

## LEBANON THIS WEEK

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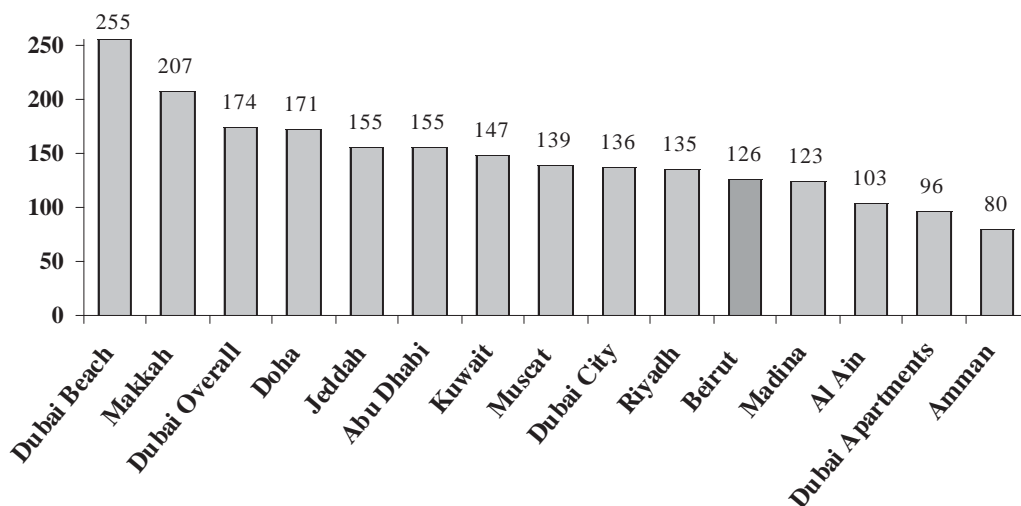
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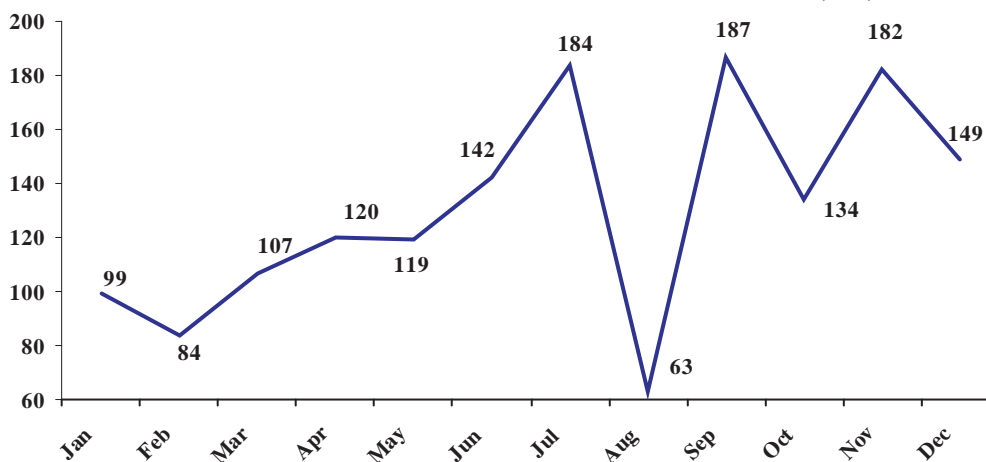
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### Charts of the Week

Revenues Per Available Room at Hotels in Arab Cities in 2011 (US\$)



Revenues Per Available Room at Hotels in Beirut in 2011(US\$)



Source: Ernst & Young, Byblos Research

### Quote to Note

"A lost year".

*The International Monetary Fund, on the domestic political shocks, sharp polarization among political factions, prolonged uncertainties, and regional unrest that resulted in the Lebanese economy losing momentum and opportunities in 2011.*

### Number of the Week

**142%:** Lebanon's actual public debt level relative to GDP at end-2010, after new National Accounts figures revealed that nominal GDP was at a lower-than-estimated \$37.1bn in 2010.

## Economic Indicators

<b>\$m (unless otherwise mentioned)</b>	<b>2009</b>	<b>Nov 10</b>	<b>2010</b>	<b>Sep 11</b>	<b>Oct 11</b>	<b>Nov 11</b>	<b>% Change*</b>
Exports	3,486	316	4,256	334	351	347	9.81
Imports	16,241	1,811	17,956	1,792	2,508	1,579	(12.81)
Trade Balance	(12,755)	(1,495)	(13,700)	(1,458)	(2,157)	(1,232)	(17.59)
Balance of Payments	7,899	(673)	3,326	(302)	(590)	(559)	(16.94)
Checks Cleared in LBP	11,122	1,079	13,519	1,147	1,233	1,042	(3.43)
Checks Cleared in FC	45,270	4,048	53,925	5,181	5,123	4,506	11.31
Total Checks Cleared	56,392	5,127	67,444	6,328	6,356	5,548	8.21
Budget Deficit/Surplus	(2,960)	(328)	(2,892)	(419)	(118)	(436)	33.03
Primary Balance	1,078	(32)	1,232	44	280	(95)	198.68
Airport Passengers	4,986,544	467,131	5,552,260	582,383	448,620	471,120	0.85
<b>\$bn (unless otherwise mentioned)</b>	<b>Dec 2009</b>	<b>Nov 10</b>	<b>Aug 11</b>	<b>Sep 11</b>	<b>Oct 11</b>	<b>Nov 11</b>	<b>% Change*</b>
BdL FX Reserves	25.66	27.74	30.64	30.62	30.51	30.82	11.09
<i>In months of Imports</i>	18.6	15.32	17.82	17.09	12.17	19.52	27.41
Public Debt	51.09	51.77	53.40	54.35	54.22	54.05	4.41
Net Public Debt	44.11	44.92	45.71	45.80	45.78	46.10	2.62
Bank Assets	115.25	127.57	138.06	138.42	139.54	139.43	9.30
Bank Deposits (Private Sector)	95.77	105.02	112.95	113.39	114.19	114.15	8.69
Bank Loans to Private Sector	28.37	34.92	38.92	38.76	39.22	39.60	13.41
Money Supply M2	34.16	39.31	37.35	37.68	37.90	38.42	(2.26)
Money Supply M3	82.08	91.00	95.21	95.63	92.26	96.32	5.85
LBP Lending Rate (%)	9.04	7.98	7.53	7.37	7.27	7.31	(67b.p.)
LBP Deposit Rate (%)	6.75	5.68	5.53	5.58	5.60	5.59	(9b.p.)
USD Lending Rate (%)	7.28	6.96	7.16	6.92	7.10	6.99	3b.p.
USD Deposit Rate (%)	3.05	2.80	2.80	2.84	2.82	2.84	4b.p.
%* Change in CPI**	4.20	6.07	6.49	5.27	3.14	3.89	(218b.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"	13.90	(1.35)	165,721	13.31%
Solidere "B"	13.95	0.00	59,334	8.69%
Byblos Common	1.59	0.63	113,167	5.48%
Byblos Pref. 08	102.00	0.00	0	1.95%
Byblos Pref. 09	102.00	0.00	312	1.95%
BLOM GDR	7.61	0.93	140,937	5.39%
BLOM Listed	7.40	0.00	0	15.24%
Audi GDR	6.30	5.00	50,000	6.04%
Audi Listed	6.10	6.09	279,486	20.42%
HOLCIM	16.30	(0.67)	125	3.05%

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	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

	<b>Feb. 6-10</b>	<b>Jan. 30- Feb. 3</b>	<b>% Change</b>	<b>January 2012</b>	<b>January 2011</b>	<b>% Change</b>
<b>Total Shares Traded</b>	824,982	1,315,509	(37.29)	4,698,553	5,322,427	(11.72)
<b>Total Value Traded</b>	\$6,775,463	\$12,262,059	(44.74)	\$30,077,731	\$47,601,150	(36.81)
<b>Market Capitalization</b>	\$10.44bn	\$10.30bn	1.38	\$10.29bn	\$12.66bn	(18.74)

Source: Beirut Stock Exchange (BSE)



### Lebanon's posts 13th worst brand perception globally in fourth quarter of 2011

The Nation Brand Perception Index (NBPI) ranked Lebanon in 188th place among 200 countries and territories around the world and in 15th place among 19 countries in the Middle East & North Africa region in the fourth quarter of 2011. Lebanon also came in 43rd place among 46 upper-middle income countries (UMICs) included in the survey. Lebanon ranked in 186th place globally in the third quarter of 2011, in 190th place in the second quarter and in 174th place in the first quarter last year. In parallel, Lebanon ranked in 189th place globally for full year 2011 compared to 186th place in 2010, ranking ahead of Bahrain and behind Cambodia; while it came in 13th place regionally last year, ahead of Bahrain and behind Tunisia. It received a score of 32.8 points for full year 2011, down from 33.9 in 2010 and below the global and regional averages of 50.1 and 40.5 points, respectively. The NBPI analyzes international perceptions of a country's brand. It covers the tone, whether positive or negative, and frequency of mentions in the international media. It said the number of times a country is mentioned reflects the strength of the brand, but not necessarily its quality. The index is based on a quarterly analysis of millions of mentions of countries in hundreds of thousands of news articles in 38 prominent global media sources. The index scores rely both on the overall quality of the media coverage and the prominence of the country, determined by the number of country references or mentions.

Globally, Lebanon ranked ahead of Central African Republic, Greece and the Philippines and came behind Turkey, Yemen and Libya in the fourth quarter of 2011. It also ranked ahead of only Mexico, Iran and Brazil, and behind Turkey and Libya among UMICs. Lebanon received a score of 32.8 points in the fourth quarter of 2011, down 19% from the third quarter of the year. Its score came below the global and UMICs averages of 49.9 points and 47.7 points respectively, the MENA average of 40.1 points and the Arab average of 42.9 points. Malaysia had the best nation brand perception in the world with a score of 83.4 points in the fourth quarter. Also, Singapore had the best nation brand perception in the world with a score of 90.9 points in full year 2011 and Syria had the worst brand perception with a score of 13.6 points.

In parallel, Lebanon was the 51st most mentioned country in the international media in the fourth quarter of 2011, the 13th most mentioned country from the MENA region and the 10th most mentioned among UMICs. Globally, Lebanon was mentioned more than Somalia, Kenya and Georgia, and less than Poland, the UAE and Yemen. It was also mentioned more than Cuba and Colombia and less than Argentina and Mexico among UMICs. Lebanon was mentioned 6,243 times in the international media, below the MENA average mentions of 16,921 times, the global average mentions of 16,253 times, the Arab average mentions of 10,897 times and the UMICs' average mentions of 10,372 times. Lebanon's number of mentions in the fourth quarter of 2011 was higher than its 2,749 mentions in the preceding quarter, but lower than its 7,231 mentions in the second quarter and 9,574 mentions in the first quarter of 2011. Also, Lebanon ranked in 50th place globally and in 15th place regionally for full year 2011, as it was mentioned a total of 29,330 times last year, below the global average mentions 68,656 times and the MENA average mentions of 81,307 times.

### Government signs \$200m loan for Beirut water project

The World Bank and the Lebanese government signed a \$200m loan agreement to finance the \$370m Greater Beirut Water Supply Project. The World Bank's Board of Directors had approved the loan in December 2010, while the Lebanese Cabinet approved it in October 2011. The project aims to increase access to drinkable water to around 1.7 million people in the Greater Beirut region. It is expected to provide 40 million cubic meters of water from the Awali River to areas between Khaldé and Nahr al-Mot and that are located at an elevation of up to 300 meters above sea level. The first part of the project consists of transporting water from the Awali River to Khaldé through a canal, and the second part consists of building distribution networks and water tanks. The World Bank stated that the project is expected to create around 10,000 jobs within the next three to four years. The Beirut & Mount Lebanon Water Authority will provide \$140m, while land appropriation will cost an additional \$30m.

#### MENA Scores & Rankings in Q4-2011

	Score	MENA Rank	Global Rank
Kuwait	67.1	1	10
UAE	61.4	2	14
Qatar	57.6	3	22
Tunisia	54.7	4	32
Oman	54.5	5	34
Morocco	54.4	6	35
Algeria	49.7	7	143
Jordan	47.7	8	158
Bahrain	44.2	9	170
Israel	40.9	10	178
Saudi Arabia	38.6	11	181
Libya	34.3	12	185
Yemen	34.2	13	186
Turkey	33.8	14	187
<b>Lebanon</b>	<b>32.8</b>	<b>15</b>	<b>188</b>
Egypt	27.0	16	194
Iraq	19.1	17	195
Syria	7.1	18	198
Iran	2.9	19	199

Source: East West Communications, Byblos Research

### IMF projects economic growth at 3.5% in 2011, says Syrian turmoil is key near-term risk

In its Article IV Consultation, the International Monetary Fund projected real GDP growth in Lebanon at 3.5% in 2012 relative to 1.5% in 2011. It said that Lebanon is facing a difficult global, regional, and domestic environment simultaneously for the first time in over a decade. It cautioned that near-term risks to growth are high and to the downside due to the uprising in Syria, the uncertain outlook for the region, and the financial crisis in Europe. It added that underlying vulnerabilities remain large, especially those stemming from the high government debt and the continuing current account deficit. It indicated that the uprising in Syria is keeping Lebanon on edge given the two countries' close political and economic ties. It noted that the uprising has already affected investor confidence in Lebanon, disrupted tourism, increased costs of bilateral and transit trade, and prompted banks to reduce their exposure to Syria. It considered that further escalation of the uprising and sanctions by the Arab League could have far-reaching political and economic repercussions. It added that Lebanon is facing risks related to the worsening outlook in Europe and that second-round effects could be significant if regional oil exporters were affected via a lower oil price or financial losses. It also cautioned that increasing domestic wage increases beyond productivity gains could pose problems for competitiveness.

The IMF encouraged authorities to implement near-term policies to instill confidence and preserve macroeconomic stability. It also stressed the need to maintain fiscal discipline in 2012 and beyond, and suggested that contingency measures be incorporated in the 2012 budget in case downside risks materialize. The Fund supported the authorities' intention to embed the 2012 budget into a medium-term agenda so as to facilitate prioritization. It also urged a significant reduction in the debt-to-GDP ratio as part of the medium-term fiscal strategy, and to create fiscal space for higher social and capital spending.

The Fund noted that the government needs to reduce its reliance on the Central Bank for its financing needs, and to finance itself fully from the market. As such, it supported greater but prudent use of foreign currency borrowing by the government in the near term. It also noted that increasing interest rates on Treasury bills with maturities of less than 7 years would make them more attractive to banks. The IMF added that the currency peg is central to the financial stability of Lebanon's highly dollarized economy, and should be supported by strengthening competitiveness. But it also stressed the need for a medium-term plan to improve the Central Bank's balance sheet.

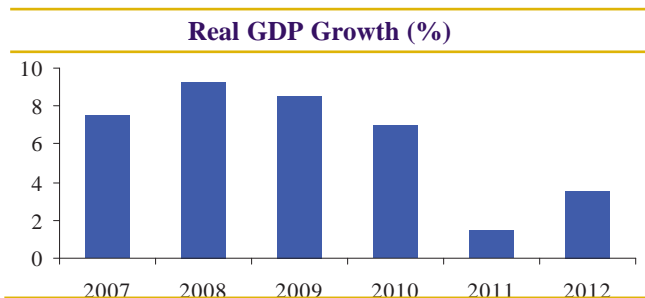
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### Political risks, poor infrastructure, high public debt and weak governance are main obstacles to growth

The International Monetary Fund indicated that political risks, the infrastructure deficit, the high public debt, and a weak governance and business environment constitute the most significant constraints to economic growth in Lebanon. It said that the high cost of finance does not restrict economic activity in Lebanon, as high interest rates over the last decade reflected Lebanon's premium risk from political uncertainty and high debt levels. It said that the country's sustained deposit inflows allowed the banking sector to finance both the public and the private sectors. It added that Lebanese banks have increasingly channeled their deposits to the private sector, leading to high private sector credit growth. Further, it noted that Lebanon's financial system is inclusive compared with other MENA countries, posting the lowest loan concentration and the largest share of SME lending of total loans in the region.

In parallel, it considered that low returns on economic activity from high political risks and poor infrastructure affect growth. It said Lebanon's political risks reflect a fragmented political system and regional tensions. It noted that risks have increased recently due to the regional unrest, particularly in Syria. It added that poor infrastructure also lowers private investment returns due to lack of complementary public inputs, while domestic and external political risks inhibit investment and growth. Also, it said that Lebanon's infrastructure bottlenecks are severe with a poor road network, costly and unreliable electricity, poor water supply, and expensive and underdeveloped communication infrastructure. It noted that Lebanon has around 7,200 km of roads, many of which are in need of maintenance and repair. It added that the state-owned Electricité du Liban is highly inefficient and that the electricity gap is met by costly private generators that adversely affect the competitiveness of the economy, especially the energy-intensive manufacturing sector. It also pointed out that Lebanon's Internet and communication technology services are among the most expensive and least competitive in the region.

Further, the IMF identified Lebanon's institutional failures at the micro and macro levels as key obstacles to growth. It added that, at the micro level, Lebanon's weak business environment and poor governance are main sources of risks. It indicated that a poor business environment fosters political instability, corruption, and low government effectiveness, which restrain entrepreneurship and decrease private sector returns. At the macro level, the IMF indicated that Lebanon's high debt level, substantial rollover needs, and large exposure of banks to the sovereign present persistent risks to macroeconomic stability and growth. It said that Lebanon's high debt servicing level, which averaged 13% of GDP over the 2000-10 period, made it difficult for the government to make the necessary investments to address the infrastructure deficit. It added that the high public debt also threatens macroeconomic stability, which is critical for confidence and private investment.

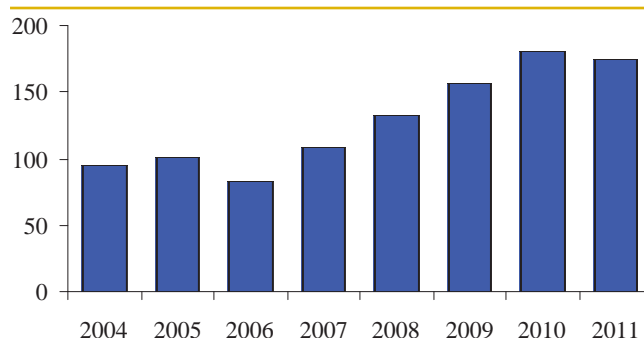


Source: International Monetary Fund

### Advertising spending in Lebanon down 3% to \$174m in 2011

The annual survey of the advertising market in the Arab world by *ArabAd* magazine and research firm IPSOS-STAT shows that real advertising expenditures in Lebanon totaled \$174m in 2011, constituting a decrease of 3.3% from \$180m in 2010 and compared to growth of 15.4% in 2010 and 18.5% in 2009. Television attracted \$65.5m, or 37.6% of advertising expenditures, followed by outdoor billboards with \$45m (26%), newspapers with \$32m (18.3%), magazines with \$14.5m (8.3%), radio with \$12m (7%), online with \$3.5m (2%) and cinemas with \$1.5m (1%). Cinema advertising rose by 25% last year, followed by online ads with a 6% growth and TV ads with a 4% increase; while newspaper ads dropped by 14%, followed by outdoor ads with a 6% decline, radio ads with a 4% decrease, and magazine ads with a 3% contraction.

Real Advertising Expenditures in Lebanon (\$m)



Source: ArabAd, Byblos Research

In terms of advertising revenues, LBCI was the top television station, *An Nahar* led all newspapers, *Nadine* was the top social weekly publication, *Mondanité* was the leading foreign language monthly periodical, and *Snob* the number one Arabic monthly magazine; while Sawt Al Mada was the top news radio station and Sawt Al Ghad the leading musical radio station. Transmed was the biggest individual spender on advertising in Lebanon, followed by Khalil Fattal & Fils, L'Oréal Liban, Solvid, Amana Care, Nestlé, Abi Ramia Brothers, Fransabank Group, BankMed and Obegi Consumer Products. Further, Marinas Turbo was the top advertised brand in all media, followed by XXL, Freeze, BankMed, Moukarzel, Fransabank, Bank Audi, Sedar, Buzz and BLOM Bank. Also, BBAC and Byblos Bank were the top two advertised brand in cinemas, BankMed was the most advertised in the press, Marinas Turbo was the top advertised brand on television, Samsung was the most advertised on outdoor billboards, and BO18 Classic was the most frequently promoted on radio.

In parallel, *ArabAd* indicated that political news bulletins attracted 32% of total TV advertising, followed by humor programs with a 9% share. Also, political issues attracted 37% of print advertising, followed by social news with 16%. The magazine attributed the large share of advertising expenditures on political programs and news to the politically-driven nature of Lebanese society. Further, it said that the Hygiene & Beauty Care sector was the top spender on advertising last year, while advertising by the automotive sector dropped sharply following cuts of 50% on TV campaigns.

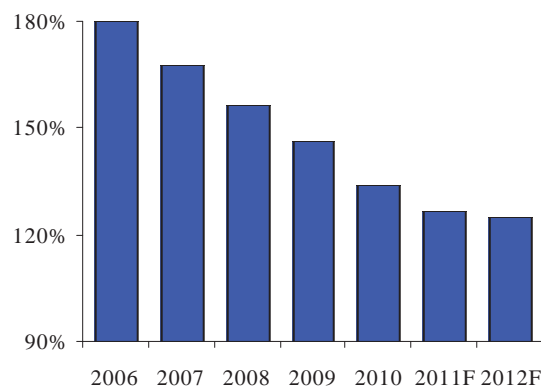
According to IPSOS-STAT, monitored advertising expenditures in Lebanon reached \$1.24bn in 2011, almost unchanged from 2010. It said the discrepancy between monitored rates and actual figures continues, as monitored rates are 7.1 larger than real advertising expenditures. It attributed this trend to big client discounts, inflated rate cards, big barter deals, as well as to a lack of transparency in the industry in reporting earnings. It noted that monitored ad spending on TV are 14.3 times larger than actual spending, followed by radio with a 4.1 ratio, magazines with a 3.9 ratio, outdoor billboards with a 3 ratio, newspapers with a ratio of 1.7, and cinema at 1.6 times.

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

Lebanon's gross public debt reached \$53.6bn at the end of 2011, constituting an increase of 2% from end-2010. Domestic debt increased by 2.2% to \$32.7bn, while external debt rose by 1.7% annually to \$20.9bn. Local currency debt accounted for 61% of gross public debt at end-2011 compared to 60.9% a year earlier, while foreign currency-denominated debt represented 39% of the total at the end of 2011 relative to 39.1% a year earlier. The weighted interest rate on outstanding Treasury bills was 6.83%, while the weighted interest rate on Eurobonds was 7.02% at the end of December. Further, the weighted life on Eurobonds was 5.7 years, while that on Treasury bills was 955 days.

Commercial banks accounted for 51% of the local public debt at the end of 2011 compared to 56.4% a year earlier. They were followed by the Central Bank with 33.2%, up from 27.2% at end-2010; while public agencies, financial institutions and the general public accounted for 15.8% of local debt, compared to 16.4% a year earlier. Eurobond holders, foreign private sector loans and special T-bills in foreign currencies accounted for 87.5% of the external debt, distantly followed by multilateral institutions with 6.6%, foreign governments with 4.8%, 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 3% to \$46.4bn. 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.

Total Government Debt (% of GDP)



Source: International Monetary Fund

### Government releases national accounts for 2010, official real GDP growth at 7%

The government released national economic data covering 2010 that provide official figures of gross domestic product (GDP), its structure and components, as well as figures on gross national income (GNI) and gross national disposable income (GNDI). The economic data covering 1997 served as the base year for computing the national accounts from 1998 onwards. The findings show that GDP was LBP 55,965bn (\$37.1bn) in 2010, reflecting a real GDP growth of 7% during the year. National expenditures stood at LBP 71,657bn (\$47.5bn) in 2010 relative to LBP 66,728bn (\$44.3bn) in 2009, resulting in a negative trade balance of LBP 15,692bn (\$10.4bn) in 2010 compared to LBP 14,493bn (\$9.6bn) in 2009. Also, the results show that private consumption grew by 5.3% in 2010 compared to 8.3% in 2009, while public consumption grew by 6.4% in 2010 relative to 8.6% in 2009. Further, private investments grew by 0.7% in 2010, decreasing from 38.1% in 2009; while public investments increased by 23.5% in 2010 relative to 8.4% in 2009.

The study infers that GDP alone cannot measure the level of economic activity and estimated GNDI at LBP 71,304bn (\$47.3bn) for 2010 by adding foreign transfers and income earned abroad to GNI figures. Net current transfers totaled \$10.3bn in 2010 compared to \$10.1bn and in 2009. In parallel, the trade deficit has always been covered by foreign revenues and transfers, which contributed to the financing of the national economy through the formation of household savings. The government has now compiled national accounts for the 1997-2010 period. The figures have been compiled by the National Accounts Unit at the Presidency of the Council with the technical assistance of French research organization L'Institut National de la Statistique et des ?tudes ?conomiques (INSEE).

GDP Distribution by Sector				
	2009		2010	
	Value (LBP bn)	% of Total	Value (LBP bn)	% of Total
Commercial Services	16,578	32%	18,721	33%
Trade	14,658	28%	15,395	28%
Construction	7,018	13%	8,515	15%
Government	4,780	9%	5,071	9%
Transportation & Communications	3,426	7%	3,084	6%
Industry	3,982	8%	4,002	7%
Agriculture & Livestock	2,660	5%	2,650	5%
Energy & Water	-867	-2%	-1,473	-3%
<b>Total GDP</b>	<b>52,235</b>	<b>100%</b>	<b>55,965</b>	<b>100%</b>

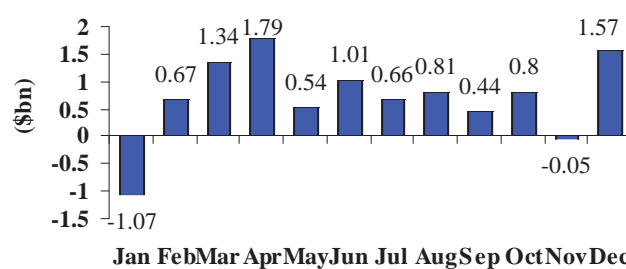
Source: National Accounts, Byblos Research

### Commercial banks' assets reach \$141bn at end-2011

The consolidated balance sheet of commercial banks operating in Lebanon shows that total assets reached \$140.6bn at the end of 2011, constituting an increase of 9% from end-2010. Private sector deposits totaled \$115.7bn, increasing by 7.9% from end-2010. Deposits in Lebanese pounds reached \$39.4bn, down 0.1% from end-2010, while deposits in foreign currencies totaled \$76.3bn, rising by 12.6% from end-2010. Non-resident foreign currency deposits totaled \$18.6bn at end-2011, increasing by 19.2% from end-2010. 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, while they declined by \$45m in November and increased by \$1.6bn in December 2011. In parallel, deposits of non-resident banks reached \$5.8bn, an increase of 29.2% from end-2010. The dollarization rate of deposits reached 65.9% at end-2011, up from 63.2% a year earlier. Further, the average deposit rate in Lebanese pounds reached 5.63% in December, down from 5.68% a year earlier, while the same rate in US dollars was 2.83% compared to 2.8% in December 2010.

Loans to the private sector totaled \$39.4bn, constituting an increase of 12.7% from end-2010. Lending to the non-resident private sector reached \$5.2bn and rose by 11.7% from end-2010. The dollarization rate in private sector lending reached 78.4% at end-2011, down from 80.3% a year earlier. The average lending rate in Lebanese pounds was 7.38% in December 2011 compared to 7.91% a year earlier, while the same average in US dollars was 7.02% compared to 6.74% in December 2010. In addition, claims on non-resident banks reached \$14.6bn at end-2011, posting a decrease of 7.7% from end-2010. Claims on the public sector stood at \$29.2bn, up 0.3% year-on-year, and accounted for 42.6% of the banking sector's total claims. The ratio of private sector loans to deposits in foreign currencies stood at 40.5%, well below the Central Bank's limit of 70%, and below the ratio of 41.4% a year earlier. In parallel, the same ratio in Lebanese pounds was 21.6%, up from 17.4% a year earlier. The ratio of total private sector loans to deposits was 34% compared to 32.6% a year earlier. The banks' aggregate capital base stood at \$10.7bn, up by 16.3% from end-2010.

### Private Sector Deposit Change in 2011



Source: Association of Banks in Lebanon

### Use of hotels and furnished apartments at 1.74 million nights, spending declines by 17.3% to \$105m in 2011

Figures compiled by the Ministry of Tourism show that a total of 739,066 persons used hotels and furnished apartments in Lebanon and spent 1,741,802 nights in such facilities in 2011, constituting decreases of 15.8% and 17.3%, respectively, from 2010 figures. As a result, clients stayed an average of 2.36 nights per person last year compared to 2.4 nights in 2010, 2.54 nights in 2009, 2.29 nights in 2008, 2.23 nights in 2007 and 2.46 nights per person in 2006. The 2011 figures constitute the first annual contraction in the number of persons who used hotels and furnished apartments and in the number of nights spent since 2007, when the total number of clients decreased by 5.8% and the total nights spent declined by 14.4% from 2006 figures. Visitors came from 165 countries and spent a total of \$104.5m in 2011 on lodging in hotels and furnished apartments, a decline of 17.3% from \$126.4m in 2010, and compared to \$203.4m in 2009, \$87m in 2008, \$59m in 2007 and \$69m in 2006. Arab nationals, including Lebanese citizens, accounted for 70.7% of total clients and of 65.6% of aggregate nights in 2011, up from 69.8% of total clients and 64.5% of aggregate nights in 2010, and compared to 73.4% of total clients and 70.2% of aggregate nights in 2009, and 74.4% of total clients and 70.6% of aggregate nights spent in 2008.

The distribution of clients by country at hotels and furnished apartments indicates that Lebanon accounted for 147,786 clients, or 20% of the total and slightly up from 19.5% in 2010. It was followed by Saudi Arabia with 81,361 clients (11%), Iraq with 63,911 (8.6%), Jordan with 56,558 (7.7%), Syria with 39,688 (5.4%) and Kuwait with 34,921 (4.7%). The number of Kuwaiti clients at hotels and furnished apartments decreased by 25% in 2011 from the previous year, while clients from Saudi Arabia declined by 24.6%, clients from Syria dropped by 18%, those from Lebanon decreased by 13.8%, clients from Jordan contracted by 8.7%, while the number of clients from Iraq increased by 12.5% year-on-year. Further, Lebanon accounted for 19% of the total number of nights spent, followed by Saudi Arabia with 10%, Iraq with 7%, Jordan with 6.5%, and Syria with 5.3%. In comparison, Lebanon accounted for 18% of the total number of nights spent in 2010, followed by Saudi Arabia with 11%, Jordan with 5.9%, Iraq with 5.8%, and Syria with 5.3%.

In parallel, the length of stay per person for Arab nationals shows that nationals from Morocco stayed an average of 7.63 nights per person, followed by Djibouti (3.5), Tunisia (3.46), Libya (3.34), Oman (3.32), Palestine (3.1), Algeria (2.87), Yemen (2.76), Sudan (2.71), Syria (2.33), Egypt (2.18), Saudi Arabia, Kuwait and Bahrain (2.14 each), the UAE (2.02), Jordan (1.99), Mauritania (1.98), Iraq (1.91) and Qatar (1.88). The report has separate entries for Dubai and Abu Dhabi where nationals from Dubai totaled 928 and spent 1.89 nights per person, and those from Abu Dhabi reached 335 and spent 2.05 nights per person. In parallel, the length of stay per person for non-Arab visitors shows that nationals from Belarus stayed an average of 32.23 nights per person, followed by Uzbekistan (28.41), Moldova (27.13), Botswana (24.11), Ukraine (12.03) and Russia (9.43). The top 5 countries accounted for 52.7% of clients and 47.8% of total nights spent, while the top 10 countries accounted for 72.1% of clients and 65.1% of total nights spent in 2011.

#### Length of Stay of Top 10 Countries

Country	Total nights	Average night per person
<b>Lebanon</b>	<b>147,786</b>	<b>2.24</b>
Saudi Arabia	81,361	2.14
Iraq	63,911	1.91
Jordan	56,558	1.99
Syria	39,688	2.33
Kuwait	34,921	2.14
France	31,673	2.04
UAE	27,892	2.02
Egypt	26,864	2.18
England	21,894	2.13

*Source: Ministry of Tourism, Byblos Research*

### Kafalat loan guarantees at \$10m in January 2012

Figures released by the Kafalat Corporation show that loans extended to small- and medium-size companies under the guarantee of Kafalat reached \$10.3m in January 2012, down 38.4% from \$16.8m in the same month last year. The number of loan guarantees totaled 69 in the covered period compared to 103 in January 2011. The average loan size reached \$149,933 compared to \$163,038 same month last year. Mount Lebanon accounted for 52.2% of guarantees, followed the South & Nabatieh with 18.8%, the North with 14.5%, the Bekaa with 10.1% and Beirut with 4.4%. The agriculture sector accounted for 43.5% of total guarantees, followed by industries with 29%, tourism with 18.8%, handicraft with 5.8% and specialized technologies with 2.9%. 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.

### Banking sector's liquidity at 42% of total assets, capital adequacy at 13.3%

Figures issued by the International Monetary Fund show that the risk-weighted capital adequacy ratio of banks operating in Lebanon reached 13.3% at the end of August 2011, unchanged from the end of 2010 but marginally down from 13.7% at end-2009; while the capital-to-assets ratio was 7.7% at end-August 2011, up from 7.3% at end-2010 and 7.2% at end-2009. Also, the sector's net liquid assets reached 41.5% of total assets at end-August 2011, down from 45.1% at end-2010 and 46.5% at end-2009; while net liquid assets were equivalent to 50.3% of short-term liabilities at end-August relative to 53% at end-2010 and 54.2% at end-2009. Further, private sector deposits were equivalent to 68.8% of total assets at end-August 2011, unchanged from end-2010 and marginally up from 68.7% at end-2009; while non-resident deposits represented 14.2% of assets at end-August relative to 14.3% at end-2010 and 14.4% at end-2009.

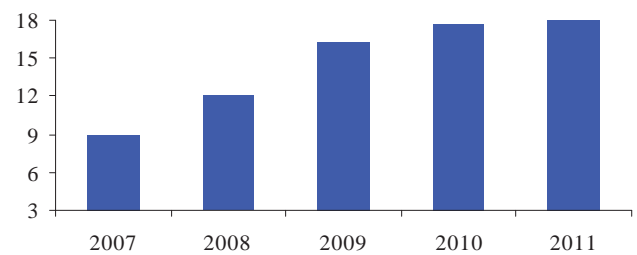
The sector's assets concentration indicates that claims on the Central Bank accounted for 34.6% of total assets at end-August 2011, increasing from 27.8% at end-2008, 30.7% at end-2009 and 31.3% at end-2010. Certificates of Deposits issued by the Central Bank drove this increase, as they rose from 9% of total assets at end-2007 to 12.1% at end-2008, 16.3% at end-2009, 17.7% at end-2010 and 18% at end-August 2011. Claims on the private sector accounted for 23.7% of the sector's aggregate assets relative to 23.5% at end-2010 and 21% at end-2009. In parallel, banks' exposure to the government declined to 21.1% of assets at end-August 2011 from 22.7% at end-2010, 25.2% at end-2009, and 27%, at end-2008. Further, the sector's net foreign currency assets were equivalent to 15.3% of capital at end-August compared to 14.2% at end-2010 and 15.4% at end-2009. In parallel, banks' average return on assets reached 1% at end-August 2011 on an annualized basis, down from 1.2% in 2010 and 1.05% in 2009; while their average return on equity reached 13.1% at end-August 2011 annually, relative to 17.7% in 2010 and 14.3% in 2009. The sector's net interest margin declined to 1.7% at end-August 2011 from 1.8% at end 2010, 1.9% in 2009 and 2.1% in 2008.

### MEA considering stake in Cyprus Airways

National flag carrier Middle East Airlines (MEA) is reportedly interested in acquiring a stake in Cyprus Airways, constituting the first time that MEA has expressed an interest in acquiring a stake in a foreign airline. The Cypriot government, which owns a 70% stake in Cyprus Airways, gave the company the green light to increase its capital and announced its intention to participate in the increase. It added that it would consider offers for the sale of an unspecified stake in the company. Cyprus Airways posted losses of €29.3m in the first half of 2011, received €20m in compensation from the government for extra costs incurred as a result of Turkey's ban on Cypriot traffic, and underwent a restructuring plan in an attempt to save €40m annually.

The Central Bank owns a 99% stake in MEA, which has a fleet of 16 modern Airbus planes. MEA was planning to raise \$250m through an initial public offering of 25% towards the end of 2010. But the partial IPO was indefinitely postponed due to unfavorable market conditions related to the Greek debt crisis and its impact on European economies, a drop in oil price, and the weak performance of Arab stock exchange. MEA underwent a restructuring program in 2001 that witnessed the layoff of more than 1,500 employees, or 40% of its staff, in addition to the cancellation of unnecessary flights and routes. Subsequently, the company managed to reverse 26 years of losses and returned to profitability in 2002. It is not possible to independently verify the actual financial state of MEA, as it does not publish its balance sheet or income statement.

### BdL Certificates of Deposits as % of Total Assets



Source: Central Bank, International Monetary Fund

### **IFC invests \$124m in MEDGULF**

The International Finance Corporation, the private sector arm of the World Bank, announced that it is acquiring a stake of up to 15% in the Mediterranean and Gulf Insurance & Reinsurance Company (MEDGULF) to support the group's regional expansion. It said that the \$124m investment in MEDGULF will help the firm extend its health and commercial risk insurance services across the region, mainly in Egypt, Iraq and Turkey. The MEDGULF Group, which started its activities in the 1980s in Lebanon, is a leading regional insurance company with operations in Lebanon, Saudi Arabia, Bahrain, the UAE, Jordan, Turkey and the United Kingdom. The MEDGULF Group operates in Lebanon through Mediterranean and Gulf Insurance & Reinsurance Co. sal, which is the largest insurer by premiums in the market. It also operates in Saudi Arabia through the publicly-traded Mediterranean and Gulf Cooperative Insurance & Reinsurance Company KSA, one of the largest insurers in the kingdom. The latter was established in 2006 and started operations in the kingdom in 2009. The group also operates in Bahrain and Jordan through MEDGULF subsidiaries. Its other operations include Third Party Administrator MEDIVISA, which manages and services the medical portfolio of MEDGULF in its main markets; and risk manager Addison Bradley.

The MEDGULF Group generated \$882.2m in premiums in Lebanon and the region in 2010, accounting for 38.7% of aggregate premiums of the insurance market in the Arab world, and ranking in second place in the region. Premiums generated in Lebanon stood at \$118.3m in 2010, with \$98.7m in non-life premiums and \$19.6m in life premiums. It ranked in first place in non-life premiums and in eighth place in life premiums in the Lebanese insurance market in 2010. The MEDGULF Group had \$1.55bn in assets at the end of 2010 and ranked in 8th place among Arab insurance firms. It posted \$89.5m in profits in 2010, fourth highest in the region. In April 2011, Saudi Oger Ltd, the conglomerate owned by the family of late Prime Minister Rafiq Hariri, sold its 51% stake in the MEDGULF Group to LFZ Holding, the investment vehicle of MEDGULF's shareholder and CEO Lutfi El-Zain.

## Ratio Highlights

(in % unless specified)	2008	2009	2010	Change*
Nominal GDP <sup>(1)</sup> (\$bn)	29.7	34.7	37.1	
External Debt / GDP	71.2	61.3	55.4	(590)
Local Debt / GDP	87.1	86.0	86.3	30
Total Debt / GDP	158.3	147.2	141.8	(540)
Total External Debt / GDP	175.2	176.1	167.0	(910)
Trade Balance / GDP	(42.6)	(36.8)	(36.9)	(10)
Exports / Imports	21.6	21.5	23.7	220
Budget Revenues / GDP	23.6	24.3	22.7	(160)
Budget Expenditures / GDP	33.4	32.8	30.6	(220)
Budget Balance / GDP	(9.8)	(8.5)	(7.9)	60
Primary Balance / GDP	2.0	3.1	3.2	10
BdL FX Reserves / M2	68.9	75.1	72.6	(250)
M3 / GDP	231.2	236.5	248.4	1,190
Bank Assets / GDP	317.4	332.1	347.5	1,540
Bank Deposits / GDP	261.9	276.0	289.0	1,300
Private Sector Loans / GDP	84.3	81.8	94.2	1,240
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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