



LEBANON THIS WEEK

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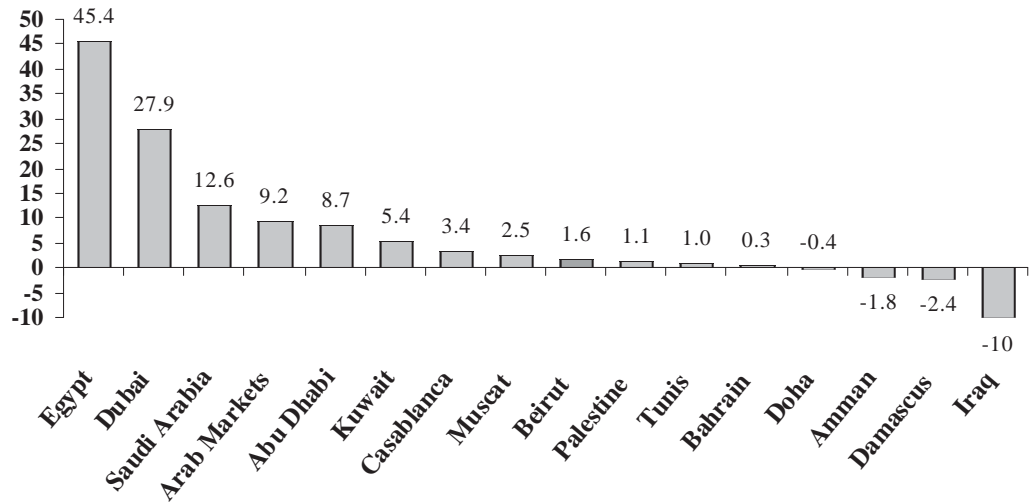
Size of agro-industrial sector at \$2.7bn

Balance sheet of financial institutions up 19% year-on-year at end-September

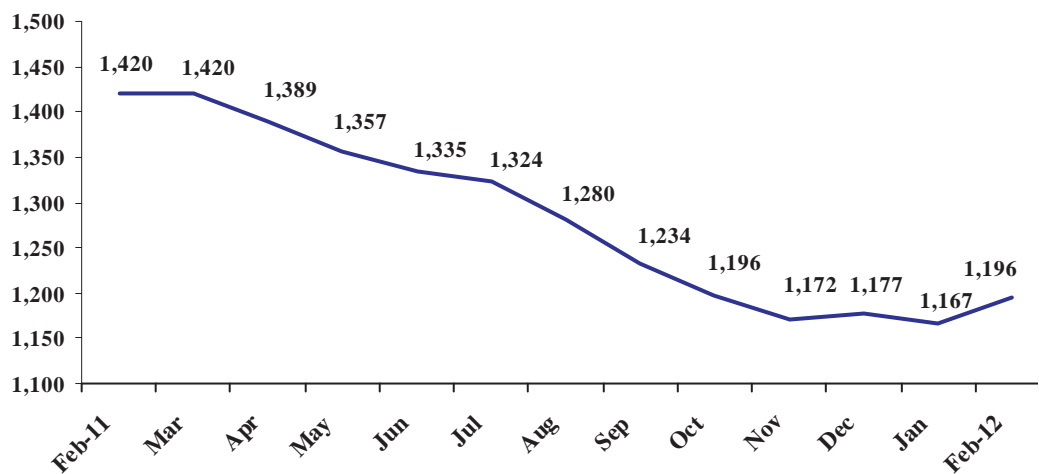
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Performance of Arab Stock Markets in the First Two Months of 2012 (% Change)



Performance of the Beirut Stock Exchange



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

Quote to Note

"It is high time that the country made use of the available opportunities, as it has entered the Guinness book of wasted opportunities."

Prime Minister Najib Mikati, on the numerous missed opportunities by the Lebanese economy due to political bickering and uncertainty

Number of the Week

10.8: The Central Bank's gross foreign currency reserves in months of imports of goods & services, according to 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
<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

Most Traded Stocks on BSE	Last Price (\$)	% Change*	Total Volume	Weight in Market Capitalization
Solidere "A"	14.11	0.79	126,020	13.29%
Solidere "B"	14.07	(0.99)	15,640	8.61%
Byblos Common	1.65	0.00	159,168	5.59%
Byblos Pref. 08	103.00	0.98	200	1.94%
Byblos Pref. 09	102.00	0.00	0	1.92%
BLOM GDR	7.82	0.90	173,700	5.44%
BLOM Listed	7.45	0.40	10,200	15.09%
Audi GDR	6.55	1.55	20,330	6.17%
Audi Listed	6.25	0.97	16,600	20.57%
HOLCIM	16.70	0.30	1,780	3.07%

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

Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
Mar. 2012	7.500	100.08	5.45
Sep. 2012	7.750	100.25	7.24
June 2013	8.625	107.38	2.77
Apr. 2014	7.375	107.75	3.53
Jan. 2015	5.875	104.50	4.19
Apr. 2015	10.00	117.50	4.01
Jan. 2016	8.500	114.50	4.39
Mar. 2017	9.000	119.25	4.67
Nov. 2018	5.150	100.25	5.10
Apr. 2021	8.250	118.50	5.63

Source: Byblos Bank Capital Markets

	Feb. 27- Mar. 3	February 20-24	% Change	February 2012	February 2011	% Change
Total Shares Traded	558,264	458,056	21.88	3,288,030	7,279,483	(54.83)
Total Value Traded	\$4,313,798	\$4,225,631	2.09	\$28,733,271	\$29,306,533	(1.96)
Market Capitalization	\$10.62bn	\$10.57bn	0.45	\$10.57bn	\$12.07bn	(12.36)

Source: Beirut Stock Exchange (BSE)



Improvement in the political climate is key to government effectiveness

Citigroup estimated that the 2012 draft budget will not be passed into law, as it expected political frictions within the Cabinet to remain high and to constrain its effectiveness. It added that the political dispute currently raging in Parliament over extra budgetary expenditures reflects these governance issues. It said that Lebanon's last approved budget was in 2005, which legally froze government expenditures at \$6.8bn annually. But it noted that spending pressures have required governments to approve extra-budgetary spending that are estimated at round \$15bn between 2006 and 2010. It indicated, however, that the dispute over the spending bill is unlikely to limit the government's expenditure plans significantly for this year, and that the current Cabinet is requesting the Parliament's approval for \$5.9bn in extra-budgetary expenditure for 2012. It forecast Lebanon's budget deficit to widen to 7.5% of GDP this year from 6.4% of GDP in 2011.

In parallel, Citigroup said that the Minister of Finance proposed a number of revenue measures in the 2012 budget proposal, such as new taxes, a 1% rise in the VAT and various other tax increases, to cover part of the deficit. But it noted that these measures are facing strong resistance given their expected negative impact on the already fragile economy. As a result, it did not anticipate the measures to be implemented, especially that the budget is unlikely to be voted into law.

Further, Citigroup said that the energy issue is high on the government's agenda, but it pointed out that a long-term solution to the country's energy problems will require an improvement in the political environment. It considered that accelerating the exploitation of Lebanon's potential off-shore oil and gas reserves would allow the country to switch to cheaper local energy sources. It estimated that oil represents 25% of Lebanon's total imports, equivalent to 7% of GDP; while the fiscal burden of covering losses at state-owned Electricité du Liban accounts for around 5% of GDP. It noted that the economic benefits of switching to cheaper local sources of energy are self evident, and that the exploitation of hydrocarbons would also constitute a potential key to economic stability.

Citigroup considered that regional geopolitics are a source of high risks to Lebanon's economic outlook. It noted that regional politics have the potential of disturbing local political stability. It said that the ongoing unrest in Syria in particular may impact domestic stability, especially if the situation there escalates into further armed conflict with potential spillover into Lebanon. It added that the continued threat from the possibility of regional conflict with Iran and its potential repercussions on Lebanon constitutes another source of risk to the outlook.

High oil prices to negatively impact Lebanon's fiscal and current account balances

Standard & Poor's estimated that oil importers in the Middle East, especially Lebanon and Jordan, are ill prepared for a further rise in global oil prices, given that their fiscal and external balances are already stretched. It added that countries in need of attracting foreign investments in 2012 could suffer from an elevated risk premium in their debt financing. It indicated that the effects of higher oil prices on Lebanon would further weaken its fiscal and external balance sheets given that the country relies heavily on oil imports. It added that the current account balance could deteriorate further if oil prices increased, especially that Lebanese exports are expected to stagnate in 2012. It noted that higher oil prices could also raise subsidies to the state-owned and money-losing Electricité du Liban (EdL). It said the subsidies already accounted for more than 4% of GDP in 2011, weakened further Lebanon's fiscal profile, and put its primary surplus under greater pressure.

In parallel, Business Monitor International indicated that the recent rise in global oil prices, if sustained, will weaken fiscal and current account dynamics, as well as consumption, in oil-importing economies across the Middle East & North Africa (MENA). It estimated that after a strong move above \$120 per barrel in recent weeks, Brent crude prices look set to remain elevated throughout 2012. It said the combination of a tight market and elevated geopolitical risk premiums is likely to keep prices high, and expected oil to test its 2011 high of \$127 per barrel (bbl) in the weeks ahead. As a result, BMI raised its average 2012 Brent crude price forecast from \$102/bbl to \$115/bbl.

BMI considered that a sustained rise in oil prices will have a detrimental impact on every net oil-importing economy in the MENA region, adding that some economies are more exposed than others. It pointed out that Lebanon, as well as Egypt, Tunisia and Morocco, are particularly badly-placed in fiscal terms to weather the impact of higher oil prices. It said the four countries ran substantial fiscal deficits last year, with Lebanon posting the second highest deficit at 7% of GDP. It added that the pressure from higher oil prices could force governments to roll back capital spending plans, raise taxes, or perhaps cut subsidy payments. In parallel, it said that Lebanon and Jordan are the worst placed economies in terms of balance of payments dynamics. It said the two countries have been running substantial current account deficits for years, with Lebanon having one of the highest current account deficits in the world, while FDI inflows continue to suffer as the conflict in neighboring Syria escalates. It noted that rising oil prices will also have a significant impact on domestic consumption across the board over the short term.

Economic and social reform plan to focus on supporting the private sector and improving public policy

The Economic and Social Reform Action Plan prepared by the Presidency of the Council of Ministers stressed on the need to support the private sector and to improve and strengthen the levers of public policy. The plan aims to achieve these objectives through a comprehensive and mutually reinforcing set of legal, regulatory, institutional and fiscal reforms that would ease the structural impediments that have constrained economic growth, increased the cost of doing business, and hindered the ability of the private sector to compete in regional and global markets.

The seven pillars of the plan consist of restoring fiscal sustainability over the medium term by addressing the public debt through an effective debt reduction strategy and improved debt management; promoting policies and enacting legislation and regulations to improve the investment climate and support private sector-led growth; developing and rehabilitating the infrastructure and halting environmental degradation; furthering the human development agenda in education, health and social protection; promoting a growth-inducing and job creating socio-economic development strategy across Lebanon's regions beyond the traditional centers; implementing thorough institutional and administrative reforms to upgrade the capability of the civil service and improve the governance of public sector institutions; and introducing various other reforms.

The public debt management and fiscal reforms pillar aims to reduce the public debt level from 140% of GDP to well below 100% of GDP over the next 7 years. The strategy would rely on a combination of economic growth-inducing policies and specific debt restructuring measures that the government is currently assessing. In particular, the plan includes curtailing the deficit of Electricité du Liban and allocating potential revenues from oil and gas exploration to retire part of the debt.

The fiscal component of this strategy seeks to optimize capital expenditures through better planning, developing a leaner administrative structure, rationalizing and targeting social expenditures and subsidies, as well as eliminating contributions to ineffective and profligate entities. Proposed expenditure measures would seek to contain the public sector wage bill through the increase in productivity and the automation and promotion of e-government; leveraging public investments through public private partnerships; adopting the procurement law currently debated in parliament; and implementing several projects that will reduce public expenditures, in particular in the power sector.

On the revenue side, tax reforms would entail tradeoffs between direct and indirect taxation; while non-tax revenues consist of a choice between maintaining future yearly revenues generated by public enterprises or immediate financial proceeds from privatization. The options under consideration for revenue measures include introducing a tax on realized capital gains on property that may yield between \$75m for a 5% rate of tax waived after 5 years of holding, \$230m for a 15% rate of tax waived after 5 years of holding, and \$575m for a 25% rate of tax waived after 10 years of holding. Another option is to add an ad valorem tax on property sold whereby a 1% rate would yield about \$80m per year. Other measures consist of increasing taxes on bank deposit interest income from 5% where an additional 1% rate hike would yield about \$45m; increasing the VAT rate from 10% where an additional 1% rate hike would yield \$220m; increasing gasoline excise whereby every additional LL1,000 would yield \$80m; and settling seashore violations that may yield up to \$200m.

EU grants €30m to fund three projects in Lebanon

The European Commission announced three grant agreements with the Lebanese government for a total of €30m. The first grant of €12m will be allocated to the Developing National Capability for Security and Stabilization Program, which will be implemented during the 2012-16 period. It noted that the program aims to increase the state's functionality in sectors identified as more critical for stability and security. It added that the program aims to promote public understanding of security, the perception of risk, and peoples' expectations about the provision of security services. The second grant of €9m will fund the Policy Planning and Governance Program (PPG), which aims to improve strategic planning and to significantly enhance accountability of results and procedures in public administration. The project is structured around strategic planning and human resources, simplification of procedures, and control and procurement. The project will be implemented by the Office of the Minister of State for Administrative Reform (OMSAR) and will be executed during the 2012-16 period. The third grant consists of €9m that will be budgeted to the Support Program for Infrastructure Sector Strategies and Alternative Financing (SISSAF), which has an execution period of 48 months. The project aims to improve the efficiency and effectiveness of service delivery and financial sustainability in the water, energy and land transport sectors. The Council of Ministers approved the three grants in December 2011.

In parallel, the Ministry of Agriculture and the Food and Agriculture Organization (FAO) announced a new project that aims to help Lebanon set up an agricultural management policy for the seeds and seedlings sector. The ministry said the objectives of the 18-month project consist of upgrading the legal and regulatory framework governing the sector, as well as training producers and ministry staff on more effective management of seeds and seedlings.

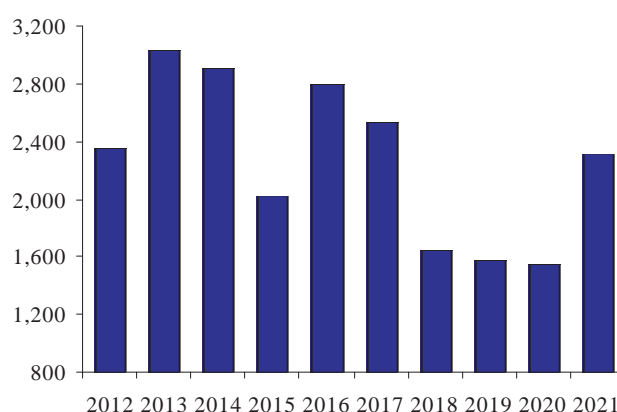
Lebanon has 13th largest volume of external debt repayments among emerging markets

Deutsche Bank estimated Lebanon's external debt repayments at \$1.76bn in 2012, posting the 13th largest repayment volume among 68 countries among its emerging markets universe, the largest among 9 Arab countries, the second largest among 11 countries in the Middle East & North Africa (MENA) region, and the 9th largest among 28 Upper-Middle Income Countries (UMICs). Lebanon's external debt repayments account for 2.8% of the aggregate external debt repayments of emerging markets, 4.5% of the UMICs' total, 16.8% of the MENA region's volume, and 38.7% of the Arab countries' external debt repayments. Globally, Lebanon's external debt repayments are higher than those of the Philippines with \$1.7bn, South Africa with \$1.66bn and the UAE with \$1.36bn, and lower than those of Indonesia with \$1.77bn, Slovenia and Colombia with \$1.98bn each. They are also larger than repayments of South Africa (\$1.66bn), Romania (\$1.29bn) and Peru (\$1.1bn) and lower than those of Colombia (\$1.98bn), Lithuania (\$2bn) and Venezuela (\$2.68bn) among UMICs. In parallel, Lebanon's external debt repayments would account for 3.9% of GDP in 2012, the second highest ratio among emerging countries after Lithuania with 4.4% of GDP.

Government to raise \$5bn in Eurobonds and Treasury bills this year

The Finance Ministry intends to tap the market for up to \$5bn in Eurobonds and Treasury bills to cover the 2012 fiscal deficit as well as the amount of Eurobonds and Treasury bills maturing this year. The ministry plans to split the issue in two categories, as the first segment would consist of \$2bn in Eurobonds and the second segment of \$3bn would replace outstanding bonds denominated in foreign currencies and Lebanese pounds. According to the Finance Ministry, Lebanon has \$2.35bn in maturing Eurobonds this year that include \$1.15bn in principal and \$1.2bn in coupon payments. In addition, there are about LBP15,000bn in Treasury bills that are due this year. Last November, the Ministry of Finance issued three dual-tranche Eurobonds series to refinance \$1.2bn and €35.6m in Eurobonds maturing in 2012. The first \$500m dual-tranche Eurobonds series consists of 8-year \$433.2m and \$66.8m issues that mature in November 2019 and carry each a coupon rate of 5.45% to be paid semi-annually; while the second \$375m dual-tranche series consists of 15-year \$235.5m and \$139.5m issues that mature in November 2026 and carry each a coupon rate of 6.6% to be paid semi-annually. The third €445m dual-tranche Eurobond series consist of 7-year €420.9m and €24m issues that mature in November 2018 and carry each a coupon rate of 5.35% to be paid annually.

Outstanding Lebanese Eurobonds (\$m)



Source: Ministry of Finance

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.

Public-sector salaries and benefits up 4% in first 10 months of 2011

Figures issued by the Ministry of Finance show that salaries, wages and related benefits paid to public-sector employees totaled \$1.9bn in the first 10 months of 2011, constituting an increase of 4.2% from \$1.86bn in the same period of 2010. The figures include basic salaries, indemnities, allowances, contributions to the civil servants cooperatives, as well as contributions to other mutual funds providing health insurance for specific categories of civil servants, mainly judges, religious judges and Parliament employees. The payments exclude retirement and end-of-service indemnities as well as salaries, wages and benefits of employees at public institutions.

Salaries and benefits of military personnel totaled \$1.2bn and accounted for 63% of the total, followed by salaries of educational personnel with \$382m or 19.7% of the total, civil staff with \$314m (16.2%), and customs employees with \$21m (1%). Also, the Lebanese Army's salaries totaled \$793m year-to-October and represented 65% of military personnel salaries and benefits. It was followed by salaries of the Internal Security Forces with \$340m (28%), General Security Forces with \$63.7m (5.2%), and State Security Forces with \$22.6m (1.8%). The ministry attributed the rise in the first 10 months of the year to a 3.5% increase in basic salaries, a 6.2% increase in indemnities, and a 20.5% jump in allowances. It said basic salaries increased by \$48.4m to \$1.4bn due to a rise of \$87.6m in payments to military personnel, which were partially offset by a \$19.2m decrease in outlays to public education personnel and a \$2m drop in payments to civil staff. It added that indemnities increased to \$6.6m, mainly due to a \$4.6m allocation to education personnel. Salaries, wages and related benefits paid to public sector employees totaled \$2.2bn and accounted for 26% of current expenditures in 2010.

Fiscal deficit down 19% to \$2.3bn in 2011 following transfers of \$1.5bn in telecom revenues

Figures released by the Finance Ministry show that the fiscal deficit reached \$2.34bn in 2011, down 19% from \$2.9bn in the previous year. The deficit was equivalent to 20% of total budget and Treasury expenditures compared to 25.6% of overall spending in the 2010. Overall government expenditures reached \$11.7bn, up 13.2% year-on-year, while total revenues increased by 11% to \$9.3bn. Budgetary expenditures rose by 5.5% to \$10.6bn and included \$1.74bn in transfers to Electricité du Liban and \$795.3m in outlays from previous years, while budget revenues rose by 11% to \$8.86bn. Tax revenues contracted by 1% year-on-year to \$6.6bn, of which 33.4%, or \$2.2bn, were in VAT receipts that grew by 3.3% from the previous year. Tax revenues accounted for 74% of budgetary revenues and for 70.3% of total Treasury and budget receipts.

The distribution of other tax revenues shows that customs revenues declined by 22.2% year-on-year to \$1.45bn; income, profits & capital gains tax receipts grew by 18.2% to \$1.6bn, revenues from property taxes increased by 5.2% to \$759m, and other tax receipts, mainly stamp fees, grew by 0.3% to \$301.4m. Further, the distribution of income tax revenues shows that taxes on profits accounted for 42.6% of total income tax receipts, followed by the tax on interest deposits with 27%, taxes on wages & salaries with 19%, and capital gains tax with 10%. Revenues from taxes on profits increased by 27.8% year-on-year, income from capital gains taxes grew by 14%, tax receipts on wages & salaries improved by 20.4%, and income from the tax on interest rose by 3.8%. Also, the distribution of property taxes shows that revenues from real estate registration fees regressed by 1.1% to \$560m, receipts from built property taxes decreased by 3.8% to \$92.3m, and revenues from inheritance tax grew by 78.4% to \$107m. In parallel, non-tax budgetary revenues rose by 70% to \$2.3bn, with revenues from government properties increasing by 94% to \$1.8bn and administrative fees & charges growing by 6.6% to \$378.4m. Receipts from telecommunications services, which account for 84.4% of income from government properties and for 65.2% of non-tax revenues, jumped by 136% to \$1.5bn in 2011. The Finance Ministry has been basing its monthly fiscal results until November 2011 on the Telecommunications Ministry's estimate of telecom receipts, rather than on the Treasury actually receiving the funds from the Telecom Ministry. So the results were not presented on a cash basis until now, as the Finance Ministry indicated that the Telecom Ministry actually transferred \$1.5bn in telecom receipts for 2011 to its account at the Central Bank, of which \$1.3bn were transferred at the end of last year and \$200m in January of this year.

Debt servicing decreased by 4% year-on-year to \$3.75bn, and accounted for 32% of total expenditures and for 35.3% of budgetary spending. It absorbed 40.2% of overall revenues and 42.3% of budgetary receipts. Interest payment on domestic debt declined by 5.6% to \$2.36bn, while interest disbursement on foreign debt regressed by 1.3% to \$1.4bn. Repayment of principal on foreign debt increased by 17% to \$252m. Excluding debt servicing, the primary budget balance posted a surplus of \$2.23bn, or 21% of budget expenditures compared to a surplus of \$2bn, or 20% of budget spending in the previous year. The overall primary balance posted a surplus of \$1.66bn, or 14.2% of spending, relative to a surplus of \$1.23bn or 1% of total expenditures in 2010.

Opened letters of credit at \$4bn for imports and \$3bn for exports in first nine months of 2011

Figures issued by the Central Bank indicate that the value of letters of credit (LCs) opened to finance imports to Lebanon totaled \$4.04bn in the first nine months of 2011 compared to \$3.87bn in the same period of 2010. Also, utilized credits for imports totaled \$3.9bn in the first nine months of 2011, up 5.6% from \$3.71bn in utilized credits in the same period of 2010. They accounted for 96.9% of opened LCs in the first nine months of 2011 compared to 95.8% in the same period of 2010. In addition, outstanding import credits totaled \$926m in September 2011 compared to \$937m in September 2010. Further, the aggregate value of inward bills for collection totaled \$1.6bn in the first nine months of 2011 compared to \$1.7bn in the first nine months of 2010. Outstanding bills for collection reached \$161m at end-September 2011 relative to \$154m at end-September 2010.

In parallel, the value of documentary letters of credit opened to finance exports from Lebanon totaled \$3.1bn in the first nine months of 2011, constituting a decrease of 1.8% from \$3.2bn in the same period last year. Utilized credits for exports totaled \$2.66bn in the first nine months of 2011, down 6% from \$2.83bn of utilized credits in the same period of 2010. Further, outstanding export credits totaled \$1.27bn in September 2011, down from \$1.5bn in September 2010 and compared to \$1.13bn at end-December 2010. The aggregate value of outward bills for collection totaled \$3.1bn in the first nine months of 2011, down 9% from \$3.4bn in the same period of 2010. The outstanding value of outward bills for collection reached \$488m at end-September 2011 relative to \$390.3m at the end of December 2010 and \$357.6m at end-September 2010.

Number of tourists down 2% in January 2012

The number of incoming tourists to Lebanon totaled 95,816 in January 2012, constituting a decrease of 2.2% from 97,921 tourists in January 2011. Arab tourists accounted for 45.3% of total visitors in January, and were followed by visitors from Europe with 26.5%, the Americas with 11.5%, Asia with 9.4%, Africa with 4.7%, and Oceania with 2.4%. The number of African tourists increased by 41.4% year-on-year, followed by Arab tourists with a 21.8% increase and tourists from the Americas with a rise of 4.1%. In parallel, the number of tourists from Asia declined by 52.8% annually, those from Oceania dropped by 8.3%, and tourists from Europe decreased by 4.8%. Also, tourists from Saudi Arabia accounted for 12.2% of total visitors in January 2012, followed by visitors from Iraq with 8.5%, Jordan with 8.1%, France with 6.4%, and the U.S. with 5.7%. Incoming tourists totaled 1.66 million in 2011, down 24% year-on-year. In parallel, the Ministry of Tourism unveiled a plan to boost the annual number of incoming tourists to Lebanon to four million by 2015. It explained that the project involves, among others, implementing agreements on tourism and services with Arab countries, and transforming the Rachid Karami International Fair Complex in Tripoli into an amusement park.

Foreign investments of financial sector at \$11bn at end-September 2011, commercial banks account for 61% of debt securities and financial institutions account for 77% of equity investments

Figures issued by the Central Bank show that the net investment portfolio of Lebanese banks and financial institutions in foreign debt and equity securities totaled \$10.9bn at end-September 2011, constituting an increase of 86.5% from \$5.83bn at end-September 2010. Investments in equities totaled \$5.8bn at end-September 2011, accounting for 53.5% of the total, followed by investments in long-term debt securities with \$4.93bn, or 45.3% of the total, while short-term debt securities accounted for \$127.8m or 1.2% of the total. According to the Central Bank, the figures cover the net assets of resident financial institutions in tradable debt and equity instruments of non-resident issuers. They help provide a clearer picture about the flow of funds from Lebanon and, therefore, about balance of payments data.

The distribution of investments by institutions indicates that commercial banks' net portfolio in foreign long-term debt securities totaled \$2.9bn, accounting for 59.7% of total investments in such securities at end-September 2011. The figure includes banks' investment for their own account, on behalf of their clients and on a custodial basis. They were followed by financial intermediaries with \$1bn (20.6%), medium and long-term banks with \$758.7m (15.4%), financial institutions with \$210.1m (4.3%) and insurance firms with \$0.86m (0.02%). Commercial banks also represented 97.9% of investments in short-term debt securities, followed distantly by medium and long-term banks with 1.4% and financial institutions with 0.7%.

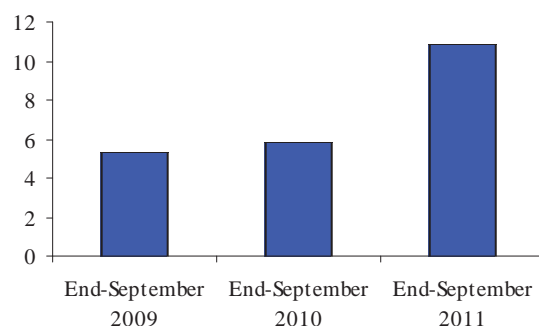
Further, financial institutions' net assets in equity securities totaled \$4.5bn, accounting for 76.9% of total investments in such securities. They were followed by commercial banks with \$717.7m (12.3%), medium and long-term banks with \$533.7m (9.2%), insurance companies with \$80.7m (1.4%) and financial intermediaries with \$11.1m (0.2%).

The distribution of investments by destination shows that the United States was the leading recipient of equity investments by financial institutions operating in Lebanon, reaching \$4.6bn and accounting for 79.6% of the total at end-September 2011. It was followed by the United Kingdom with \$322.6m (5.5%), Bahrain with \$223m (3.8%), France with \$109.9m (1.9%) and Saudi Arabia with \$103m (1.8%), while other countries accounted for the remaining 7.4%. In parallel, the United Kingdom accounted \$1.3bn, or 26.4% of investments in long-term debt securities, followed by the United States with \$1.1bn (21.4%), France with \$761.8m (15.5%), the UAE with \$364.9m (7.4%), and Qatar with \$177.1m (3.6%), while other countries accounted for the remaining 25.7%. Further, the China accounted for 39.2% of investments in short-term debt securities, followed by the United Kingdom with 17.9% and the UAE with 15%.

Industrial activity down in third quarter of 2011

The Central Bank's quarterly business survey indicated that industrial production retreated during the third quarter of 2011, with a balance of opinion standing at 0, compared to 27 during the same quarter of 2010. The business survey reflects the opinions of enterprise managers on the evolution of their businesses, in order to depict the evolution of a number of key economic variables. The balance of opinion for overall demand for industrial goods stood at -4 in the third quarter of 2011 compared to +22 in the same quarter of 2010. Also, the balance of opinion for foreign demand contracted to -12 during the third quarter of 2011, compared to +6 in the same period 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.

Foreign Investments of Financial Sector (\$bn)



Source: Central Bank, Byblos Research

Industrial Activity: Evolution of opinions				
Aggregate results	Q3-08	Q3-09	Q3-10	Q3-11
Production	29	25	27	0
Total demand	23	23	22	-4
Foreign demand	20	6	6	-12
Volume of investments	24	11	24	-2
Inventories of finished goods	6	4	8	-3
Inventories of raw material	8	0	6	3
Registered orders	-3	1	5	-11

Source: Central Bank Business Survey Q3-11

Stock market activity down 24% to \$59m in first two months of 2012

Figures released by the Beirut Stock Exchange indicate that total trading volume reached 8 million shares in the first two months of 2012, constituting a decrease of 36.6% from the same period last year, while aggregate turnover amounted to \$58.8m, down 23.5% from a turnover of \$76.9m in the first two months of 2011. Market capitalization decreased by 12.4% from end-2011 to \$10.6bn, of which 73% was in banking stocks and 22% in real estate stocks. The market liquidity ratio was 0.6%, unchanged from the same period last year. Bank stocks accounted for 86.5% of aggregate trading volume in the first two months of the year, followed by real estate stocks with 13.3%. In terms of value of shares traded, banking stocks accounted for 74.4% of aggregate value, followed by real estate stocks with 25.3%. The average daily traded volume for the period was 199,665 shares for an average daily value of \$1.5m. The figures reflect decreases of 41.4% in volume and 29.3% in value year-on-year.

Syrian affiliates of Lebanese banks do not need capital support from their parent banks

Central Bank Governor Riad Salamé declared that the Syrian affiliates of Lebanese banks do not need capital support from their parent banks in Lebanon and that the losses at the Syrian affiliates will not affect their profits growth by more than 10% to 15%. He said that the Central Bank is currently less concerned about the impact of the current situation in Syria on the Syrian affiliates of Lebanese banks compared to a year earlier when the crisis broke out, given that the banks allocated additional provisions last spring and as risks have receded. He added that the affiliates of the seven Lebanese banks operating in Syria faced significant challenges as their aggregate deposits dropped by 40% and total loans contracted by 50% on average last year. But he noted that the Central Bank requested banks to conduct monthly stress tests and to allocate general provisions, and considered that these precautionary measures were beneficial.

Preliminary financial results issued by the affiliates of seven Lebanese banks operating in Syria show that their aggregate assets reached SYP324bn, or \$5.8bn, at the end of 2011, constituting a decrease of 17.2% from end-2010. The aggregate net profits of the seven banks reached SYP2bn, or \$36.8m in 2011, constituting an increase of 3.5% from end-2010. The banks' total operating income reached SYP13.2bn, or \$236.8m in 2011, up 49.4% year-on-year.

Size of agro-industrial sector at \$2.7bn

The Investment Development Authority of Lebanon (IDAL) estimated the size of the agro-industrial sector in Lebanon at around \$2.67bn and added that the sector posted moderate growth over the last five years. It said the sector generated 32.5% of the industrial sector's output and around 2.54% of the country's GDP based on 2009 estimates. It estimated the sector's current workforce at 30,670, accounting for 23.3% of the industrial sector workforce and constituting the third largest employer in industry. Also, IDAL indicated that about 4,700 companies are involved in agro-industrial activities, accounting for 20% of enterprises in the country and representing the largest share of industrial establishments in Lebanon. It pointed out that agro-food products' exports account for around 11% of total industrial exports, and have been growing at an average annual rate of 13% since 2001. Arab countries account for 55.8% of agro-industrial exports, followed by Western Europe with 17.1%, Latin America with 16.5%, Eastern Europe with 4.8% and the U.S. & Canada with 3.4%. IDAL said that it has mediated four Greenfield projects in the agro-food sector, accounting for 10.8% of its total projects since 2004 with a total investment of \$17.8m.

Balance sheet of financial institutions up 19% year-on-year at end-September

Figures released by the Central Bank show that the consolidated balance sheet of financial institutions in Lebanon reached LBP1,672bn, or \$1.11bn, at the end of September 2011, constituting an increase of 4.2% from end-2010 and a rise of 19% from a year earlier. Liabilities to the private sector reached \$265.5m, up 2.2% from end-2010 and 25.6% from end-September 2010. Further, commitments to the financial sector totaled \$459.1m at the end of September 2011, representing an increase of 8.3% from end-2010 and a rise of 29.8% from a year earlier.

On the assets' side, financial institutions' operations with commercial banks reached \$424.6m at the end of the third quarter of 2011, up 5.1% from the end of 2010 and 46% from end-September 2010. Lending to the private sector totaled \$557.8m, constituting an increase of 3.6% from end-2010 and a rise of 7.8% from the end of September 2010. Also, investments in government securities totaled \$105.6m as at end-September 2011, increasing by 4.3% from end-2010 and by 1.4% from a year earlier. Further, the aggregate capital account of financial institutions reached \$279.4m at end-September 2011, constituting a rise of 7% from end-2010 and an increase of 7.7% from end-September 2010. There are 53 financial institutions in Lebanon with a total of 57 branches.

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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