

LEBANON THIS WEEK

In This Issue

Economic Indicators.....1
Capital Markets.....1
Lebanon in the News.....2

Real GDP growth at 3% in 2012 in best case scenario

Lebanon's travel and tourism economy to generate \$15.5bn this year, ranks 127th globally in sector growth over coming 10 years

Finance Ministry to issue Eurobonds worth \$700m

Health Ministry and WHO sign agreement to renew cooperation

Lebanon ranks 87th globally, 9th in the MENA region in development of electronic government

Weak growth to continue in 2012, Cabinet infighting to delay reforms

Lebanon represented in *Forbes* magazine list of world billionaires

Government allocates \$121m fund for fodder farms

Energy Ministry to finalize gas pipeline draft law

Net public debt at \$47bn at end-January 2012

Balance of payments posts deficit of \$290m in January

Corporate Highlights7

Insurance premiums up 10% to \$1.2bn in 2011

Total non-life premiums post 8% rise to \$870m in 2011

Kafalat loan guarantees down 21% in first two months of 2012

Commercial banks' assets reach \$143bn at end-January 2012

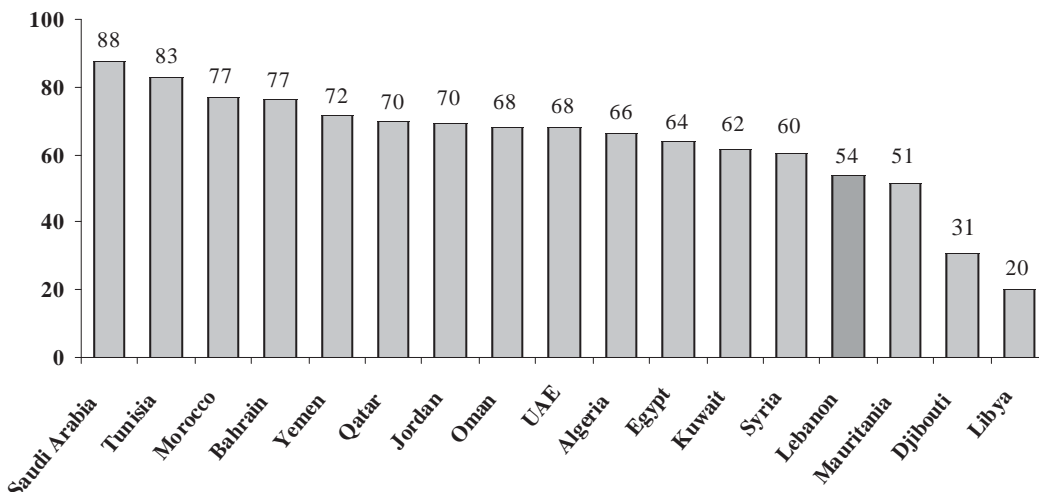
CMA CGM posts losses of \$30m in 2011

Majid Al Futtaim Group to open its first shopping mall in Lebanon

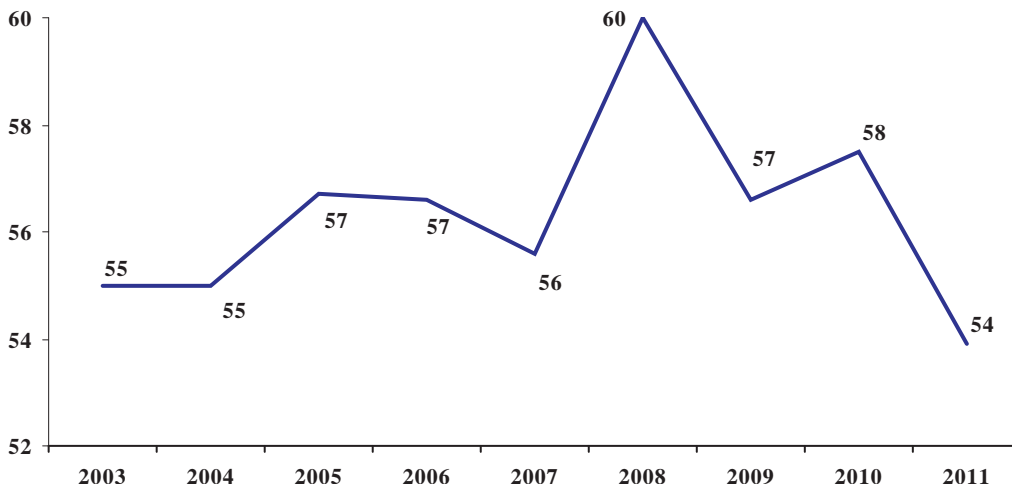
Orange Business Services renews telecom infrastructure contract with Solidere

Charts of the Week

Business Freedom Index* in Arab Countries in 2011



Business Freedom for Lebanon



*A quantitative measure of the ability to start, operate, and close a business
Source: Heritage Foundation/Wall Street Journal, Byblos Bank

Quote to Note

"We see substantial risks to the Lebanese outlook emanating from regional geopolitics."

Citigroup, on the potential impact of the ongoing Syrian crisis and the repercussions of a possible regional conflict with Iran on the Lebanese economy

Number of the Week

9.3%: Projected foreign direct investment in Lebanon in 2012 as a percentage of GDP, according to the International Monetary Fund

Economic Indicators

\$m (unless otherwise mentioned)	2009	Dec 10	2010	Sep 11	Oct 11	Dec 11	% Change*
Exports	3,486	487	4,256	334	351	338	(30.60)
Imports	16,241	1,470	17,956	1,792	2,508	1,665	13.27
Trade Balance	(12,755)	(983)	(13,700)	(1,458)	(2,157)	(1,327)	34.99
Balance of Payments	7,899	1,243	3,326	(302)	(590)	692	(44.33)
Checks Cleared in LBP	11,122	1,278	13,519	1,147	1,233	1,370	7.20
Checks Cleared in FC	45,270	4,370	53,925	5,181	5,123	5,094	16.57
Total Checks Cleared	56,392	5,648	67,444	6,328	6,356	6,464	14.45
Budget Deficit/Surplus	(2,960)	(62)	(2,892)	(419)	(118)	(391)	531.32
Primary Balance	1,078	276	1,232	44	280	(73)	(126.57)
Airport Passengers	4,986,544	369,735	5,552,260	582,383	448,620	441,214	19.33

\$bn (unless otherwise mentioned)	Dec 2009	Dec 10	Aug 11	Sep 11	Oct 11	Dec 11	% Change*
BdL FX Reserves	25.66	28.60	30.64	30.62	30.51	30.82	7.74
<i>In months of Imports</i>	18.6	19.46	17.82	17.09	12.17	18.51	(4.87)
Public Debt	51.09	52.59	53.40	54.35	54.22	53.64	2.00
Net Public Debt	44.11	45.01	45.71	45.80	45.78	46.35	2.98
Bank Assets	115.25	128.93	138.06	138.42	139.54	140.58	9.04
Bank Deposits (Private Sector)	95.77	107.20	112.95	113.39	114.19	115.72	7.95
Bank Loans to Private Sector	28.37	34.93	38.92	38.76	39.22	39.38	12.74
Money Supply M2	34.16	39.40	37.35	37.68	37.90	38.90	(1.27)
Money Supply M3	82.08	92.15	95.21	95.63	92.26	97.23	5.51
LBP Lending Rate (%)	9.04	7.91	7.53	7.37	7.27	7.38	(53b.p.)
LBP Deposit Rate (%)	6.75	5.68	5.53	5.58	5.60	5.63	(5b.p.)
USD Lending Rate (%)	7.28	6.74	7.16	6.92	7.10	7.02	28b.p
USD Deposit Rate (%)	3.05	2.80	2.80	2.84	2.82	2.83	3b.p.
%* Change in CPI**	4.20	6.19	6.49	5.27	3.14	4.27	(192b.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"	14.26	1.06	138,654	13.29%
Solidere "B"	14.45	2.70	47,960	8.76%
Byblos Common	1.65	0.00	141,377	5.53%
Byblos Pref. 08	103.10	0.10	100	1.92%
Byblos Pref. 09	103.10	1.08	261	1.92%
BLOM GDR	7.85	0.38	12,650	5.41%
BLOM Listed	7.80	4.70	12,715	15.63%
Audi GDR	6.50	(0.76)	27,290	6.06%
Audi Listed	6.25	0.00	26,805	20.36%
HOLCIM	16.50	(1.20)	500	3.00%

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

	Mar. 5-9	Feb. 27- Mar. 3	% Change	February 2012	February 2011	% Change
Total Shares Traded	413,399	558,264	(25.95)	3,288,030	7,279,483	(54.83)
Total Value Traded	\$3,656,252	\$4,313,798	(15.24)	\$28,733,271	\$29,306,533	(1.96)
Market Capitalization	\$10.73bn	\$10.62bn	1.03	\$10.57bn	\$12.07bn	(12.36)

Source: Beirut Stock Exchange (BSE)



Real GDP growth at 3% in 2012 in best case scenario

The Institute of International Finance projected real GDP growth in Lebanon to range between 2.1% and 3% in 2012 depending on the unfolding scenarios, compared to an estimated growth rate of 1.8% in 2011. It said that the continued unrest in Syria and the ensuing domestic political tensions have dashed hopes for a strong economic recovery in 2012. It noted that the escalating unrest in Syria continues to adversely affect economic activity in Lebanon through reduced transit trade, lower tourism receipts, and delayed domestic and foreign investments, among other factors. It suggested that growth this year could come from the public sector, given the lack of prospects for significant private sector investments. It added that the growth rate will depend on the approval of the 2012 budget and the related tax increases that are expected to finance capital spending. It noted that, in the absence of significant increase in public investment, growth would be at best around 2% and will be driven mostly by private consumption as in 2011.

The IIF noted that its forecasts are subject to downside risks that include a deterioration in domestic or regional security from the continued conflict in Syria; the possible escalation of the threats and counter-threats between Israel and Iran, major differences among Lebanese factions regarding the official position to take on Syria and on further cooperation with the Special Tribunal for Lebanon. It warned that economic activity could be weaker and the sovereign risk premium may rise if any of these risks materialize.

The IIF said that the government's main challenge is to find the right balance between the planned substantial increase in capital expenditures in 2012-2015 and the need to further reduce the public debt. It encouraged authorities to partner with the private sector and mobilize stakeholders in the design, implementation and evaluation of productive investment. It noted that this approach could build more easily a consensus around the reforms and reinforce their credibility and effectiveness.

The IIF's first scenario projects growth at 3% in 2012 based on the assumption that the Parliament approves the 2012 draft budget. Under this scenario, the three announced tax measures will be implemented, raising overall tax revenues from 16% of GDP last year to 17.3% of GDP this year, with property taxes increasing from 1.8% of GDP to 2.3% of GDP, tax on interest income growing from 1.1% of GDP to 1.5% of GDP, and the VAT rising from 5.6% of GDP to 6.2% of GDP. As such, it added that the additional receipts will be earmarked mainly to capital expenditures that would more than double from 1% of GDP last year to 2.3% of GDP in 2012 and would account for at least one percentage point of GDP growth. Also, the IIF forecast tax revenues to grow by 15.6% and capital expenditures to grow by 136% year-on-year. The scenario forecast a rise in total government expenditures from 28.7% of GDP in 2011 to 32% of GDP this year and revenues growing from 23% of GDP last year to 24% of GDP in 2012, which would result in a wider fiscal deficit of 8% of GDP relative to 5.7% of GDP last year, and a narrower primary surplus of 1.3% of GDP in 2012 compared to 4.1% of GDP last year, assuming the government sticks to its pledge of capping the nominal deficit at \$3.5bn.

The IIF's second scenario projects real GDP growth of 2.1% in 2012 on the assumption that the Parliament would not approve the draft budget. In this case, the tax measures will not be implemented and capital spending in 2012 would remain broadly the same as in 2011 or even decline in real terms. Under this scenario, overall tax revenues would be largely unchanged year-on-year at 16% of GDP. The scenario forecast a rise in total government expenditures from 28.7% of GDP in 2011 to 30.8% of GDP this year and revenues regressing from 23% of GDP last year to 22.6% of GDP, which would result in a fiscal deficit of 8.2% of GDP and a primary surplus of 1.3% of GDP, reflecting a deterioration from last year.

The IIF indicated that the two scenarios assume the continuation of the unrest in Syria and a difficult political transition in Egypt, as well as the implementation of government-mandated wage increases in the public and private sectors. They also assume a rise in the transfers to Electricité du Liban from 4.3% of GDP in 2011 to 4.8% of GDP this year.

Main Economic Indicators	2010		2011		2012	
			Scen. A	Scen. B		
Real GDP growth (%)	7.0	1.8	3.0	2.1		
CPI, % change, average	4.4	5.7	6.7	6.0		
Fiscal deficit, incl. telecom*, (% of GDP)	(5.5)	(5.7)	(8.0)	(8.2)		
Primary surplus (% of GDP)	5.3	4.1	1.3	1.3		
Government debt (% of GDP)	137	132	131	133		
Current account balance (% of GDP)	(21.0)	(23.6)	(23.4)	(22.5)		
Nominal GDP (\$bn)	38.3	40.7	43.7	43.1		

* Includes all transfers from telecom receipts

Source: Institute of International Finance

Sources of Growth (real % change)	2010		2011		2012	
			Scen. A	Scen. B		
Private consumption	5.3	3.5	3.6	3.5		
Public consumption	6.4	1.0	10.2	9.6		
Private investment	3.5	(4.0)	(1.8)	(2.4)		
Public investment	16.5	(12.0)	43.3	(6.7)		
Exports of GNFS	7.0	(6.4)	(3.2)	2.9		
Imports of GNFS	5.8	(3.7)	5.0	4.1		

Source: Institute of International Finance

Lebanon's travel and tourism economy to generate \$15.5bn this year, ranks 127th globally in sector growth over coming 10 years

The World Travel & Tourism Council (WTTC) estimated that the travel & tourism (T&T) industry would contribute directly \$4.3bn to the Lebanese economy in 2012, equivalent to around 10% of GDP, and direct industry employment will reach 129,500, representing 9.5% of total employment in Lebanon this year. It expected the sector's direct contribution to the economy to grow by 4.5% in real terms in 2012 and its direct contribution to employment to rise by 3% this year. It added that, since T&T touches all sectors of the economy, its real direct and indirect impact is even greater, and forecast it will generate \$15.5bn or 35.5% of overall economic activity in Lebanon in 2012, including 461,000 jobs that represent 33.8% of total employment in 2012. It expected the sector's overall contribution to GDP to increase in real terms by 4.4% this year and its aggregate contribution to employment to grow by 2.8% in 2012. The WTTC expected Lebanon to rank in 69th place globally in terms of the forecast growth of each of the sector's total and direct contribution to GDP in 2012, in 67th place in terms of the forecast growth rate of the sector's total contribution to employment, and in 157th place in terms of the industry's direct contribution to employment in 2012.

The WTTC said that the T&T industry's direct contribution to Lebanon's economic activity will rise to LBP8,758.7bn in 2022 in constant 2011 prices, equivalent to 8.8% of GDP, while the broader T&T economy will contribute LBP32,206.5bn, or 32.4% of GDP by 2022. It projected the T&T economy in Lebanon to grow by 3.2% per year in real terms between 2012 and 2022 compared to 4.2% in the Middle East and 4.1% globally over the same period of time; while the T&T direct industry will grow by 3% per year in real terms during the 2012-2022 period compared to a 4.1% real growth rate for each of the Middle East and the world. Lebanon ranks in 127th place worldwide in terms of the sector's annualized growth rate over the 2012-22 period and in 135th place in terms of the expected growth of the sector's direct contribution to GDP over the coming 10 years

Further, the WTTC projected the T&T direct industry jobs to reach 136,000 or 8.9% of total jobs in Lebanon by 2022; and forecast employment in the T&T economy to total 448,000 jobs overall, equivalent to 32% of total employment by 2022. In comparison, the WTTC forecast direct industry employment in the Middle East to grow by 2.4% over the 2012-22 period and to account for 2.9% of total employment, while it forecast the T&T economy employment to grow by 2.5% and to account for 7.6% of total employment in the region. Lebanon ranks in 152nd place in terms of the expected growth of the sector's total contribution to employment and in 157th place in terms of the industry's direct contribution to employment over the coming 10 years.

Travel & Tourism contribution in Lebanon (LBPbn)			
	2012	2022f	Growth* (%)
Visitors Exports	14,211.6	18,108.6	2.5
Leisure Spending	15,799.9	20,413.9	2.6
Domestic Spending	3,286.7	5,446	5.2
Business Spending	1,812.1	3,316.2	6.2
Capital Investment	1,957.0	3,048.3	4.5
T&T Direct Contribution to GDP	6,510.2	8,758.7	3.0
T&T Total Contribution to GDP	23,408.1	32,206.5	3.2
T&T Direct Employment**	129.4	136	0.5
T&T Economy Employment**	460.8	488	0.6

*real annualized growth over 2012-2022

**in thousands of jobs

Source: World Tourism & Travel Council

Finance Ministry to issue Eurobonds worth \$700m

The Ministry of Finance is expected to issue two Eurobonds worth \$700m to refinance \$293m and €15m in Eurobonds maturing in March and April 2012, respectively, while the balance will be used to finance Treasury expenditures. The ministry has asked local banks to submit their bids for underwriting and managing the issue. Also, the Finance Ministry stated that it prefers to assign a five-year maturity to the first \$350m Eurobond and for the second Eurobond to have an open-ended maturity. Also, the ministry has reportedly asked the Central Bank to exchange Lebanese pound Treasury bills with US dollar bonds to take advantage of lower dollar rates and reduce debt servicing cost. Earlier this month, the Finance Ministry announced its intention 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.

Health Ministry and WHO sign agreement to renew cooperation

The Ministry of Health and the World Health Organization (WHO) signed an agreement to renew health cooperation between the two sides for the 2012-13 period. The agreement stipulates boosting health security, controlling infectious diseases, enhancing food safety, increasing protection from car accidents, and improving healthcare conditions. It also covers strengthening the national response to HIV, reducing neonatal mortality, and improving health information systems.

Lebanon ranks 87th globally, 9th in the MENA region in electronic government

The United Nations' E-Government Development Index for 2012 ranked Lebanon in 87th place among 190 countries worldwide and in ninth place among 21 countries in the Middle East and North Africa region. Lebanon came in 93rd place globally and in 11th place regionally in the previous survey that was conducted in 2010. Also, Lebanon ranked in 30th place among 45 upper-middle income countries (UMICs) included in the survey, down from 26th place in the 2010 survey.

The index is a benchmark that provides a numerical ranking of the development of electronic government across member states of the United Nations. It is a composite indicator that measures the willingness and capacity of national administrations to use information and communication technology to deliver public services. The index is a weighted average of three normalized scores on the most important dimensions of e-government, which are the scope and quality of online services, the development status of the telecommunication infrastructure, and human capital.

Globally, Lebanon ranked ahead of the Philippines, the Dominican Republic and Saint Lucia, and came behind Albania, Saint Vincent & the Grenadines, and the Seychelles. It ranked ahead of the Dominican Republic and behind Albania among UMICs. Lebanon's numerical score was 0.5139 points, up 17% from 0.4388 points in the previous survey. It came above the global average of 0.4882 points and the MENA average of 0.4820 points, but below the UMICs' average of 0.5482 points.

Lebanon ranked in 77th place globally, up from 93rd place in the previous survey, on the Online Service Sub-Index. The sub-index assesses a country's national websites, including the national central portal, e-services portal and e-participation portal; as well as the websites of the related ministries of education, labor, social services, health, finance, and environment as applicable. Globally, Lebanon tied with Tunisia, ranked ahead of the Bahamas and came behind Venezuela. It ranked ahead of Panama and behind Venezuela among UMICs, while it tied with Tunisia, ranked ahead of Turkey and came behind Iran in the MENA region.

Also, Lebanon ranked in 92nd place globally, down from 85th place in the previous survey, on the Telecommunications Infrastructure Sub-Index. The sub-index includes five indicators that cover Internet users per 100 inhabitants, the number of main fixed telephone lines per 100 inhabitants, the number of mobile subscribers per 100 inhabitants, the number of fixed Internet subscriptions per 100 inhabitants, and the number of fixed broadband facilities per 100 inhabitants. Lebanon ranked ahead of Jordan and behind Morocco globally and regionally; while it ranked ahead of Jamaica and behind Palau among UMICs.

Further, Lebanon ranked in 94th place globally, up from 95th place in the previous survey, on the Human Capital Sub-Index. The category reflects the adult literacy rate and the combined primary, secondary and tertiary gross enrolment ratios. Lebanon ranked ahead of Jamaica and behind Peru worldwide and among UMICs. It ranked ahead of Kuwait and behind Jordan in the region. South Korea is the world's leader in e-government readiness with a score of 0.9283 points, while Somalia came last and scored 0.064 points.

MENA Countries Rankings & Scores

Country	MENA Rank	Global Rank	Score
Israel	1	16	0.8100
UAE	2	28	0.7344
Bahrain	3	36	0.6946
Saudi Arabia	4	41	0.6658
Qatar	5	48	0.6405
Kuwait	6	63	0.5960
Oman	7	64	0.5944
Turkey	8	80	0.5281
Lebanon	9	87	0.5139
Jordan	10	98	0.4884
Iran	11	100	0.4876
Tunisia	12	103	0.4833
Egypt	13	107	0.4611
Morocco	14	120	0.4209
Syria	15	128	0.3705
Algeria	16	132	0.3608
Iraq	17	137	0.3409
Sudan	18	165	0.2610
Yemen	19	167	0.2472
Djibouti	20	176	0.2228
Mauritania	21	181	0.1996

Source: United Nations 2012, Byblos Research

Components of 2012 E-Government Development Index for Lebanon

Sub-Index	Global Rank	MENA Rank	UMICs Rank	Lebanon Score	Global Average Score	MENA Average Score	UMICs Average Score
Online Service	77	11	20	0.4771	0.4328	0.4896	0.4556
Telecom Infrastructure	92	11	34	0.2728	0.3245	0.2920	0.3697
Human Capital	94	4	30	0.7917	0.7173	0.6644	0.8191

Source: United Nations, Byblos Research

Weak growth to continue in 2012, Cabinet infighting to delay reforms

Regional investment bank EFG Hermes expected the weak economic activity that prevailed in Lebanon in 2011 to continue in 2012, as it projected real GDP growth at 2.5% in 2012 compared to 1.5% in 2011. It considered that economic activity this year will be marginally supported by private consumption through the government-mandated wage increase. However, I did not expect any strong catalysts for growth in the short- and medium-term until the resolution of the Syrian crisis. It said that Lebanon's economic growth slowed last year from 6.5% in 2010 due to regional and domestic political turmoil. It noted that the tourism, trade and financial services were the most affected sectors of the economy as the number of visitors decreased by 23.7% year-on-year, deposit growth fell to 6.5% year-on-year in 2011 from 12% in 2010, and private sector credit growth dropped to 14% last year from 23% in 2010. It expected these trends to continue this year and to weigh on economic growth.

In parallel, EFG Hermes considered that the political divisions within the Cabinet are delaying the implementation reforms. It noted that the electricity plan faced substantial delays to be approved by the Cabinet and has yet to be fully launched. It added that the Cabinet needed five attempts to approve the package on wage and salary increases, and pointed out that the government's current challenge is the approval of the 2012 budget. But it noted that there are numerous points of disagreement between the different factions in the Cabinet, especially about increasing spending without tax reforms or raising taxes, which increases the risk of not having a budget for the seventh consecutive year.

EFG Hermes expected Lebanon's public finances to come under pressure given the delays in fiscal reforms, and forecast the fiscal deficit to widen to 9.4% of GDP this year from 8.9% of GDP in 2011. It said that not passing the budget will deprive Lebanon of the long overdue capital and social spending needed to address the country's infrastructure and socioeconomic problems.

Lebanon represented in *Forbes* magazine list of world billionaires

Forbes magazine's annual survey of the world's billionaires for 2012 included on its list 6 persons from Lebanon, unchanged from 2011, and had four members from the family of the late Prime Minister Rafiq Hariri and two members of the Mikati family. The survey ranked Prime Minister Najib Mikati and his brother Taha Mikati in 377th place with a net worth of \$3bn each, up from 409th place and from \$2.8bn each in 2011. They were followed by Mr. Bahaa Hariri in 491st place with a fortune of \$2.5bn, unchanged year-on-year, but whose ranking declined from 316th place in 2011. Former Prime Minister Saad Hariri ranked in 764th place with an estimated fortune of \$1.7bn. His ranking regressed from 595th place in 2011 and his net worth declined from \$2bn last year. Also, Mr. Ayman Hariri and his brother Fahd Hariri came in 960th place with \$1.3bn each, down from 833rd place and \$1.5bn each last year.

Forbes said the Mikati brothers founded telecommunications firm Investcom in 1982, listed it in London and Dubai in 2005, and sold their stake to South Africa's MTN Group for \$5.5bn in 2006. They then formed M1 Group, a Beirut-based conglomerate that has investments in real estate, jet leasing, and apparel company Façonnable. It said that Prime Minister Najib Mikati relinquished his post in the group when he became prime minister. The magazine said the Hariri family's wealth is derived from investments in Saudi Arabia and many other countries in Europe, Africa and the Middle East in banking, real estate, tourism, telecommunications and media. It added that former PM Hariri bought his brother Bahaa's share in Saudi Oger in January 2008 and currently owns 50% of the company. It said that Mr. Bahaa Hariri derives the bulk of his fortune from investments and real estate, and has expanded into logistics. The aggregate fortune of the six Lebanese included on the list dropped by 2.3% to \$12.8bn in 2012. The wealthiest man in the Middle East is Saudi Prince al-Waleed bin-Talal who ranked in 29th place globally with a estimated net worth of \$18bn, down from \$19.6bn in 2012. The richest man in the world is Mexican of Lebanese descent Carlos Slim Helu with \$69bn. The number of billionaires in the world increased to an all-time of 1,226 persons this year from 1,210 in 2011, and their average net worth remained unchanged at \$3.7bn.

Billionaires of Lebanese descent on Forbes' 2012 list of the world's richest people					
Name	Rank	Worth (\$bn)	Trend	Source	Country
Carlos Slim Helu	1	69.0	down	Telecom	Mexico
Joseph Safra	68	13.8	up	Banking	Brazil
Moise Safra	488	2.4	unchanged	Banking	Brazil
Joseph Jmail Jr.	854	1.5	unchanged	Law	USA
Alfredo Harp Helu	1,153	1.0	unchanged	Banking	Mexico

Source: *Forbes Magazine*, *Byblos Research*

Government allocates \$121m fund for fodder farms

The ministries of Finance and Agriculture announced that the government will allocate LBP182bn over the next five years to support fodder farming in the country. The Finance Ministry indicated that LBP28.6bn will come from the Agriculture Ministry's budget for 2012 to cover the subsidy for fodder farming. The Agriculture Ministry said that the program aims at lowering the cost of production, which would increase production volumes and improve quality.

Energy Ministry to finalize gas pipeline draft law

The Ministry of Energy & Water pledged to draft a law for the construction and financing of a coastal gas pipeline, as per the Cabinet's decision. The ministry also announced the completion of a feasibility study to import liquefied natural gas to Lebanon. It added that studies on the coastal pipeline were finalized in 2010. The pipeline would extend from Baddawi in the north of the country to Tyre in the south, and would go through most of Lebanon's electricity plants. The pipeline is expected to alleviate the cost of power production at electricity plants. The pipeline is 175 kilometers long and has a 36-inch diameter. The project is composed of five phases and is set to be completed by a maximum of 27 months, with some of the initial phases ending in a period of 12 or 13 months. The ministry stated that the estimated cost of the project is \$455m, citing the high global steel prices as a reason for the elevated cost.

Net public debt at \$47bn at end-January 2012

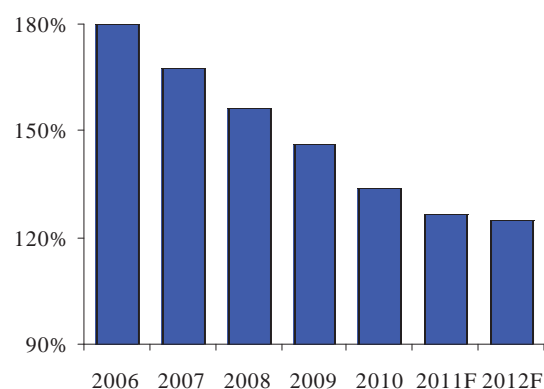
Lebanon's gross public debt reached \$53.6bn at the end of January 2012, unchanged from the end of 2011, and constituting an increase of 2.6% from end-January 2011. Domestic debt reached \$32.8bn at end-January, up by 4.5% annually and unchanged from end-2011, while external debt stood at \$20.9bn, down by 0.3% year-on-year and unchanged from end-2011. Local currency debt accounted for 61.1% of gross public debt at end-January 2012 compared to 59.9% a year earlier, while foreign currency-denominated debt represented 38.9% of the total at the end of January relative to 40% a year earlier. The weighted interest rate on outstanding Treasury bills was 6.78%, while the weighted interest rate on Eurobonds was 7.03% at the end of January. Further, the weighted life on Eurobonds was 5.65 years, while that on Treasury bills was 953 days.

Commercial banks accounted for 50.7% of the local public debt at the end of January 2012 compared to 53.3% a year earlier. They were followed by the Central Bank with 33.4%, up from 29.9% at end-January 2011; while public agencies, financial institutions and the general public accounted for 15.9% of local debt, compared to 16.8% in January 2011. Eurobond holders, foreign private sector loans and special T-bills in foreign currencies accounted for 87.5% of the external debt, 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 3.6% to \$46.5bn. 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.

Balance of payments posts deficit of \$290m in January

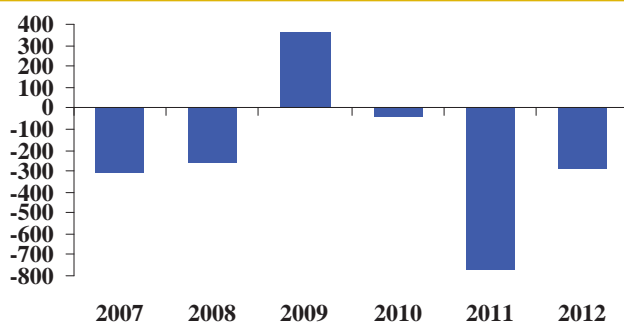
Central Bank figures show that Lebanon's balance of payments posted a deficit of \$289.8m in January 2012 compared to a deficit of \$772.1m in the same month last year and a surplus of \$691.5m in December 2011. The January 2012 deficit was caused by a deficit of \$187m in the net foreign assets of banks and financial institutions and a deficit of \$103m in those of the Central Bank. The balance of payments posted deficits in January 2007, 2008, 2010 and 2011. The balance of payments posted a cumulative deficit of \$2bn in 2011 and surpluses of \$3.3bn in 2010, \$7.9bn in 2009 and \$3.5bn in 2008.

Total Government Debt (% of GDP)



Source: International Monetary Fund

Balance of Payments* (\$m)



* in the month of January of each year

Source: Central Bank

Insurance premiums up 10% to \$1.2bn in 2011

Figures released by the Association of Insurance Companies in Lebanon (ACAL) indicate that insurance premiums in Lebanon totaled \$1.22bn in 2011, constituting an increase of 9.6% from the previous year and compared to premium growth of 4% in 2010. ACAL said that most of the growth was realized in the second quarter of 2011, where aggregate premiums grew by 17% year-on-year.

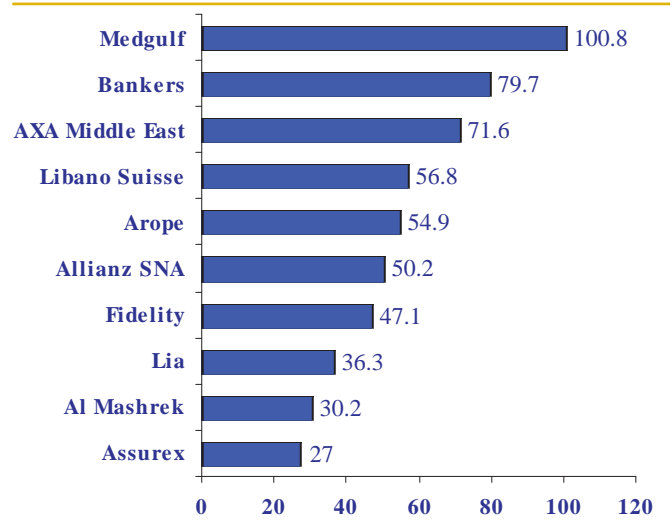
It noted that the medical, life and fire categories were the main drivers of premium growth in the fourth quarter as they posted year-on-year increases of 15%, 14% and 10%, respectively; compared to growth of 29% for life premiums, 15% for fire premiums and 14% for medical premiums in the third quarter of 2011. It added that the medical and life categories accounted for 28.1% each of the sector's aggregate premiums in the fourth quarter compared to 29.8% for the medical segment and 25.1% for the life category in the third quarter, followed by motor insurance with 26.8% relative to 27.4% in the previous quarter.

In parallel, ACAL indicated that total benefits and claims paid by insurance companies stood at \$577m in 2011, constituting a 20% increase from the previous year. Claims and benefits paid reached \$185.4m in the fourth quarter of 2011 and rose by 42.7% from the same quarter of 2010, while they reached \$131.8m in the third quarter and increased by 13.4% year-on-year. It noted that medical claims accounted for 40.6% of total payments, followed by motor policies payments with 28.5%. ACAL said its figures cover over 90% of all underwriting activities in the sector, as they include 95% of non-life premiums and 80% of life premiums.

Total non-life premiums post 8% rise to \$870m in 2011

The annual survey by *Al-Bayan* magazine of the insurance sector in Lebanon shows that total non-life premiums generated in the Lebanese insurance market reached \$869.6m in 2011, constituting an increase of 7.6% from \$808.1m in 2010, and compared to growth rates of 12.3% in 2010, 22% in 2009 and 22.4% in 2008. The magazine attributed the slowdown in the growth of non-life premiums last year to the regional unrest that affected travel and transit trade, reduced import and export volumes, and hurt real estate and construction activity in the country; as well as to the decline in the number of persons covered by medical insurance due to the substantial rise in medical premiums. Non-life premiums totaled \$720m in 2009, \$590.5m in 2008 and \$482.7m in 2007. Non-life insurance penetration was equivalent to 2.1% of GDP while insurance density was at about \$104.75 per capita in 2011. MEDGULF maintained its first place with \$100.8m in non-life premiums, followed by Bankers with \$79.7m, AXA Middle East with \$71.6m, Libano-Suisse with \$56.8m and AROPE with \$54.9m as the top 5 non-life insurers. Victoire, SAICO and Al Bahria registered the highest jump in the rankings from last year among the 46 insurers operating in Lebanon, improving by five places each to the 20th, 31st and 32nd place, respectively; while Liberty posted the highest growth in premiums among all insurers in the survey at 95.5% year-on-year. Byblos Bank's insurance affiliate ADIR came in 15th place and remained among the top 15 firms with \$19.1m in non-life premiums.

Non-Life Premiums of the Top 10 Insurers in 2011 (\$m)



Source: *Al-Bayan*

There were 7 advances and 5 declines among the rankings of the top 20 insurers, while the rankings of the other 8 insurers were unchanged. The composition of the top 10 insurers remained unchanged from 2010, as 8 insurers posted increases in their non-life premiums, of which four insurers posted a double digit rise, while two insurers posted decreases in their premiums. AXA Middle East and Fidelity recorded the biggest year-on-year increases at 32.5% and 13.4% respectively, among the top 10 insurers; while Victoire's non-life premiums grew by 43.4%, highest among the top 20 insurers. In parallel, Allianz SNA and Arope posted declines of 6.9% and 0.8%, respectively, in their non-life premiums. The rankings of 3 insurers changed among the top 10 firms, with AXA Middle East improving from fifth to third place, Libano-Suisse dropping from third to fourth place and Arope regressing from fourth to fifth place. The top 10 insurers controlled 63.8% of the market last year compared to 64.3% in 2010, 65% in 2009 and 64.4% in 2008; while the top 20 insurers represented 84.8% of premiums compared to 85.4% in 2010, 86% in 2009 and 85.3% in 2008. The aggregate non-life premiums of the top 10 insurers reached \$554.7m in 2011 compared to \$519.8m in 2010, \$464.8m in 2009 and \$380.4m in 2008.

Kafalat loan guarantees down 21% in first two months of 2012

Figures released by the Kafalat Corporation show that loans extended to small- and medium-size companies under the guarantee of Kafalat reached \$21.2m in the first two months 2012, down 20.9% from \$26.8m in the same period last year. The number of loan guarantees totaled 148 year-to-February compared to 186 in the same period last year. The average loan size reached \$143,354 compared to \$144,261 in the first two months of 2011. Mount Lebanon accounted for 48% of guarantees, followed by the South & Nabatieh with 16.2%, the North with 15.5%, Bekaa with 14.2% and Beirut with 6.1%. The agriculture sector accounted for 37.8% of total guarantees, followed by industry with 34.5%, tourism with 19.6%, handicraft with 6.7% and specialized technologies with 1.4%. 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.

Commercial banks' assets reach \$143bn at end-January 2012

The consolidated balance sheet of commercial banks operating in Lebanon shows that total assets reached \$142.9bn at the end of January 2012, constituting an increase of 1.6% from end-2011 and a rise of 11.3% from end-January 2011. Private sector deposits totaled \$116.7bn, increasing by 0.8% from end-2011 and rising by 10% from a year earlier. Deposits in Lebanese pounds reached \$39.8bn, up 1% from end-2011 and 8% year-on-year; while deposits in foreign currencies totaled \$76.9bn, unchanged from a month earlier, and rose by 11% from end-January 2011. Non-resident foreign currency deposits totaled \$19.1bn at end-January 2012 and grew by 2.7% from end-2011 and by 24.6% year-on-year. Total private sector deposits increased by \$976m in January 2012 and by \$1.6bn in December 2011, while they dropped by \$1.1bn in January 2011. In parallel, deposits of non-resident banks reached \$6.3bn, and increased by 8.2% month-on-month and by 18.3%

year-on-year. The dollarization rate of deposits reached 65.9% at the end of January relative to 65.3% a year earlier. Further, the average deposit rate in Lebanese pounds reached 5.6% in January, down from 5.63% a year earlier, while the same rate in US dollars was 2.87% compared to 2.84% in January 2011.

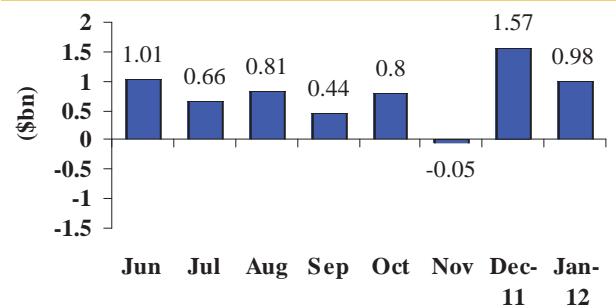
Loans to the private sector totaled \$40.5bn at end-January, constituting an increase of 2.9% from end-2011 and a rise of 14.7% year-on-year. Lending to the resident private sector totaled \$34.7bn and increased by 1.3% from end-2011, while lending to the non-resident private sector reached \$5.8bn and rose by 13.5% from end-2011. The dollarization rate in private sector lending reached 78.7% in January compared to 80.5% a year earlier. The average lending rate in Lebanese pounds was 7.19% in January 2012 compared to 7.17% a year earlier, while the same average in US dollars was 6.99% compared to 7.14% in January 2011. In addition, claims on non-resident banks reached \$14.7bn at end-January, posting an increase of 0.6% from end-2011. Claims on the public sector stood at \$29.1bn, up 5.1% year-on-year and unchanged from end-2011, and accounted for 41.8% of the banking sector's total claims. The ratio of private sector loans to deposits in foreign currencies stood at 41.5%, well below the Central Bank's limit of 70%, and compared to 41% a year earlier. In parallel, the same ratio in Lebanese pounds was 21.7%, up from 18.7% a year earlier. The ratio of total private sector loans to deposits was 34.7% compared to 33.3% a year earlier. The banks' aggregate capital base stood at \$10.8bn, up by 14.3% from \$9.4bn in January 2011.

CMA CGM posts losses of \$30m in 2011

The Lebanese-owned and France-based container shipping group CMA CGM declared net losses of \$30m in 2011 and earnings before interest and taxes (EBITDA) of \$711m, relative to profits of \$1.63bn and EBITDA of \$2.52bn in 2010. It had revenues of \$14.87bn in 2011, up 4% from 2010. It said that volumes carried increased by 11% to 10 million twenty-foot equivalent unit (TEU) in 2011. It noted that the group strengthened its balance sheet by issuing \$500m in convertible bonds to the Yildirim Group and raising another \$945m through two bond issues denominated in US dollars and euros. It pointed out that it is pursuing its cost reduction plan, which is expected to deliver \$400m in savings this year. It noted that the decline in charter rates will reduce operating costs by \$80m in 2012. Further, it said that several carriers, including CMA CGM, introduced significant rate increases as of March 2012. The firm owns 91 ships, charters-in 394 others, and has a fleet capacity of 1.35 million TEU.

Last December, Moody's Investors Service downgraded the corporate family and probability of default ratings of CMA CGM to 'B2' from 'B1' with a 'negative' outlook. It also downgraded to 'Caa1' from 'B3' the company's \$325m and \$475m worth of senior unsecured notes that mature in 2019 and 2017, respectively. It attributed the downgrades to the group's weak performance in the third quarter, mainly due to the poor performance of the industry during its peak season that were caused by the oversupply of vessels and reduced freight rates to a very low level. Moody's expected the container market's operating conditions to remain difficult in 2012, which would keep CMA CGM's performance under pressure. It added that the firm obtained approval from its lender to waive the covenant test due at end-2011, but it warned that the next semi-annual payments could remain challenging if market conditions do not improve substantially.

Private Sector Deposit Change



Source: Association of Banks in Lebanon

Corporate Highlights

Majid Al Futtaim Group to open its first shopping mall in Lebanon

The United Arab Emirates' conglomerate Majid Al Futtaim Group (MAF) is set to open the Beirut City Center, its first shopping mall in Lebanon. The construction of the mall started in September 2009 and has been scheduled for completion in early 2013. MAF said that the Beirut City Center is expected to create around 2,500 temporary construction jobs and the mall to generate around 1,200 jobs. The mall is located in Hazmieh on the Beirut-Damascus highway and includes 200 stores, 40 international food and beverage outlets, in addition to a VOX Cinemas multiplex and a Magic Planet family entertainment center. Further, it will include the first Carrefour hypermarket in Lebanon with an area of 13,000 square meters. MAF also plans to build another shopping mall in the Dbayeh area north of Beirut. MAF's revenues reached \$5bn and increased by 10% in 2011.

Orange Business Services renews telecom infrastructure contract with Solidere

Orange Business Services and Solidere, the Lebanese Company for the Development and Reconstruction of the Beirut Central District, renewed and enhanced a five-year telecommunication infrastructure contract aiming to strengthen broadband network and IPTV services in the Beirut Central District. The renewed contract includes a new Orange call center management solution for Solidere that will permit the delivery of better customer service with fewer resources. Solidere has been delivering on-demand IPTV channel service in the Beirut Central District for the past five years. The service offers a range of movies, sports and TV programs over the broadband network that Orange designed, built and operates on behalf of Solidere. Orange Business Services is part of France Telecom-Orange.



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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