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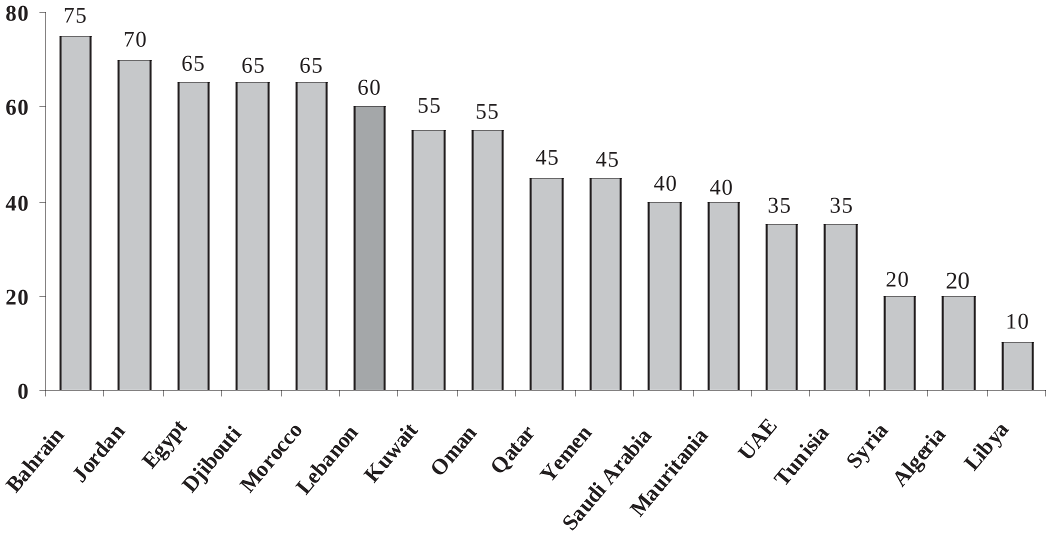
BYBLOS BANK SAL
Economic Research & Analysis Department

LEBANON THIS WEEK

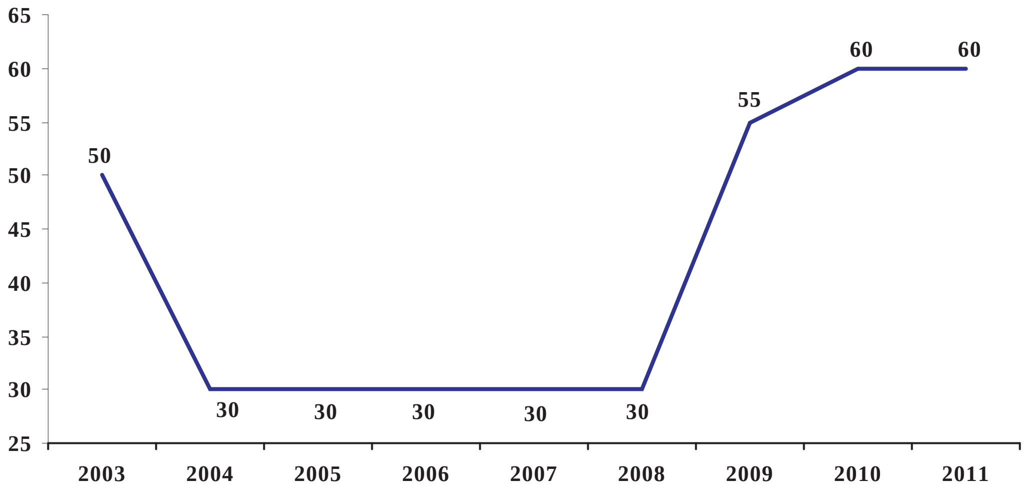
In This Issue

Charts of the Week

Investment Freedom Index in Arab Countries in 2011



Investment Freedom Index for Lebanon



Source: Heritage Foundation/Wall Street Journal, Byblos Bank

Quote to Note

"Stock-flow discrepancies between the country's balance of payments and the international investment position make the analysis of Lebanon's external position difficult."

Rating agency Standard & Poor's, joining a growing list of organizations to highlight the poor statistical database of the Lebanese economy

Number of the Week

$14.4bn: Lebanon's gross financing needs in 2012, as estimated by the International Monetary Fund

Economic Indicators

$m *(unless otherwise mentioned)*	**2009**	**Nov 10**	**2010**	**Sep 11**	**Oct 11**	**Nov 11**	**% Change***
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

$bn *(unless otherwise mentioned)*	**Dec 2009**	**Nov 10**	**Aug 11**	**Sep 11**	**Oct 11**	**Nov 11**	**% Change***
BdL FX Reserves	25.66	27.74	30.64	30.62	30.51	30.82	11.09
In months of Imports	*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

Most Traded Stocks on BSE	Last Price ($)	% Change*	Total Volume	Weight in Market Capitalization
Solidere "A"	13.90	0.00	148,937	13.30%
Solidere "B"	13.88	(0.50)	27,350	8.63%
Byblos Common	1.64	3.14	34,949	5.64%
Byblos Pref. 08	102.00	0.00	0	1.95%
Byblos Pref. 09	102.00	0.00	462	1.95%
BLOM GDR	7.68	0.92	147,980	5.43%
BLOM Listed	7.42	0.27	178,200	15.26%
Audi GDR	6.35	0.79	10,000	6.08%
Audi Listed	6.01	(1.48)	47,804	20.09%
HOLCIM	16.65	2.15	2,200	3.11%

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

Sovereign Eurobonds	Coupon %	Mid Price $	Mid Yield %
Mar. 2012	7.500	100.25	4.06
Sep. 2012	7.750	100.50	6.79
June 2013	8.625	107.38	2.92
Apr. 2014	7.375	107.75	3.59
Jan. 2015	5.875	104.50	4.21
Apr. 2015	10.00	117.75	3.99
Jan. 2016	8.500	114.88	4.32
Mar. 2017	9.000	119.25	4.69
Nov. 2018	5.150	99.50	5.24
Apr. 2021	8.250	118.50	5.64

Source: Byblos Bank Capital Markets

	February 13-17	February 6-10	% Change	January 2012	January 2011	% Change
Total Shares Traded	612,691	824,982	(25.73)	4,698,553	5,322,427	(11.72)
Total Value Traded	$6,314,257	$6,775,463	(6.81)	$30,077,731	$47,601,150	(36.81)
Market Capitalization	$10.45bn	$10.44bn	0.13	$10.29bn	$12.66bn	(18.74)

Source: Beirut Stock Exchange (BSE)

Beirut ranks 50th globally in house prices, 48th in rental yield, and 35th in prices relative to rent

The Global Property Guide's annual report on real estate investment trends around the world indicated that Beirut ranked in 50th place among 94 markets globally in 2011 and in second place in the Arab world in terms of the price of a 120 square meters to 150 sqm apartment. Globally, the price of such an apartment in Beirut was $3,223 per square meter, higher than in Saint Croix in the US Virgin Islands, in Manila and in Buenos Aires, and lower than in Bangkok, Dubai and Riga in Latvia. The Guide said that the property market in Lebanon has slowed down after several years of strong activity, mainly due to domestic political instability and regional unrest. It noted that the price of a square meter in Central Beirut increased It noted that the price of a square meter in Central Beirut increased by five times over the past six years. It added that gross rental yields in Beirut have dropped significantly over this period, as they declined from around 11% six years ago to under 4.7% currently. It warned that high prices and low yields trends are unlikely to be sustainable.

The report offers the tools needed by foreign and non-resident investors to buy income-generating property overseas. It said only resale apartments and houses are included in the survey. The properties surveyed have to be in excellent condition, have good facilities, and have been refurbished or redecorated within the past five years. The Global Property Guide's valuation data is based on upper end apartments in prestigious areas that appeal to foreign investors or renters. It said that figures for Beirut cover the areas of Achrafieh, the Beirut Central District, Hamra, Jnah, Ramlet El Baida, Ras Beirut and Verdun.

Beirut ranked in 48th place in 2011 among 82 markets globally and in last place among 5 Arab markets in terms of Gross Rental Yield (GRY), which is the annual rent relative to the house price. The survey said the GRY is the return-on-investment before taxes, maintenance fees and other costs, and is a key figure for investors. Globally, Beirut had a higher GRY than in Zagreb, Ljubljana in Slovenia, and Brussels, and slightly lower than in New York City, Copenhagen and Grande-Terre in Guadeloupe. Beirut's Gross Rental Yield was 4.65% in 2011, significantly lower than the Arab average of 6.7%. The survey classified Lebanon's GRY in the 'poor' category in 2011, a slight improvement from the 'very poor' category in 2010. It was the only Arab market in this category.

Further, Beirut ranked in 35th place among 82 markets globally and in first place in the region, in terms of the price of an apartment relative to its rent, or the Price-to-Rent ratio. This ratio reflects the years of rent that are required to buy a property with a surface area between 120 sqm and 150 sqm, and is typically used for measuring the undervaluation or overvaluation of real estate prices. Globally, Lebanon's capital Beirut tied with Zagreb, Ljubljana and Brussels, ranked ahead of New York City, Copenhagen, and Grande-Terre, and came behind Tokyo, London, and Sophia. Lebanon's price-to-rent ratio was 22, higher than the Arab average of 16, and indicating that it takes 22 years of rent to recover the purchase price of a 150 sqm apartment in Beirut.

Beirut ranked in 36th place among 82 markets globally and in second place among 5 Arab markets in terms of the Rent-per-Month of a 150 sqm apartment. Globally, monthly rent in Beirut was more expensive than in Berlin, Madrid and Shanghai, and less costly than in Makmol and Baval in Aruba, Panama City and Buenos Aires. Beirut's rent-per-month was $1,872 for a 150 sqm apartment, higher than the Arab average of $1,526 per month.

Further, Lebanon ranked in second place among 8 Arab markets in terms of Roundtrip Transaction Cost, which reflects all costs of buying and reselling a residential property, expressed as a percentage of the property value. Such costs include registration costs, real estate agents' fees, legal fees and sales and transfer taxes. The cost of buying a property in Lebanon was lower than in Jordan, and similar to Morocco and Egypt. Roundtrip transaction costs in Lebanon reached 11.6%, higher than the regional average of 9%.

Finally, Lebanon ranked in third place among 5 Arab countries in terms of the cost of a typical upscale housing unit of 100 square meters relative to the country's GDP per capita, or house price-to-income ratio. The house price in Lebanon is 30.8 times the GDP per capita, higher than in Jordan at 24.35 times and the UAE at 5.1 times, but lower than in Egypt (35.1 times) and Morocco (66.5 times). In comparison, the region's average house price-to-income ratio is 32.3.

City	Gross Rental Yield (%)	Price-to-Rent ratio	Buying Price* US$/sqm	Rent* US$/month	Roundtrip Cost (%)
Amman	9.25	11	1,106	1,280	15
Cairo	6.71	15	1,025	860	12
Dubai	6.89	15	3,393	2,338	5
Marrakesh	6.09	16	2,101	1,280	12
Beirut	4.65	22	3,223	1,872	12
Tel Aviv	3.84	26	7,773	2,988	10

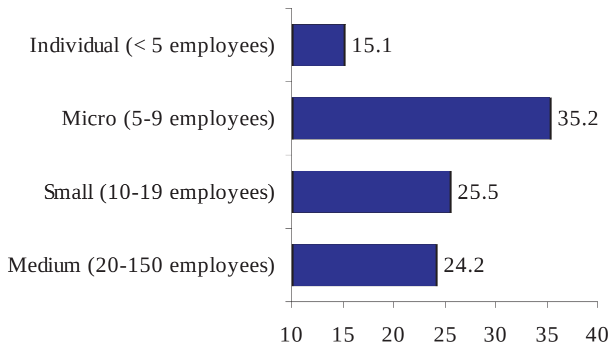
**120 sqm to 150 sqm apartment*

Source: Global Property Guide, Byblos Research

Profitability level satisfactory for 90% of Lebanese SMEs

A comprehensive survey about small and medium-sized enterprises (SMEs) in Lebanon by information provider Bankdata Financial Services indicates that about 25% of SMEs have an annual turnover of above $500,000; 32% have a yearly turnover between $100,000 and $499,999; and 36% have a turnover lower than $100,000 per year. The survey was conducted last year through face-to-face interviews with the owners, CEOs, and financial managers of 300 SMEs across the country. The results showed that turnover at nearly 63% of firms has been growing and that it has been stable at 28.5% of SMEs. Also, 46% of firms consider their level of profitability to be "fair" and another 45.6% think it is "good". Further, 67% of respondents said that their firm's activity is growing and another 24% stated it was stable. Also, 58% of respondents indicated that their firm's cash flow was "fair", compared to 40% who said it was "good' and 11% who said it was "bad". In parallel, more than two thirds of SMEs identified the economic environment as the external factor that has the strongest impact on their performance.

Company Size (% of total)



Source: Bankdata Financial Services

In parallel, the study shows that 82% of SMEs are independent businesses, of which 64% are family-owned. Also, 43% of SMEs in the country are in wholesale and retail trade, 30% are in the services sector, 17% in manufacturing, 8% in construction & energy, and 2% in agriculture. Further, nearly 58% of SMEs are concentrated in Beirut and Mount Lebanon, as 32% of SMEs are located in Mount Lebanon and another 25.5% in Beirut. In comparison, Northern Lebanon accounts for 16% of such firms, followed by the Bekaa with 14.4%, South Lebanon with 7.4% and Nabatiyeh with 4.4%. Further, the survey reveals that more than 77% of SMEs have been in business for more than five years; with 27.3% of firms operating for more than 20 years, another 26% between 11 and 20 years, and 24% of them between six and 10 years. In addition, 35% of firms have between five and nine employees, 25.5% employ between 10 and 19 persons, 24% of SMEs have between 20 and 150 employees, and 15% of them employ less than five persons.

The survey shows that nearly half of SMEs have both consumer and business customers, while less than 25% of them rely exclusively on consumers and another 25% serve businesses only. Also, 59% of SMEs said consumers represent between 51% and 100% of their clients, with 36.7% saying that consumers account for 51% to 99% of their clientele and another 22.3% stating that consumers account for 100% of their customers. Further, 17% said consumers represent between 26% and 50% of their clientele, another 9% consider that consumers account for up to 10% of their customers and about 6% said that consumers are 11% to 25% of their client base. Also, only 12% of SMEs on average serve large private companies; while 22% of firms on average rely on other SMEs.

Overdrafts account for 32% of bank credits, share of trade & services at 35% of utilized credits at end-September

Figures issued by the Central Bank about the distribution of bank credits by type show that overdrafts accounted for $13.7bn, or 31.7% of total private sector credits at the end of September 2011. They were followed by advances against real estate with $11.9bn (27.5%), advances against personal guarantees $7.5bn (17.3%), advances against cash collateral or bank guarantees $5.6bn (12.9%), advances against other real guarantees $2.7bn (6.3%), and advances against financial values $1.9bn (4.4%).

In parallel, utilized credits by the private sector totaled $43.2bn at end-September 2011, with the trade & services sector accounting for $15.1bn, or 34.9% of such credits. It was followed by personal credits with $10.5bn (24.4%), construction with $7.5bn (17.3%), industry with $4.9bn (11.3%), financial intermediaries with $3.4bn (7.9%) and agriculture with $412m (1%), while other sectors accounted for the remaining $1.4bn (3.3%). Also, wholesale trade represented 42.4% of trade & services credits, followed by real estate services with 20.3%, retail with 16.6%, transport & storage with 10.4%, hotels & restaurants with 7.5% and educational services with 2.9%.

Personal credits accounted for 78% of loan beneficiaries, followed by trade & services with 12.2% of beneficiaries, industry with 3.3%, construction with 1.5%, agriculture with 0.8%, and financial intermediaries with 0.7%; while other sectors accounted for 3.6%. Further, the aggregate number of loan beneficiaries grew by 20.6% year-on-year to 393,038, while 82.5% of beneficiaries had loans ranging from LBP5m to LBP100m by end-September 2011. Beirut and its suburbs accounted for 80.2% of bank credits and for 55.9% of beneficiaries. It was followed by Mount Lebanon with 8.8% of credits and 16.3% of beneficiaries; South Lebanon with 4% of credits and 8.5% of beneficiaries; North Lebanon with 3.9% of credits and 13% of beneficiaries; and the Bekaa with 3.1% of credits and 6.4% of beneficiaries.

Copyright violations remain a significant obstacle to legitimate business in Lebanon

The International Intellectual Property Alliance (IIPA), an organization representing more than 1,900 companies that produce and distribute copyright-protected materials throughout the world, asked the United States Trade Representative to keep Lebanon on the Watch List for serious infringements of intellectual property rights (IPRs) and severe copyright problems. The alliance's request is part of its overall recommendations to the U.S. authorities in the annual 'Special 301' review of copyright piracy and market access problems in 41 countries. Lebanon is one of 22 countries recommended for the Watch List that includes Egypt, Saudi Arabia, Israel and Turkey from the region.

The IIPA stated that piracy remains a significant obstacle to legitimate business in Lebanon despite the authorities' incremental progress in fighting piracy. It cited problems like end-user piracy of business software that continues to cause enormous losses to software companies; book piracy in the form of illegal photocopying on and around university campuses; retail piracy of all kinds of copyright materials such as movies, music and entertainment software; cable and pay TV piracy; growing Internet-based and mobile device piracy; hard-disk loading of software onto computers at points of sale; and the sale of circumvention devices such as pay TV decoders.

It added that Lebanese courts continue to be a weak link in enforcing intellectual property rights as court processes, from prosecutorial preparation to judicial process, do not deter further infringements or provide adequate compensation against piracy. In parallel, it noted that the situation for IPR holders has improved incrementally over the years through the establishment of the Ministry of Interior's Cyber Crime and Intellectual Property Rights Bureau Unit (CCIPRB), as the latter has provided raid support upon request. It noted that copyrights are important to Lebanon's economy and would contribute even more to the economy if intellectual property rights were more effectively enforced. It said that it is important for Lebanon to establish the proper legal framework for copyright protection and fully implement the laws to reduce piracy and foster growth in the country's creative sectors.

The IIPA noted that the Lebanese government has been working on amendments to its 1999 Copyright Law and related laws in order to implement the relevant international treaties related to its accession to the World Trade Organization. It said the current law provides a sound basis for IPR protection, but includes several deficiencies that must be addressed and that would lead to a more effective statute.

The IIPA called on the Lebanese government to take several actions that would yield immediate benefits to copyright industries. It said authorities need to ensure that the Cyber Crime and Intellectual Property Rights Bureau Unit continues to actively run raids against piracy targets on request, including end-user software piracy; and to provide the unit with ex officio raiding authority, authority to employ investigative techniques to detect piracy, and a regular operating budget. Further, it asked authorities to ensure that draft amendments to the Lebanese Copyright Law are compatible with major international copyright treaties, including the TRIPS Agreement, the WCT and the WPPT. Also, it encouraged authorities to pass accession legislation to permit Lebanon to join the Berne Convention and to deposit the ministerial acts of ratification of the WCT and WPPT with WIPO in Geneva. Finally, it urged the continuous training of Lebanese prosecutors and judges, and called on the government to consider seriously the establishment of a special IPR tribunal and to assign special IPR prosecutors.

Subsidized interest loans at $711m in first nine months of 2011

Figures released by the Central Bank show that the amount of subsidized interest loans to productive sectors in Lebanon reached $711.2m in the first nine months of 2011. The industrial sector accounted for $356.2m, or (50.1%) of the total, followed by tourism with $277.7m (39.1%) and agriculture with $77.2m (10.8%). Subsidized interest loans extended in 2010 totaled $759.8m relative to $519.5m in 2009 and $451.9m in 2008. The cumulative amount of subsidized interest loans to productive sectors in Lebanon reached $4.24bn between 1997 and September 2011.

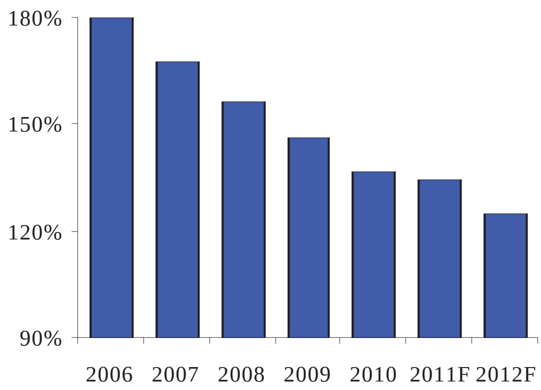
Subsidized medium & long-term loans reached $570.4m in the first nine months of 2011, equivalent to 80.2% of the total. Industry accounted for 50.2% of total subsidized medium & long-term loans, followed by tourism with 42.2% and agriculture with 7.6%. The program was established in the first quarter of 1997 and consists of a 5% to 7% subsidy on the interest for loans extended in foreign currencies to productive sectors. Also, subsidized interest loans guaranteed by the Kafalat Corporation totaled $123.8m, or 17.4% of the total. Industry accounted for 45.7% of Kafalat-backed subsidies, followed by agriculture with 27.4% and tourism with 26.9%. Kafalat provides financial guarantees for loans of up to $400,000 for small and medium-sized enterprises in productive sectors.

Further, subsidized interest loans granted by leasing companies totaled $10.1m in the first nine months of 2011, or 1.4% of the total. In addition, subsidized interest loans granted by the International Finance Corporation totaled $2.9m. The latter two subsidized interest loans were extended in total to the industry sector.

New proposal aims to reduce fiscal deficit to 5% of GDP and public debt to 100% of GDP over five years

Prime Minister Najib Mikati issued an alternative proposal to the 2012 budget draft that includes introducing ceilings for the fiscal deficit and the public debt as a percentage of GDP, stimulating economic growth and controlling inflation, as well as shifting the budget's primary balance from a deficit to a surplus. He said that the new approach aims to address imbalances in the previous budget proposals and takes into consideration the general principles of budget drafting. He added that the government should implement fiscal reforms given the slowdown in Lebanon's economic growth last year as well as increased regional and international political and economic risks. He noted that such reforms aim at rationalizing public expenditures and introducing necessary adjustments to improve the country's public finance imbalances. As such, he said that the government is committed to reduce the fiscal deficit ceiling to 5% of GDP and the public debt ceiling to 100% of GDP over the coming five years.

Total Government Debt (% of GDP)



Source: International Monetary Fund

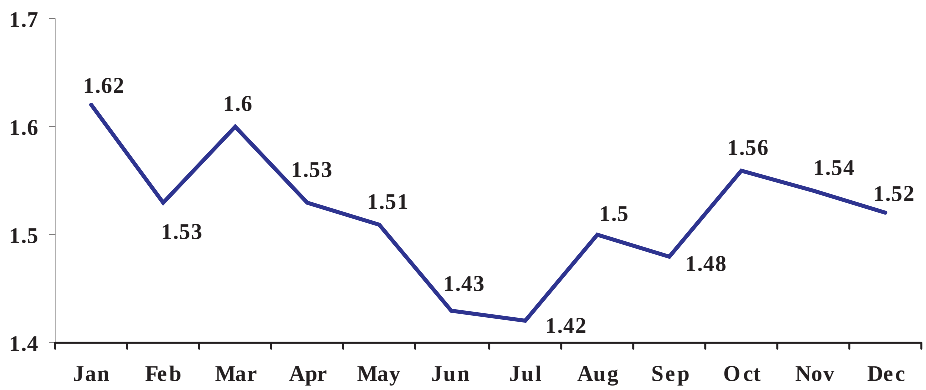
Further, he indicated that the management of Lebanon's public debt should not be strictly limited to reducing debt servicing cost, but needs also to focus on lowering the size of the debt stock. He added that this would improve Lebanon's fiscal position and sovereign ratings, and contain inflationary pressure. As such, PM Mikati said that the government should rationalize public expenditures; review Lebanon's tax system and improve the collection process; consider the possibility of privatizing some state assets; involve the private sector in public projects through public-private partnerships; and allocate the proceeds from the exploitation of offshore oil and gas to reducing the debt level to 60% of GDP.

In parallel, PM Mikati proposed for the government to draft a law that would allow Parliament to approve the 2012 budget before addressing the spending discrepancies in the previous budgets. He noted that Parliament has not passed a budget since 2005 and that the spending mechanism that was adopted since then was necessary to enable the government to fulfill its obligations. He added that the failure to approve budgets in the past six years has significantly undermined the structure of Lebanon's public finances and budgets.

Association of Banks recommends ceiling on US dollar deposit rates

The Board of Directors of the Association of Banks in Lebanon (ABL) asked banks to cap interest rates at 3.5% on dollar deposits in excess of $500,000 and with a maturity of less than one year. It also recommended lower interest rates on deposits of less than $500,000 and with shorter maturities. The board attributed its decision to the ongoing contraction in spreads between the cost of funds and the returns on uses of funds in US dollars, the high differential between the local and global interest rates on dollar deposits, and the high level of liquidity in the banking sector. It noted that the spreads between the cost of funds and the returns in foreign currencies regressed throughout 2011 from 1.62 basis points in January to 1.52 bps in December; while the spreads between the average deposit and lending rates contracted from 4.3 bps in January 2011 to 4.19 bps in December. Also, the spreads between time saving rates and the three-month LIBOR rates in US dollars declined from 2.94 bps in January 2011 to 2.75 bps in December 2011, peaking at 3.04 bps in June and July. It encouraged banks to abide by the ceiling on all new deposits and on all deposits that mature after the end of March 2012, and to start gradually reducing interest rates on deposits as of this date.

Spreads between debit and credit rates in 2011



Source: Association of Banks in Lebanon

Central Bank reaffirms commitment to currency stability and sound banking sector

The Central Bank indicated that the growing confidence in the national currency has improved its ability to conduct an efficient monetary policy through maintaining interest rates at low levels. It added that it would use the appropriate monetary tools to manage liquidity and keep inflation under control. It noted that deposit dollarization reached 65% at end-2011, posting a slight year-on-year increase but remaining below the peak of 77% reached at end-2007; while the loan dollarization ratio continued its downward trend to reach 78% at end-2011, posting its lowest level in more than two decades. It added that confidence in the Lebanese currency has allowed it to direct loans towards productive and socially beneficial sectors such as housing, education and environmentally-friendly projects. The Central Bank stressed that its commitment to the stability of the Lebanese pound's exchange rate to the U.S. dollar plays a pivotal role in maintaining financial and price stability. It noted that its strategy of maintaining a high level of assets in foreign currencies proved to be essential in dealing with any crisis that may affect the economy. Further, The Central Bank stressed the importance of attracting large capital inflows into the Lebanese economy, and added that the inflow of remittances from the Lebanese Diaspora represents a major source of external funding for the Lebanese economy.

In parallel, the Central Bank indicated that the banking sector's profits are stable, liquidity buffers are high, capital is above the regulatory minimum, and non-performing loans are low. It reiterated its commitment to regulating the banks' dealings with derivatives and structured products, restricting involvement in risky investments, and preventing any Lebanese bank from going bankrupt. It added that it is monitoring the performance of Lebanese banks operating in countries that are experiencing political turmoil. It pointed out that Lebanese banks operating in Lebanon and abroad are abiding by international standards on good governance, risk management, transparency and capitalization requirements; and are keen to keep clear and transparent relationships with their correspondent banks. Also, the Central Bank stated that it is aiming at strengthening banks capital funds to reach a capital adequacy ratio of 12% by 2015 from 7% currently.

In parallel, the Central Bank considered that the country's main challenge is to reduce the size of the fiscal deficit, while maintaining macroeconomic stability and laying the foundation for a more dynamic economy. It added that the current regional and domestic political climate does not support major fiscal initiatives. As such, it said that the government's plan to establish a sovereign wealth fund from the expected proceeds from the exploitation of offshore oil and gas reserves would reduce the debt level and benefit the Lebanese economy.

Commercial activity retreats in third quarter of 2011

The Central Bank's quarterly business survey of opinions indicated that the volume of commercial sales decreased during the third quarter of 2011, with the balance of opinion standing at -12, compared to -4 during the preceding quarter and to +16 during the same quarter of 2010. The business survey reflects the opinions of enterprise managers on their business activity in order to depict the evolution of a number of key economic variables. The balance of opinion for inventory levels in all commercial sub-sectors was +4 in the third quarter of 2011 compared to +11 in the same quarter of 2010. The balance of opinion is the difference between the proportion of surveyed managers who consider that there was an improvement in a particular indicator and the proportion of those who reported a decline in the same indicator.

Commercial Activity: year-on-year evolution of opinions

Aggregate results	**Q3-08**	**Q3-09**	**Q3-10**	**Q3-11**
Sales volume	41	40	16	-12
Inventories of finished goods	5	11	11	4
Q2-11 Regional results	**Beirut / Mount Lebanon**	**North**	**South**	**Bekaa**
Sales volume	-8	-30	-55	21
Inventories of finished goods	8	-11	1	12

Source: Central Bank Business Survey in third quarter 2011

Economic activity contracts in December

The Central Bank's Coincident Indicator, an index of economic activity in Lebanon, reached 265.5 points in December 2011 compared to 260.6 points in November 2011 and to 255.5 in December 2010. The Coincident Indicator, an average of 8 weighted economic indicators, increased by 1.9% month-on-month in December and by 3.9% year-on-year. The indicator averaged 255.7 in 2011 compared to 254.9 in the 12-months ending November 2011 and to 249.5 in 2010. As a result, the average coincident indicator increased marginally by 0.3% month-on-month and rose by 2.5% year-on-year, which reflects economic contraction in real terms. The indicator posted its seventh increase this year, as it grew by 4% in March, 6.7% in April, 1.3% in June, 4.8% in September, 4.6% in October and 0.4% in November. The indicator reached an all-time high of 269.9 in April 2011 after peaking at 266.7 in November 2010. In parallel, the indicator improved nine times and regressed 10 times in the month of December since 1993. The indicator averaged 249.5 in 2010 and 225.9 in 2009.

Lebanon ranks 44th globally, 16th in developing countries in terms of outstanding external debt

Figures released by the Bank for International Settlements (BIS) show that Lebanon's external debt totaled $26.5bn at the end of September 2011, ranking it in 44th place globally and in 16th place among developing countries. Lebanon also ranked in 7th place among 15 offshore centers and 3rd among 20 countries in the Middle East & Africa region. The figure represents the outstanding amount of international debt securities issued by both public and private institutions residing in the country. Lebanon accounted for 0.09% of the world's and for 2% of developing countries' outstanding external debt. Globally, Lebanon came ahead of Czech Republic, Indonesia and China and behind Colombia, India and Malaysia.

Lebanon's outstanding external debt increased by 7.2% in the first nine months of 2011 compared to an increase of 10.6% in developing countries and a 3.2% rise in offshore centers. It totaled $24.7bn at the end of 2010. Lebanon's stock of external debt at end-September 2011 was above the average of $19.5bn per country for developing countries.

International Debt Securities as at September 2011

Offshore centers	Outstanding Amount ($bn)	Rank
Cayman Islands	1,145.5	1
Netherlands Antilles	96.8	2
Hong Kong	90.3	3
Bermuda	86.9	4
Singapore	65.5	5
West Indies UK	40.0	6
Lebanon	**26.5**	**7**
Panama	11.9	8
Bahamas	11.5	9
Aruba	6.2	10

Source: Bank for International Settlements, Byblos Research

Lebanon accounted for 1.7% of offshore centers' total external debt, ranking ahead of Panama and behind the West Indies. Further, Lebanon accounted for 14.1% of international debt securities in the Middle East & Africa region, ahead of Qatar with $24.9bn and behind South Africa with $33.9bn. The outstanding amount of international debt securities in all offshore centers totaled $1,595.1bn, while that of developing countries reached $1,270.6bn as at end-September 2011. The UAE had the highest outstanding external debt in the Middle East & Africa region with $57.8bn as at end-September 2011.

In parallel, Lebanon's net debt issuance totaled $1.7bn in the first 9 months of 2011, ranking it in 44th place globally and in 18th place among developing countries. Globally, it came ahead of Luxembourg, Czech Republic and Croatia and behind Bahamas, Chinese Taipei and Romania. Lebanon's net debt issuance in the first 9 months of 2011 was lower than the global average net issuance of $7.8bn and the average net issuance in developing countries of $1.9bn. It accounted for 27.6% of the Middle East & Africa's net issues. The UAE was the highest net issuer in the Middle East & Africa region in the first 9 months of 2011 with $2.8bn.

International Debt Securities ($bn)

Top 10 ME&A	Outstanding Amount End- September 2011	Net Issuance First 9 Months of 2011	Net Issuance 2010
United Arab Emirates	57.8	2.8	(0.3)
South Africa	33.9	6.1	4.3
Lebanon	**26.5**	**1.7**	**1.1**
Qatar	24.9	(0.8)	3.9
Israel	16.5	(0.2)	2.2
Saudi Arabia	6.4	(1.3)	0.1
Egypt	4.1	(1.8)	1.5
Tunisia	2.7	(0.8)	(0.4)
Iraq	2.7	-	-
Côte d'Ivoire	2.6	(0.03)	1.5

Source: Bank for International Settlements, Byblos Research

Credit and debit cards exceed 1.78 million, ATMs total 1,326 at end-2011

Figures released by the Central Bank of Lebanon show that the number of credit and debit cards issued in Lebanon reached 1,783,962 cards at the end of 2011, constituting a marginal 0.3% increase from end-September, and a 6.4% rise from the end of 2010. Resident cardholders accounted for 97% of total cards issued in Lebanon. The distribution of payment cards by type shows that debit cards with residents accounted for 63% of the total, followed by credit cards with residents (23.9%), charge cards with residents (7.5%), resident prepaid cards (2.7%), non-resident debit cards (2.2%), non-resident charge cards (0.4%), non-resident credit cards (0.2%), and non-resident pre-paid cards (0.2%). The number of ATMs totaled 1,326 machines, constituting an increase of 2.2% in the fourth quarter of 2011 and a rise of 3.2% from 1,285 ATMs at the end of 2010. The Greater Beirut area had 615 ATMs, accounting for 46.4% of the total, followed by Mount Lebanon with 348 (26.2%), the North with 134 (10.1%), the South with 114 (8.6%), the Bekaa with 92 (6.9%), and Nabatiyeh with 23 (1.7%). Further, the aggregate number of point of sales accepting payment cards reached 48,574 by the end of 2011, dropping by 0.9% on a quarterly basis and decreasing by a marginal 0.02% annually.

The average monthly domestic payment by residents totaled $163.7m in the fourth quarter of 2011, increasing by 15.6% quarter-to-quarter and rising by 29.6% from the fourth quarter of 2010; while the average monthly payment and cash withdrawal abroad by residents fell by 4.5% to $83.4m from the third quarter of 2011 and grew by 4.5% from the fourth quarter of 2010. Further, the average monthly value of cash withdrawals by residents using ATMs increased quarterly by 7.6% and rose by 8.6% from the fourth quarter of the previous year to $503.1m; while average monthly withdrawals by non-residents contracted by 8.8% quarter-to-quarter to $7.6m and grew by 17.5% from the same period last year. Also, the average monthly purchases in Lebanon by non-residents increased by 4.9% quarter-to-quarter and rose by 40.9% from the fourth quarter of 2010 to $2.8m. Domestic card payments in Lebanese pounds accounted for 14% of aggregate payments in all currencies, while local currency withdrawals represented 67.5% of the total in the fourth quarter of 2011.

Number and Usage of Payment Cards Issued in Lebanon

	2011	2010	Change
Cards			
With residents	1,730,841	1,630,021	6.2%
With non-residents	53,121	46,351	14.6%
Total	1,783,962	1,676,372	6.4%
ATMs	**1,326**	**1,285**	**3.2%**
POS	48,574	48,583	-0.02%
Purchases (US$m)			
by residents in Lebanon	1,677.2	1,344.8	24.7%
% in LBP	13.2%	11.0%	
by non-residents in Lebanon	28.4	23.2	22.2%
by residents outside Lebanon*	957.0	863.7	10.8%
Cash withdrawals (US$m)			
by residents in Lebanon	5,574.6	5,064.4	10.1%
% in LBP	67.1%	66.5%	
by non-residents in Lebanon	84.7	78.5	8.0%

** including cash withdrawals*

Source: Central Bank of Lebanon, Byblos Research

Corporate Highlights

IMF calls for raising banks' provisions, says net provisioning has been low

In its Article IV Consultation, the International Monetary Fund noted that large cross-border exposures and an increasingly challenging domestic and regional environment have heightened risks for the Lebanese banking sector despite existing buffers. It recommended continued vigilance, and welcomed plans to further strengthen bank regulation and supervision, including cross-border supervision, and to implement Basel III regulations. It said banks carry a currency-induced credit risk, with some of their foreign currency loans extended to unhedged borrowers. It added that the decline in interest margins over the past years reduced the sector's profit margins. In parallel, the IMF recommended integrating both local and cross-border portfolios in stress tests and factoring the results of the tests in banks' assessment of capital adequacy. It also encouraged efforts to reflect Basel II Pillar 1 risks in capital adequacy calculation such as interest rate, liquidity, concentration, and reputational risks; as well as key Pillar 2 qualitative risks such as the effectiveness of management and controls. Also, the Fund welcomed the authorities' plan to introduce supervisory colleges to strengthen the oversight of cross-border activities of the largest banks through annual group audits; and to assess risks, capital and liquidity within the group. Further, the IMF called for tighter rules for the classification of NPLs and loan restructuring, including re-aging of overdrafts and arrears. It considered that net provisioning has been low during the rapid credit expansion of the past few years, and urged the introduction of forward looking provisions to account for expected losses. It also supported improvements in the anti-money laundering and terrorism financing framework, in order to maintain confidence in the banking sector.

S&P links upgrade of banks' ratings to structural reforms and political stability, rated banks have adequate capitalization and high liquidity

International rating agency Standard & Poor's indicated that the ratings on BLOM Bank sal, Bank Audi sal and BankMed sal mainly reflect the risks inherent in Lebanon's operating economic and political environment. It said the three banks' exposure to the sovereign is high, and represents the most important risk factor for them, while it considered the capitalization of BLOM Bank and Bank Audi to be moderate given the banks' high-risk operating environment. In parallel, it noted that the banks' ratings benefit from their strong commercial position, resilient operating performance and strong liquidity. Byblos Bank sal, one of Lebanon's top 3 banks, is not rated by Standard & Poor's.

The agency said BLOM Bank has a highly liquid asset structure, but has a high direct exposure to the sovereign of about 5.2 times its common shareholders' equity at end-2010, mostly in the form of government debt securities and Certificates of Deposit issued by the Central Bank. It added that, similar to BLOM Bank, Bank Audi channels its surplus liquidity primarily into high-risk Lebanese government debt securities and Central Bank CDs. It added that Bank Audi's direct exposure to the sovereign stood at about 4.1 times its total common shareholders' equity base. It noted that the ratio is lower than that of domestic peers because the bank replaced part of its Lebanese Eurobonds with a portfolio of higher-rated international bonds, but this has undermined interest margins. It added that BankMed's direct exposure to the sovereign stood at about 4 times its common shareholders' equity at end-2010, hampering the bank's ability to diversify its balance sheet.

The agency noted that BLOM Bank and Bank Audi's loan-to-asset ratio stood at 25.4% and 31.2%, respectively at end-September 2011, while both increased provisions for their operations in Syria and Egypt during the first half of 2011. It anticipated that future needs for provisioning funding would be incremental and manageable. It noted that BankMed's loan-to-asset ratio reached 31.3% at end-June 2011, up from about 23% at end-2006, largely mitigating the risks associated with weaker lending quality and the bank's high dollarization level. It noted that Bank Audi's loan book growth has slowed, particularly due to the political situation in Egypt and Syria. It pointed out that deposits of the three banks tend to be short-term in nature and dollar denominated, but that they remain stable and show steady annual growth in a volatile and confidence-sensitive environment.

S&P said the BLOM and Audi's capitalization remains moderate and estimated the risk adjusted capital of BLOM at 5.8% and that of Audi at 5.4% at end-2010 before adjustments. It said that BankMed's capitalization is weak and estimated the bank's risk adjusted capital at 3.6% before adjustments. It indicated that BankMed's profitability was gradually brought in line with domestic peers' on improving business stability since 2005 following the restructuring of its balance sheet. S&P said it could raise the banks' ratings if Lebanon reduces its debt stock through structural reforms and fiscal discipline. It warned that political uncertainties remain the main risk for the ratings.

Car sales up 7% year-on-year in January 2012

Figures released by the Association of Automobile Importers in Lebanon indicate that a total of 2,080 new passenger cars were sold in January 2012, constituting an increase of 7% from the 1,944 cars sold in the same month last year. Korean cars accounted for 43.4% of total sales, followed by European automobiles with 26.6%, Japanese cars with a 23% share, American vehicles with 6.4%, and Chinese cars with 0.7%. Korean cars posted the highest growth in sales with a 34.8% rise year-on-year, followed by Chinese cars with a 7.7% rise. In parallel, Japanese cars posted a drop of 15% in sales year-on-year, followed by American cars with a 9.6% decline, while the sales volume of European automobiles remained unchanged year-on-year. Kia is the leading brand in the Lebanese market with 545 cars sold in the first month of 2012, followed by Hyundai with 355, Nissan with 250 cars sold, Toyota (102), Chevrolet (91), Renault (75) and Mercedes with (69). In parallel, a total of 159 new commercial vehicles were sold in January 2012, down 8.6% from the 174 vehicles sold in the same month last year.

Corporate Highlights

Moody's withdraws Bank of Beirut's ratings

Moody's Investors Service announced that it has withdrawn Bank of Beirut's 'D-' standalone bank financial strength rating (BFSR), which maps to 'Ba3' on the long-term scale, and its 'Ba3' long-term and 'Not-Prime' short-term local currency deposit ratings. Also, it withdrew the bank's 'B1' long-term and 'Not-Prime' short-term foreign currency deposit ratings, and the 'Aa2.lb' long-term and 'LB-1' short-term national scale ratings (NSRs). It said that the BSFR, the long-term local-currency deposit rating, and the long-term NSR had a 'negative' outlook at the time of the withdrawals, while the bank's long-term foreign-currency deposit rating had a 'stable' outlook. The agency said that it withdrew the ratings for its "own business reasons" and did not specify if it was upon the bank's request. The agency still rates Byblos Bank, BLOM Bank and Bank Audi.

Last July, Moody's Investors Service changed to 'negative' from 'stable' the outlooks on the 'D-' standalone bank financial strength ratings (BFSR) and the 'Ba3' global local-currency (GLC) deposit ratings of Bank of Beirut as well as on the three other rated banks. It also changed the outlooks on the banks' long-term national-scale ratings (NSRs) to 'negative' from 'stable' and affirmed the banks' long-term foreign currency deposit ratings at 'B1'. The agency attributed its decision to the slowdown in the Lebanese economy in the first half of 2011 due to domestic political uncertainties and ongoing unrest in Syria, both of which have negatively affected domestic credit conditions and could weaken the banks' asset quality and profitability. The agency considered that increased domestic and regional uncertainties affect Lebanese banks' operating environment and put pressure on asset quality and performance.

Ratio Highlights

(in % unless specified)	2008	2009	2010	Change*
Nominal GDP*(1)* ($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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