was followed by Byblos Bank with 43.3%, down from 45.2% in 2010, Bank Audi with a 45.6% ratio compared to 47.4% in 2010, Bank of Beirut with a 50.3% ratio relative to 46.8% in 2010, and Banque BEMO with a 74.4% ratio relative to 75% in 2010.

**Results of Listed Banks for 2011**

| | Byblos | BLOM | Audi | BoB | BEMO |
|---|---|---|---|---|---|
| Net Profits | $179.7m | $331.5m | $365.2m | $103.4m | $9.3m |
| % Change* | 1.2% | 0.3% | 3.7% | 2.6% | 11.3% |
| Total Assets | $16.60bn | $23.17bn | $28.74bn | $9.73bn | $1.53bn |
| % Change** | 8.6% | 3.7% | 0.2% | 21.7% | 26.7% |
| Loans (1) | $4bn | $5.56bn | $8.42bn | $3.20bn | $0.55bn |
| % Change** | 6.3% | 7.6% | 0.4% | 41.7% | 16.7% |
| Deposits (1) | $12.72bn | $20.15bn | $24.61bn | $7.41bn | $1.11bn |
| % Change** | 7.6% | 3.6% | (0.3%) | 27.0% | 11.5% |

*Year-on-year*
**Change from end-2010*
*(1) Customer Loans and Deposits, excluding related parties' Loans and Deposits*

# Corporate Highlights

## Stock market activity down 37% to $30m in January 2012

Figures released by the Beirut Stock Exchange indicate that total trading volume reached 4.7 million shares in January 2012, constituting a decrease of 11.7% from the same month last year; while aggregate turnover amounted to $30.1m, down 36.8% from a turnover of $47.6m in January 2011. Market capitalization decreased by 18.7% from end-January 2011 to $10.3bn, of which 73.4% was in banking stocks, followed by real estate stocks with 22.6%, industrial stocks with 3.3%, investment funds with 0.3% and trading stocks with 0.3%. The market liquidity ratio was 0.3% compared to 7.6% in the same month last year. Bank stocks accounted for 92.2% of aggregate trading volume in the first month of the year, followed by real estate stocks with 7.7%, and industrial stocks with 0.1%. In terms of the value of shares traded, banking stocks accounted for 82.8% of aggregate value, followed by real estate stocks with 17%, and industrial stocks with 0.2%. The average daily traded volume for the period was 223,741 shares for an average daily value of $1.4m. The figures reflect decreases of 15.9% in volume and 39.8% in value year-on-year.

## Capital Intelligence withdraws ratings on BLOM Bank's affiliate in Syria

Rating agency Capital Intelligence announced that it has withdrawn its credit ratings for Bank of Syria & Overseas (BSO) at the request of the Bank and that it will no longer maintain ratings coverage. BSO is the Syrian affiliate of BLOM Bank sal. Capital Intelligence indicated that it did not have access to sufficient information to update the ratings at the time of withdrawal due to the unrest in Syria. It noted, however, that the ratings assigned no longer reflect the bank's credit profile on a forward-looking basis given the severity of political events in Syria and their impact on operating conditions, despite BSO's resilient key financial ratios up to the third quarter of last year.

In January 2011, Capital Intelligence assigned to BSO long- and short-term foreign currency ratings of 'BB-' and 'B', respectively, with a 'stable' outlook. It also assigned BSO at the time a Financial Strength Rating of 'BB' and a Support Rating of '3'; the latter based on a high likelihood of support from its Lebanese parent BLOM Bank. The agency said the ratings are underpinned by BSO's good asset quality and very strong liquidity at the time. It noted, however, that major rating constraints included Syria's sovereign rating, the country's developing regulatory environment and increasingly competitive operating conditions. It added that BSO's ratings are relatively constrained by borrower concentration.

## 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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