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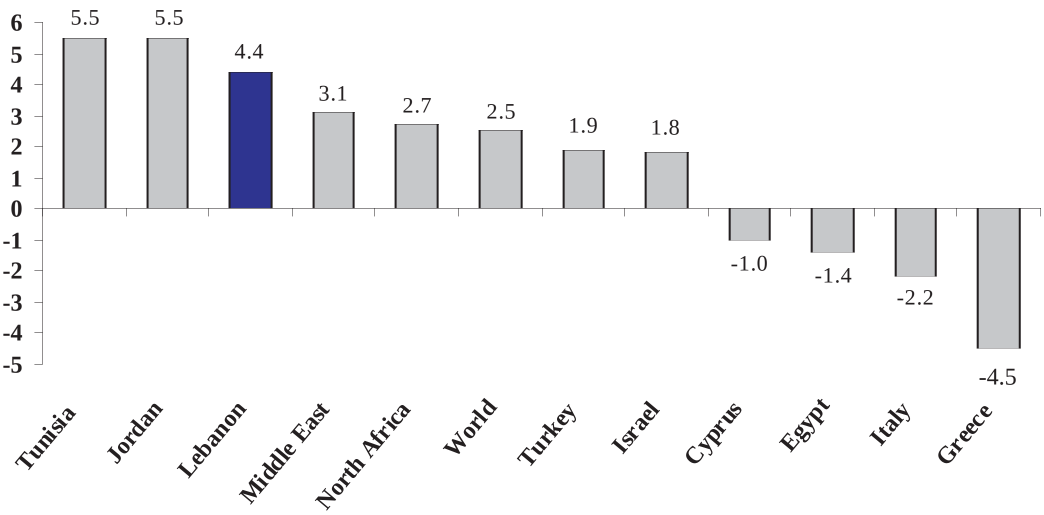
Economic Research & Analysis Department

LEBANON THIS WEEK

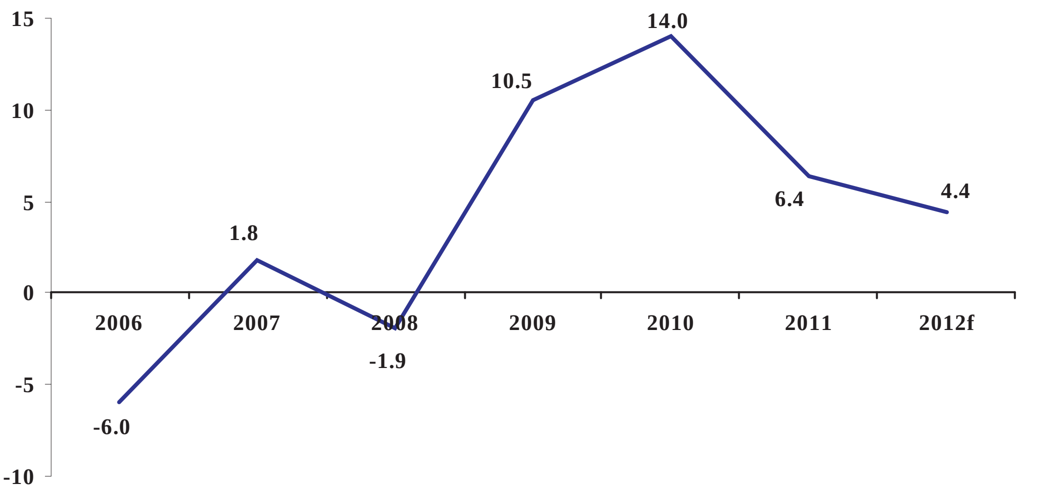
In This Issue

Charts of the Week

Travel & Tourism's Total Contribution to GDP in 2012 (% growth)



Travel & Tourism's Total Contribution to GDP in Lebanon (% growth)



Source: World Travel & Tourism Council, Byblos Bank

Quote to Note

"The mild recession in the Euro Area will have a marginal impact on the Lebanese economy."

The Institute of International Finance, on the limited financial and economic linkages between Lebanon and the Eurozone

Number of the Week

16: Lebanon's global rank in 2011 in terms of the travel and tourism sector's total contribution to the country's employment, according to the World Travel & Tourism Council

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
In months of Imports	*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"	14.31	0.35	35,643	13.40%
Solidere "B"	14.40	(0.35)	19,063	8.77%
Byblos Common	1.65	0.00	83,335	5.55%
Byblos Pref. 08	105.10	1.94	1,437	1.97%
Byblos Pref. 09	103.10	0.00	0	1.93%
BLOM GDR	7.87	0.25	11,000	5.45%
BLOM Listed	7.80	0.00	0	15.70%
Audi GDR	6.50	0.00	0	6.09%
Audi Listed	6.10	(2.40)	26,815	19.96%
HOLCIM	16.50	0.00	100	3.02%

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

Sovereign Eurobonds	Coupon %	Mid Price $	Mid Yield %
Mar. 2012	7.500	99.96	11.59
Sep. 2012	7.750	100.25	7.18
June 2013	8.625	107.38	2.60
Apr. 2014	7.375	107.75	3.46
Jan. 2015	5.875	104.25	4.26
Apr. 2015	10.00	117.75	3.87
Jan. 2016	8.500	114.90	4.25
Mar. 2017	9.000	119.15	4.66
Nov. 2018	5.150	100.20	5.11
Apr. 2021	8.250	119.00	5.55

Source: Byblos Bank Capital Markets

	March 12-16	March 5-9	% Change	February 2012	February 2011	% Change
Total Shares Traded	438,447	413,399	6.06	3,288,030	7,279,483	(54.83)
Total Value Traded	$2,103,526	$3,656,252	(42.47)	$28,733,271	$29,306,533	(1.96)
Market Capitalization	$10.68bn	$10.73bn	(0.45)	$10.57bn	$12.07bn	(12.36)

Source: Beirut Stock Exchange (BSE)

Lebanon in the News

Lebanese economy has significant investment strengths

The United States Department of Commerce's 2012 Country Commercial Guide for Lebanon (CCG) indicated that Lebanon has many investment strengths that have encouraged foreign companies to set up offices in the country. It said that Lebanon's key advantages include a free-market economy, the absence of controls on the movement of capital and foreign exchange, a highly-educated labor force, good quality of life, and limited restrictions on investors. It added that Lebanon's economy follows a laissez-faire model and that the government's intervention in foreign trade is minimal. But it noted that some issues continue to cause frustration among local and foreign businessmen. It pointed out that impediments include red tape and corruption, arbitrary licensing decisions, complex customs procedures, archaic legislation, an ineffectual judicial system, high taxes and fees, flexible interpretation of laws, and weak enforcement of intellectual property rights. It expected the political and security instability in the Arab world, mainly in Syria, to have a negative impact on Lebanon's business and economic environment.

The U.S. Department of Commerce said the U.S. remained the number one trading partner for Lebanon in 2011. The top U.S. exports to Lebanon in 2011 were mineral fuel and oil at $1.1bn, vehicles at $186m, machinery at $176m, pharmaceutical products at $85m, cereals at $82m, medical equipment at $63m, and electrical equipment at $47m.

The Guide said leading Lebanese sectors for U.S. exports include the automobile sector, pharmaceuticals & drugs, medical equipment, plastic materials, apparel, and educational services. The CCG estimated U.S. automotive exports to Lebanon at $196m in 2011, down 20% year-on-year as the automotive market in Lebanon is passing through a wait-and-see period due to the political and security instability in Lebanon and the Arab region. It expected the sector to perform at its 2011 level in the coming two years. It also estimated the U.S. share of the local auto market at 10% in 2011, adding that demand for U.S. automotive products such as brakes, clutches, engine lubricants, and safety accessories is increasing because of their quality advantage over foreign competitors. Also, it noted the rising demand for American sport utility vehicles (SUVs) because of their competitive price, high quality, and long record of success in the market.

Further, U.S. pharmaceuticals exports to Lebanon increased by 23.2% year-on-year to $85m in 2011 and accounted for about 8.7% of total pharmaceutical imports, while U.S. exports of medical equipment rose by 8.6% to $63m in 2011 and had a 25% market share. The CCG said U.S. pharmaceutical products have an advantage over European products in the biotechnology, high-tech, anti-cancer, and cardiovascular fields. Moreover, any new leading American drug that is not yet manufactured in Europe is well received in Lebanon. It added that demand for U.S. medical equipment is increasing due to their high quality, long record of success in the Lebanese market, and to the weakness of the dollar relative to the euro. It noted that Lebanon is an ideal location for establishing a regional office to cover the Levant, including Iraq.

In parallel, U.S. exports of raw materials to Lebanon grew by 15.8% to around $22m, equivalent to about 5% of total such imports to Lebanon last year. Also, U.S. apparel exports to Lebanon remained unchanged at $10m, about 2.2% of total apparel imports to Lebanon. Finally, it noted that Lebanon has one of the best educational systems in the Middle East with 192,138 students enrolled in universities throughout Lebanon and over 1,400 Lebanese students studying in the U.S. It said that the number of Lebanese students in the U.S. decreased by 9.1% during the 2010/2011 school year compared to 2009/2010 due to the advanced Lebanese educational system and the increasing cost of education in the U.S.

Further, the CCG expected Lebanon to offer significant investment opportunities for international companies this year, mainly in the energy sector, as the government intends to upgrade the country's generation and distribution systems. It added that investment opportunities also exist in Lebanon's offshore oil and gas exploration as the Ministry of Energy & Water is expected to launch the first round of tenders for offshore oil and gas exploration.

Byblos Bank to co-lead manage upcoming $700m Eurobond issue

The Ministry of Finance mandated Byblos Bank sal and Bank of America-Merrill Lynch as the Lead Managers to issue Eurobonds worth $700m. The new issue will be used to refinance $293m and €115m in Eurobonds maturing in March and April 2012, respectively, while the balance will be earmarked to finance Treasury expenditures. The Eurobond's tenors and pricing have not been decided yet. Byblos Bank co-lead managed in May 2011 a $1bn dual-tranche Eurobond under the Republic of Lebanon's Global Medium Term Note Program. The first tranche consisted of an 8-year $650m bond that matures in May 2019 and carries a coupon rate of 6% paid semi-annually, and the second tranche consists of an 11-year $350m bond that matures in October 2022 and carries a coupon rate of 6.1% paid semi-annually. Also, Byblos Bank was the sole Lead Manager for the issuance of a long-term maturity denominated in Lebanese pounds. The issue was a seven-year LBP 1,500bn bond that carries a coupon rate of 7.9%. The transactions took place on the basis of the Republic of Lebanon's Global Medium Term Note Program.

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 60% 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.

Beirut is 117th most competitive city in the world

The Economist Intelligence Unit ranked Beirut in 117th place among 120 cities globally and in 10th place among 11 cities in the Middle East and North Africa on its Global City Competitiveness Index. Beirut also ranked last among 9 Arab cities included on the index. The index ranks 120 cities according to their demonstrated ability to attract capital, businesses, talent and visitors. It compares 120 of the world's major urban agglomerations using 21 qualitative and 10 quantitative indicators that are grouped under eight categories. The index is a weighted average of the eight categories that are Economic Strength, Institutional Effectiveness, Human Capital, Physical Capital, Financial Maturity, Global Appeal, Social & Cultural Character, and Environment & Natural Hazards. The EIU selected the 120 cities on the basis of their size and regional economic importance.

Globally, Beirut ranked ahead of Dhaka in Bangladesh, Lagos and Tehran, and came immediately behind Alexandria, Nairobi in Kenya and Bandung in Indonesia. Beirut received a score of 30.6 points, lower than the global average of 50 points, the MENA average of 42.1 points and the Arab cities average of 43 points.

Global City Competitiveness Index

	Overall Score	MENA Rank	Global Rank
Dubai	55.9	1	40
Abu Dhabi	55.8	2	41
Doha	52.9	3	47
Tel Aviv	49.3	4	59
Kuwait City	44.2	5	80
Muscat	43.0	6	86
Riyadh	37.8	7	106
Cairo	35.0	8	113
Alexandria	31.8	9	116
Beirut	**30.6**	**10**	**117**
Tehran	27.2	11	120

Source: Economist Intelligence Unit, Byblos Research

Beirut tied with Rome, ranked ahead of Geneva and Saint Petersburg, and came behind Lagos and Bandung on the Economic Strength sub-category, which emphasizes a city's overall GDP, growth rate and relative income. Beirut ranked in last place among Arab cities and ahead of only Tehran among cities in the MENA region. Also, Beirut ranked ahead of Nairobi and Almaty in Kazakhstan, and came behind Riyadh and Saint Petersburg on the Institutional Effectiveness sub-category, which examines indicators that encourage stability of regulations, predictability and fairness of political processes, and effectiveness of the system. Beirut came ahead of Alexandria and Cairo, and behind Riyadh and Kuwait City in the Arab world.

Further, Beirut ranked ahead of Istanbul and Colombo and came behind Porto Alegre in Brazil and Panama City on the Human Capital sub-category. It also ranked ahead Cairo and Alexandria and behind Kuwait City and Muscat among Arab cities. In addition, Beirut tied with India's Chennai, Hyderabad and Kolkata, ranked ahead of Bangalore in India and Bandung and behind Kiev and Porto Alegre on the Physical Capital sub-category, which reflects the availability of and access to developed and efficient infrastructure. Beirut ranked in last place among Arab cities and ahead of Tehran among cities in the MENA region.

Also, Beirut tied with 27 cities in last place on the Financial Maturity sub-category, which evaluates the breadth and depth of the city as a financial cluster. Beirut tied with Alexandria and Tehran in last place among MENA cities. Beirut ranked ahead of Hangzhou in China and Kiev, and came behind Saint Petersburg and Busan in South Korea on the Global Appeal sub-category, which reflects a city’s attractiveness by considering the presence of globally renowned headquarters in the city and its international orientation. Regionally, it ranked ahead of Kuwait City and Riyadh and behind Abu Dhabi and Doha.

Finally, Beirut tied with Kolkata and Bangalore, ranked ahead Guadalajara and Guangzhou in China, and came behind Cairo and Alexandria on the Social & Cultural Character sub-category, which encompasses several liveability aspects that add dynamism to a city. Regionally, it ranked ahead of Abu Dhabi and Doha and behind Cairo and Alexandria.

Components of the Global City Competitiveness Index

Category	Global Rank	Arab Rank	MENA Rank	Beirut Score	Global Average Score	Arab Average Score	MENA Average Score
Economic Strength	105	9	10	29.4	37.1	37.9	36.1
Physical Capital	109	8	9	49.1	74.9	66.3	65.9
Financial Maturity	93	8	9	16.7	47.8	48.2	45.5
Institutional Effectiveness	114	7	8	31.5	61.2	42.9	43.0
Social & Cultural Character	86	4	5	40.8	60.6	36.5	37.4
Human Capital	111	6	7	49.2	63.9	56.7	55.9
Environment & Natural Hazards	120	9	11	12.5	66.9	55.1	57.2
Global Appeal	82	5	6	4.3	13.2	6.4	6.1

Source: Economist Intelligence Unit, Byblos Research

Lebanon ranks 105th globally, 12th in Arab region in credit ratings

In its semi-annual survey on the creditworthiness of 179 countries, *Institutional Investor* magazine ranked Lebanon in 105th place worldwide and in 12th place among 19 Arab countries in the March 2012 survey. Lebanon ranked in 99th place globally and in 12th place regionally in September 2011, as well as in 105th place globally and in 13th place regionally in the March 2011 report. The survey rates the creditworthiness of countries on a scale of zero to 100, with 100 representing countries with the least chance of debt default. The ratings are based on input provided by senior economists and sovereign risk analysts at leading global banks and money management and securities firms.

On a global basis, Lebanon ranked ahead of Libya, Cape Verde and Honduras, and came behind Papua New Guinea, Suriname and Sri Lanka. Lebanon received a score of 32.5 points, compared to scores of 35.7 points in September 2011 and 34.3 points in March 2011. Lebanon's score was below the global average of 44.1 points as well as lower than the Arab average of 45.3 points. Its score declined by 3.2 points, or 9% from September 2011, constituting the second largest decline in the Arab region numerically and the fourth decline in percentage terms. Also, Lebanon's score delcined by 1.8 points, or 5.3% from March 2011. The rankings of 12 Arab countries improved, six regressed and one remained unchanged; while the scores of nine countries improved, eight declined, and two were unchanged from September 2011.

Institutional Investor said that Western European countries posted sizeable declines in their credit scores as a result of the long-running debt crisis and that the crisis continues to weigh on the credit ratings of Eastern Europe & Central Asia, which posted the largest decline of any region in the survey. It noted that ratings in the Middle East & North Africa region fell only slightly, as the gainers are oil producers and the losers are at the center of the Arab Spring. Overall, the global average score dropped to 44.1 points in March from 45.9 points in September. Norway remained the country with the best creditworthiness in the world while Somalia had the highest probability of default worldwide.

Arab Countries Rankings & Scores

Country	Credit Rating	Arab Rank	Global Rank
Qatar	80.2	1	20
UAE	75.9	2	27
Kuwait	75.8	3	28
Saudi Arabia	74.4	4	30
Oman	69.7	5	37
Bahrain	58.4	6	53
Algeria	53.7	7	61
Morocco	52.5	8	67
Tunisia	50.4	9	72
Jordan	46	10	76
Egypt	39.7	11	83
Lebanon	**32.5**	**12**	**105**
Libya	31.6	13	106
Syria	25.4	14	126
Iraq	22.8	15	136
Djibouti	21.1	16	143
Yemen	20.1	17	146
Mauritania	20.1	18	147
Sudan	10.4	19	174

Source: Institutional Investor, Byblos Research

Turmoil in Syria poses risks to Lebanon's economic outlook

Fitch Ratings indicated that the continuing turmoil in Syria has had a limited but significant impact on Lebanon, and warned that the potential for further disruption is high as the two countries' economies are closely linked. The agency said that the Lebanese economy has already felt the impact of the Syrian unrest as tourist arrivals dropped by 24% in 2011 because of a fall in visitors from the Arab world, some of whom would travel through Syria to Lebanon. It added that Lebanon is almost completely dependent on transit routes through Syria for its exports to Middle Eastern markets, which absorb around 45% of Lebanese exports. It noted that higher insurance costs are likely to make Lebanese exports more expensive.

In parallel, Fitch Ratings indicated that the unrest in Syria has not led to deposit outflows from Lebanon. It added that the stabilization of the dollarization level of deposits, after an increase in the first half of last year, reflects confidence in the Lebanese banking sector. But it warned that instability in Syria remains the main threat to political stability in Lebanon. It considered that the collapse of the Lebanese Cabinet as a result of the Syrian crisis would increase political uncertainty and negatively affect the business environment in the country. It noted that the high level of political instability in Lebanon and in Syria constitutes a major constraint on the sovereign's rating. Last July, Fitch Ratings affirmed Lebanon's 'B' rating with a 'stable' outlook.

Association of Banks amends reference rate on US dollar and Lebanese pound lending

The Association of Banks in Lebanon (ABL) recommended to its member banks to increase the Beirut Reference Rate (BRR) in US dollars to 5.31% in April 2012 from 4.72% currently. The rate, considered as the reference rate for lending in foreign currency, replaced in 2009 the London Inter-Bank Offering Rate (LIBOR) since the ABL considered that the LIBOR no longer accurately reflects the cost of funding and lending in Lebanon. Additionally, the ABL recommended to its member banks to increase the Beirut Reference Rate in Lebanese pounds to 8.66% in April from 7.12% currently. The Beirut Reference Rate in US dollars and Lebanese pounds were adopted in March and May 2009, respectively. The ABL indicated that the BRR does not replace the Beirut Prime Lending Rate in each currency, but constitutes the basis to calculate the prime rate after adding the cost of liquidity and refinancing, credit risks, and the profitability of banks to the prime lending rate.

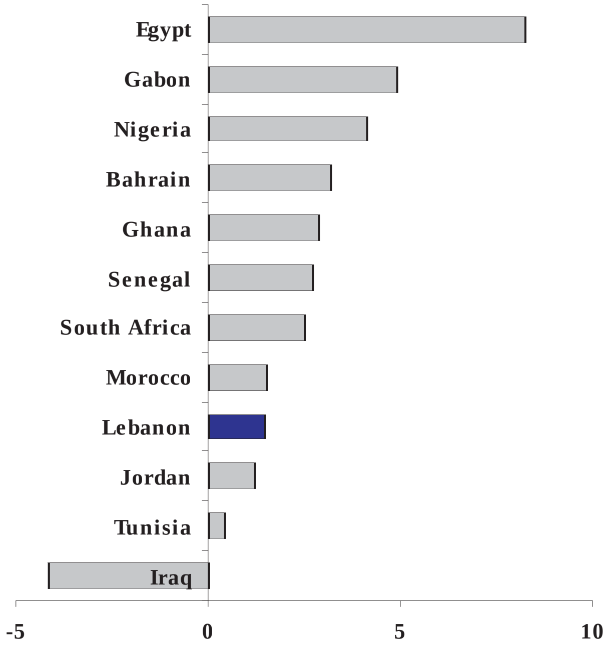
Lebanon's external debt posts 11th lowest returns in emerging markets, ninth best in the Middle East & Africa

Figures issued by Merrill Lynch indicate that Lebanon's external debt posted returns of 1.47% in the first two months of 2012, constituting the fourth lowest return among 29 markets in the Eastern Europe, the Middle East & Africa (EMEA) region as well as the 11th lowest return among the 52 emerging markets included in Merrill Lynch's Sovereign Plus Debt Index. Lebanon underperformed the EMEA region's returns of 4%, as well the overall emerging markets returns of 4.5% during the covered period. Also, Lebanon's external debt underperformed the 6.5% returns posted by similarly-rated sovereigns.

Further, Lebanon's external debt posted the ninth highest returns among 12 countries in the Middle East & Africa region in the first two months of 2012, ahead of Jordan (1.2%), Tunisia (0.4%) and Iraq (-4.15%). But it was outperformed by Egypt (8.22%), Gabon (4.91%), Nigeria (4.1%), Bahrain (3.2%), Ghana (2.84%), Senegal (2.71%), South Africa (2.5%), and Morocco (1.5%). In US dollar terms, Lebanon's external debt posted returns of 1.48% in the first two months of 2012, third lowest in the EMEA region and 11th lowest among emerging markets.

In parallel, Lebanon's external debt posted returns of 0.65% in February, constituting the fourth lowest return in the EMEA region and the 12th lowest return in emerging markets during the covered month. It underperformed the EMEA returns of 2.53% and the emerging markets returns of 2.76%, as well as the 3.94% returns of similarly-rated sovereigns for the same month. Regionally, it outperformed Iraq (0.62%) and Tunisia (0.26%); but underperformed Gabon (3.6%), Bahrain (2.9%), South Africa (2.72%), Nigeria (2.56%), Senegal (1.7%), Egypt (1.66%), Ghana (1.29%), Morocco (1.16%), and Jordan (0.87%).

External Debt Performance in Midde East & Africa in first two months of 2012 (%)



Merrill Lynch said the spread on Lebanese Eurobonds ended February 2012 at 369 basis points, constituting the 11th narrowest in the EMEA region and 22nd narrowest among emerging markets. It was narrower than the EMEA spread of 420 basis points and similar to the emerging markets overall spread of 368 basis points at end-February 2012.

Lebanon has a weight of 3.64% on Merrill Lynch's Sovereign Plus Debt Index, third highest in the EMEA universe behind Turkey (10.8%) and Russia (8.2%), and seventh highest among emerging markets. Lebanon accounted for 8.7% of the allocations in the EMEA region.

Large Diaspora, safe haven attributes and regional oil wealth contribute to capital inflows to Lebanon

The World Bank indicated that foreign financial inflows to Lebanon have fueled an increase in aggregate demand, provided resources for investment, and contributed to fluctuations in economic activity. It said that Lebanon has been consistently attracting capital inflows from Arab countries over the past few decades; adding that these inflows are related to regional oil wealth, to the attractiveness of the country's real estate and banking sectors as safe heavens in times of crisis, and to the large Lebanese Diaspora. It added that foreign capital inflows have fueled an increase in consumption, which averaged 100% of GDP between 1997 and 2009, and provided resources for investment in both physical and human capital equivalent to 24.7% of GDP on average in the 1997-2009 period.

The World Bank considered that foreign financial inflows to Lebanon depend on key external and domestic factors. It said that oil prices constitute a key direct and external determinant of foreign inflows, as a 1% increase in oil prices led on average to a 0.32% increase in bank deposits over the 1974-2010 period. It added that the accumulation of foreign currency reserves constitutes a key indirect domestic determinant of foreign inflows, as a 1% increase in reserves in a year would lead to a 0.54% increase in deposits in the following year. It noted that the spread between domestic creditor rates and international interest rates, lagged dollarization, and the exchange rate regime, also contribute to the level of capital inflows to Lebanon. Further, it noted that foreign inflows helped improve the efficiency of the banking sector in all aspects related to processes, practices, and regulations. It noted that the stabilization of the exchange rate and the accumulation of reserves are among the policy choices that helped secure financial inflows into the banking sector and were, in turn, reinforced by these inflows. It also identified the role of banking intermediation as one of the major channels through which foreign inflows affect short-term economic fluctuations. It noted that a $1m change in lending led to a change in short-term GDP by $1.3m over the 1988-2009 period. In parallel, the World Bank pointed out that the availability of foreign inflows helped finance the large fiscal and current account deficits, which encouraged authorities to delay important structural reforms.

Economic opportunities improve for women in Lebanon

The Economist Intelligence Unit's 2012 Women's Economic Opportunity Index ranked Lebanon in 79th place among 128 countries globally, in sixth place among 15 countries in the Middle East and North Africa, and in fifth place among 13 Arab countries. It also ranked Lebanon in 30th place among 31 upper-middle income countries (UMICs) included in the survey. Lebanon ranked in 88th place among 113 countries globally, in ninth place among 14 Arab countries and in 26th place among 27 UMICs in the 2010 survey.

The index measures specific attributes of the environment for women employees and entrepreneurs. It is based on 29 indicators that are grouped in five sub-indices that measure labor policy and practice, access to finance, education and training, women's legal and social status, and the general business environment. The index is calculated from a simple average of the unweighted categories and indicator scores. It rates countries on a scale of zero to 100, with 100 representing the most favorable economic and business environment for women.

Globally, Lebanon ranked ahead of Egypt, Fiji and Oman, and came behind Bahrain, Botswana and Kuwait. It ranked ahead of only Algeria among UMICs. Lebanon received a score of 48.7 points, lower than the global average of 55.8 points and the UMICs' average of 59.3 points, but above the MENA region's average of 46.3 points and the Arab countries' average of 45.2 points. Lebanon's score increased by 4.3 points from the 2010 survey, posting the 13th highest increase worldwide, ahead of Pakistan, Australia and Sudan, and behind Yemen, Georgia and Azerbaijan. It also posted the fourth largest increase among UMICs behind Serbia, Uruguay and Lithuania. Lebanon posted the second highest increase in the scores of the MENA region, coming behind only Yemen.

Women's Economic Opportunity Index

	Overall Score	Arab Rank	Global Rank
Tunisia	59.5	1	49
UAE	50.8	2	72
Kuwait	49.9	3	76
Bahrain	49	4	78
Lebanon	**48.7**	**5**	**79**
Egypt	48.7	5	80
Oman	48.2	7	82
Morocco	47	8	89
Jordan	45.9	9	93
Saudi Arabia	39.7	10	103
Algeria	39.7	10	104
Syria	35.9	12	115
Yemen	24.6	13	126

Source: Economist Intelligence Unit, Byblos Research

Public-sector salaries and benefits up 6% in first 11 months of 2011

Figures issued by the Ministry of Finance show that salaries, wages and related benefits paid to public-sector employees totaled $2.1bn in the first 11 months of 2011, constituting an increase of 6% from $2bn 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 $1.3bn and accounted for 61.5% of the total, followed by salaries of educational personnel with $461m or 21.6% of the total, civil staff with $339m (16%), and customs employees with $21.2m (1%). Also, the Lebanese Army's salaries totaled $852m year-to-November and represented 65% of military personnel salaries and benefits. It was followed by salaries of the Internal Security Forces with $366m (28%), General Security Forces with $69m (5.3%), and State Security Forces with $24.5m (2%). The ministry attributed the rise in the first 11 months of the year to a 5.7% increase in basic salaries, a 2.2% increase in indemnities, and a 20 % jump in allowances. It said basic salaries increased by $87m to $1.6bn due to a rise of $88.2m in payments to military personnel and an increase of $20m in outlays to public education personnel, which were partially offset by a $21.2m drop in payments to civil staff. It added that allowances rose by $43m due to an equivalent increase in allowances to military personnel, while indemnities increased to $2.7m. Salaries, wages and related benefits paid to public sector employees represented the largest component of primary spending, accounting for 32% as of end November 2011. They totaled $2.2bn and accounted for 26% of current expenditures in 2010.

Energy Ministry to tender $1.2bn worth of electricity projects

The Ministry of Energy & Water announced that it will tender projects worth $1.2bn in May 2012 to finance the production, transport and distribution of 700 Megawatts of electricity. The amount includes $850.4m to build production plants, $247m for five transportation lines, $38.5m for 30 distribution lines, and $40m to be spent on studies and consulting. The project aims to increase electricity supply at the Zouk, Jiyeh and Deir al-Ammar plants. The tender to raise supply at the Zouk and Jiyeh plants will take place on May 14, 2012, while the bid to produce electricity at Deir al-Ammar power plant will take place on May 28, 2012.

The tenders are part of a comprehensive plan that aims to raise power production in Lebanon to 4,000 Megawatts by 2014 and 5,000 Megawatts starting in 2015, with round-the-clock electricity supply by 2014. The plan also stipulates improving the transmission and distribution network, restructuring tariffs, and reducing technical losses. The Cabinet approved an amended version of the electricity plan in September 2011 to raise electricity production by 700 Megawatts during the 2011-2014 period.

Corporate Highlights

Byblos Bank opens branch in Basra

The Byblos Bank Group opened a new branch in the Iraqi city of Basra, becoming the first Lebanese bank with a direct presence in southern Iraq. Byblos Bank started operations in Iraq in May 2007 through a branch in Irbil, the capital of Kurdistan, making it the first Lebanese bank to establish a direct presence in the Iraqi market at the time. It opened its Baghdad branch in February 2010, becoming the first Lebanese bank with a direct presence in the Iraqi capital. The Basra branch, like the other two branches, is part of Byblos Bank sal, and will offer corporate, commercial and correspondent banking services, including payments, letters of credit, letters of guarantee and documentary collections, among other services. Byblos Bank is the first Lebanese bank to have three branches in Iraq. The branches also operate a referral business from other international banks. The Iraq branches' operations are centralized at the Group's head office in Beirut, similar to all of Byblos Bank's branches in Lebanon and abroad. Byblos Bank is one of eight foreign banks with direct branches in Iraq, the others being the Arab Banking Corporation, the Turkish Agricultural Bank, Bank Melli Iran, Turkish Is Bank A.S., Vakif Bank, as well as two other Lebanese banks. The Iraqi banking sector consists of 23 privately-owned commercial banks, 11 Islamic banks and 7 state-owned banks.

Byblos Bank sal declared consolidated net profits of $180m in 2011, constituting an increase of 1.2% from 2010. Total assets reached $16.6bn at the end of 2011 and rose by 8.6% from the end of 2010, while aggregate loans increased by 6.3% to $4bn at end-2011. Customers' deposits totaled $12.72bn, up 7.6% from end-2010. The Byblos Bank Group has a direct presence in Syria, Sudan, Iraq, the United Arab Emirates, Nigeria and Armenia, as well as in Belgium, France, the United Kingdom, and Cyprus.

Car sales up 18% in first two months 2012

Figures released by the Association of Automobile Importers in Lebanon indicate that a total of 4,468 new passenger cars were sold in the first two months of 2012, constituting an increase of 17.7% from the 3,796 cars sold in the same period last year. Korean cars accounted for 43.8% of total sales, followed by Japanese cars with a 25.4% share, European automobiles with 23.2%, American vehicles with 7.1%, and Chinese cars with 0.6%. Korean cars posted the highest growth in sales with a 32.4% rise year-on-year, followed by American cars with a 28.1% rise, Chinese cars with a 17.4% increase, European automobiles with a 7.6% rise, and Japanese cars with a 4.3% rise. Kia is the leading brand in the Lebanese market with 1,252 cars sold in the first two months of 2012, followed by Hyundai with 702, Nissan with 656 cars sold, Toyota (235), Chevrolet (228), Renault (130) and Volkswagen with (127). In parallel, a total of 372 new commercial vehicles were sold in the first two months of 2012, up 31.5% from the 283 vehicles sold in the same period last year.

Standard & Poor's downgrades CMA CGM's ratings on poor results

Standard & Poor's downgraded its long-term corporate credit ratings on France-based and Lebanese-owned container shipping operator CMA CGM SA to 'B-' from 'B+'. It also lowered its issue ratings on the company's debt to 'CCC' from 'B-', and placed all issuer and issue ratings on CreditWatch with negative implications. It attributed the downgrade to CMA CGM's significantly lower than projected operating profits in 2011 due to depressed freight rates and elevated operating costs. It expected the firm's cash flow generation to remain limited, which would erode its liquidity position over the coming quarters if it is unable to improve its liquidity through asset disposals or amendments to its debt maturity profile. As such, the agency lowered the company's liquidity profile to "weak" from "less than adequate". Further, it considered that CMA CGM will likely breach its financial covenant tests in 2012 if it is unable to take appropriate actions. As such, the agency also revised CMA CGM's financial risk profile to "highly leveraged" from "aggressive".

S&P warned that the persistent industry overcapacity, moderate demand, and elevated bunker fuel prices would limit the upside potential for CMA CGM's earnings and cash flow generation. As such, it said that CMA CGM's liquidity sources are likely to erode over the coming quarters as it faces upcoming equity payments for partially-funded new vessels, capital spending on maintenance, and mounting debt maturities. But it noted that CMA CGM announced that it is in advanced discussions with its lenders to reschedule its debt repayments and to avert covenant breaches, and that it will continue its asset disposal program. It added that these measures, if completed successfully, would significantly improve the company's liquidity profile.

It expected CMA CGM to generate negative free operating cash flows of about $100m to $150m in 2012, assuming that revenues will increase by about 9% and the EBITDA margin will improve to about 6%, largely due to cost savings. It said that the ratings on CMA CGM continue to be constrained by the group's aggressive financial policy as well as the high operating risk in the cyclical, capital-intensive, and competitive container shipping industry.

Corporate Highlights

IDAL provides incentives for new hotel and pharmaceutical projects

The Investment Development Authority of Lebanon (IDAL) provided an incentives package to pharmaceutical manufacturer Algorithm sal to build a $12.4m pharmaceutical plant. The incentives include the full exemption from taxes on income and from taxes on the distribution of dividends for a period of 10 years, and the waiver of mortgage insurance fees. Further the incentives package comprises reducing the fees on building permits and the fees of residence permits of foreign workers. The plant is expected to create around 100 new jobs. In parallel, IDAL extended another incentives package to Bashoura Company to build a $208m five-star hotel in the Central District of Beirut. The project will be exempted from taxes on income for a period of 10 years, while construction fees will be cut by 50%. The hotel will have 153 rooms, 62 suites and 35 furnished apartments. The project is expected to create 250 jobs. The Package Deal Contract is an IDAL incentive program through which investment projects are granted a package of incentives, exemptions and reductions. They are a function of the project investment size and the number of jobs it creates.

Fitch Ratings affirms Standard Chartered's ratings, revises outlook to negative

Fitch Ratings affirmed Standard Chartered Bank' plc's (SC) and its subsidiary Standard Chartered Bank's (SCB) Long-term Issuer Default Ratings (IDR) at 'AA-' and revised the outlook to 'negative' from 'stable'. It attributed the outlook revision to SC's continued rapid growth in markets where systemic risks are growing due to the rising influence of the Chinese economy and its large banking sector. As such, the agency considered that SC's broad-based and diverse performance could become increasingly skewed towards a few key markets that include lower-rated China and India. It noted that major concerns relating to SC's exposure to China stem from heightened risks to the Chinese banking sector, combined with the sector's under-developed corporate governance and risk management systems. It added that China's rising importance to SC is due to the country's economy increasing interconnectedness with many countries in Asia-Pacific and globally, and SC's exposure in those markets. Fitch said that it would downgrade SC's ratings in case of signs of increased correlation between its key markets, which would reduce the geographical diversification benefits of its franchise, a factor that supports the current ratings level. It added that it would also downgrade the ratings in the event of a deterioration in asset quality beyond the expectations of a normal cyclical downturn in one or more of its key markets; or if earnings and capitalization no longer correspond to SC's risk levels. Standard Chartered Bank has been present in the Lebanese market since 1999 when it acquired Metropolitan Bank sal. It operates through its fully-owned subsidiary Standard Chartered Bank sal and has three branches in the country.

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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