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BYBLOS BANK SAL

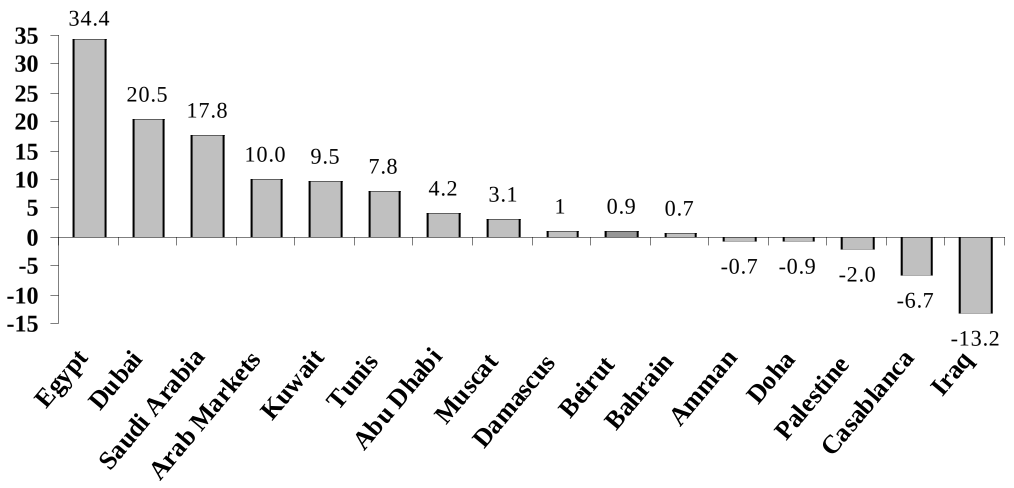
Economic Research & Analysis Department

LEBANON THIS WEEK

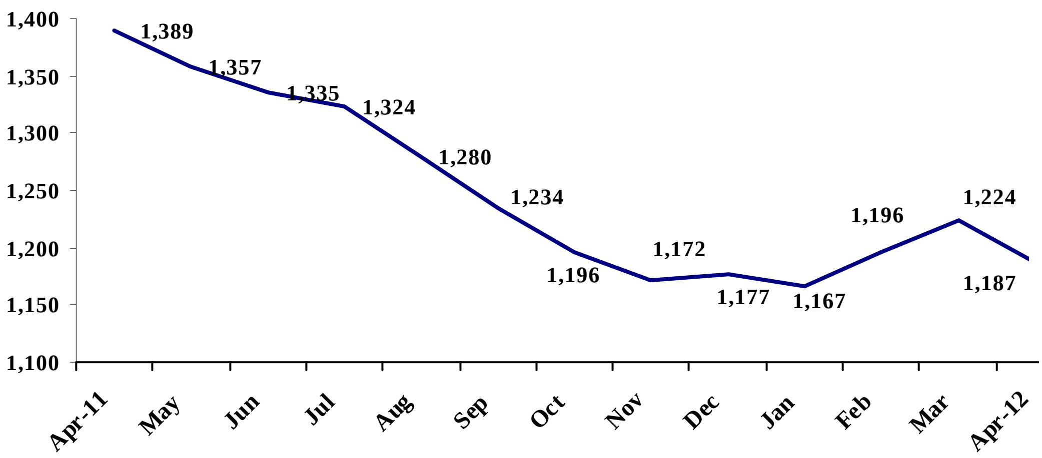
In This Issue

Charts of the Week

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



Performance of the Beirut Stock Exchange



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

Quote to Note

"It is a win-win situation in both saving lives and increasing government revenues."

The AUB Tobacco Control Research Group, on research that shows that raising taxes on domestic and imported cigarettes and other tobacco in Lebanon would help reduce their consumption and increase public receipts

Number of the Week

14%: Percentage of consumers in Lebanon who have made a purchase through their mobile phone in recent months, according to a survey by MasterCard

Economic Indicators

$m (unless otherwise mentioned)	2010	Feb 11	2011	Dec 11	Jan 12	Feb 12	% Change*
Exports	4,256	304	4,276	338	348	429	41.12
Imports	17,956	1,218	20,170	1,665	1,454	2,799	129.80
Trade Balance	(13,700)	(914)	(15,894)	(1,327)	(1,106)	(2,370)	159.30
Balance of Payments	3,326	104	(1,996)	692	(290)	(134)	(228.85)
Checks Cleared in LBP	13,519	1,172	14,251	1,370	1,246	1,152	(1.71)
Checks Cleared in FC	53,925	4,094	57,852	5,094	4,665	4,272	4.35
Total Checks Cleared	67,444	5,266	72,103	6,464	5,911	5,424	3.00
Budget Deficit/Surplus	(2,894)	(501)	(2,342)	(391)	(176)	(181)	(63.85)
Primary Balance	1,231	(266)	1,662	(73)	33	11	(104.24)
Airport Passengers	5,512,435	300,326	5,596,034	441,214	424,741	374,252	24.62

$bn (unless otherwise mentioned)	Dec 2010	Feb 11	Nov 11	Dec 11	Jan 12	Feb 12	% Change*
BdL FX Reserves	28.60	28.42	30.82	30.82	30.74	30.76	8.25
In months of Imports	*19.46*	*23.33*	*19.52*	*18.51*	*21.14*	*10.99*	*(52.90)*
Public Debt	52.59	52.08	54.05	53.64	53.65	53.94	3.57
Net Public Debt	45.01	45.31	46.10	46.35	46.54	46.74	3.15
Bank Assets	128.93	130.06	139.43	140.58	142.85	144.11	10.80
Bank Deposits (Private Sector)	107.20	106.80	114.15	115.72	116.69	117.42	9.94
Bank Loans to Private Sector	34.93	35.70	39.60	39.38	40.51	40.45	13.31
Money Supply M2	39.40	37.03	38.42	38.90	39.09	39.46	6.56
Money Supply M3	92.15	91.01	96.32	97.23	97.49	98.13	6.65
LBP Lending Rate (%)	7.91	7.71	7.31	7.38	7.19	7.07	(64b.p.)
LBP Deposit Rate (%)	5.68	5.63	5.59	5.63	5.60	5.47	(16b.p.)
USD Lending Rate (%)	6.74	7.01	6.99	7.02	6.99	7.13	12b.p
USD Deposit Rate (%)	2.80	2.90	2.84	2.83	2.87	2.87	(3b.p.)
%* Change in CPI**	6.19	5.09	3.89	4.27	4.47	3.71	(138b.p.)

** Year-on-Year; ** Consumer Price Index*
Note: b.p. i.e. basis point
Sources: ABL, BdL

Capital Markets

Most Traded Stocks on BSE	Last Price ($)	% Change*	Total Volume	Weight in Market Capitalization
Solidere "A"	13.46	(0.44)	121,484	12.90%
Solidere "B"	13.39	(1.18)	22,681	8.34%
Byblos Common	1.59	(0.63)	411,611	5.48%
Byblos Pref. 08	101.00	1.00	400	1.94%
Byblos Pref. 09	101.00	0.00	500	1.94%
BLOM GDR	7.80	2.50	41,000	5.52%
BLOM Listed	7.80	1.43	780	16.07%
Audi GDR	6.50	4.00	81,930	6.23%
Audi Listed	6.00	(2.44)	817,410	20.09%
HOLCIM	16.97	(5.72)	7,483	3.17%

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

Sovereign Eurobonds	Coupon %	Mid Price $	Mid Yield %
Sep. 2012	7.750	100.13	7.37
June 2013	8.625	107.00	2.55
Apr. 2014	7.375	107.63	3.39
Jan. 2015	5.875	104.50	4.12
Apr. 2015	10.00	117.50	3.82
Jan. 2016	8.500	114.25	4.35
Mar. 2017	9.000	118.35	4.78
Nov. 2018	5.150	100.50	5.06
Apr. 2021	8.250	118.50	5.61
Nov. 2026	6.600	102.50	6.34

Source: Byblos Bank Capital Markets

	April 30-May 4	April 23-27	% Change	April 2012	April 2011	% Change
Total Shares Traded	3,668,115	1,516,912	141.81	3,868,312	18,453,479	(79.04)
Total Value Traded	$17,171,806	$13,381,656	28.32	$35,454,788	$94,089,158	(62.32)
Market Capitalization	$10.43bn	$10.48bn	(0.40)	$10.50bn	$11.91bn	(11.84)

Source: Beirut Stock Exchange (BSE)

Average annual hotel occupancy rate in Beirut at 54% during past 16 years

The annual survey of the Middle East hotel sector by global hotel consulting firm HVS indicated that the average occupancy rate at Beirut hotels was 54% during the 1996-2011 period, constituting the second lowest rate among 14 cities in the Middle East for which complete data is available over the covered period. The survey added that the average rate per room at Beirut hotels grew by a compound annual growth rate (CAGR) of 2% during the covered period, posting the fifth lowest increase in the region, similar to Sharm El Sheikh and Ras Al Khaimah. Further, revenues per available room (RevPAR) increased by a CAGR of 4%, constituting the ninth largest increase, similar to Amman, Jeddah and Muscat

Hotel Performance in the Middle East during 1996-2011

	Avge Annual Occupancy Rate (%)	Room Rate CAGR (%)	RevPar CAGR (%)
Dubai	72	3	3
Cairo	70	4	1
Hurghada	68	-3	-2
Abu Dhabi	68	3	3
Sharm El Sheikh	67	2	-1
Damascus	65	3	-4
Doha	64	8	8
Muscat	63	5	4
Manama	61	5	1
Jeddah	61	3	4
Riyadh	61	6	6
Amman	58	4	4
Beirut	**54**	**2**	**4**
Kuwait City	53	1	3

Source: HVS, Byblos Research

In parallel, HVS said that the average occupancy rate at Beirut hotels was 59% in 2011, which ranked Beirut in 15th place among 45 cities covered by the survey. Beirut had a similar hotel occupancy rate as Doha and Taif last year. Also, the occupancy rate at Beirut hotels decreased by 7 percentage points in 2011 from the previous year, compared to a contraction of 11 percentage points for the region. The survey pointed out that Beirut was among 27 cities that posted a decline in occupancy rates and had the fifth lowest drop in the region, similar to Doha. However, the occupancy rate at Beirut hotels in 2011 was the sixth highest rate in Lebanon since 1994, following the 71% rate posted in 2004, 70% posted in 2009, 66% in 2010 and 61% in each of 1997 and 1998. Also, the occupancy rate at Beirut hotels last year was similar to that posted in 2003.

HVS said that the average rate per room at Beirut hotels reached $220 in 2011 relative to $181 for the region. It added that the average rate per room in Beirut regressed by 16% year-on-year compared to a contraction of 2% in the Middle East. It noted that Beirut was among 28 cities that posted a contraction in room rates, while its rate decline was the sixth steepest in the Middle East and similar to Abu Dhabi. The average room rate at Beirut hotels in 2011 was the eighth highest in the region, as well as the third highest in Lebanon during the previous 16 years, as average room rates reached $281 in 2009 and $263 in 2010.

Further, HVS indicated that revenues per available room (RevPAR) reached $130 in 2011, down 25% year-on-year and compared to the regional average of $92. The decrease in RevPAR in Beirut constituted the 11th lowest drop last year among 29 cities that posted a contraction. But Beirut hotels realized the 10th highest RevPAR in the region last year, as well as the third highest in Lebanon during the previous 16 years after posting $197 in 2009 and $174 in 2010.

HVS said that Beirut's hotel sector posted a decline in occupancy levels and average rates per room last year due to domestic and regional instabilities. But it pointed out that Beirut's hotel industry exhibits remarkable resilience as it posted strong growth and record results following periods of instability. It expected hotel occupancies in Beirut to improve, while an already solid average room rate will position Beirut among the top performers in terms of RevPar. It noted that the development pipeline in Lebanon currently includes 1,025 hotel rooms, with the Hilton Beirut on hold indefinitely. Further, it said that Beirut attracts a balanced share of both corporate and leisure demand, as well as a large share of visitors from Europe.

Economic activity continues to stagnate despite pick up in February

The Central Bank's Coincident Indicator, an index of economic activity in Lebanon, reached 263.9 points in February 2012 compared to 249.8 points in January 2012 and to 243.2 in February 2011. The Coincident Indicator, an average of 8 weighted economic indicators, increased by 5.6% month-on-month in February and by 8.5% year-on-year. The indicator averaged 257.1 in the 12-months ending February 2012 compared to 255.3 in the 12-months ending January 2012 and to 250.1 in the 12-months ending February 2011. As a result, the average coincident indicator rose marginally by 0.7% month-on-month and increased by 2.8% year-on-year, which reflects continued economic stagnation in real terms. The indicator posted its first increase in 2012 after it declined by 5.9% in January. The indicator reached an all-time high of 269.9 in April 2011 after peaking at 266.7 in November 2010. In parallel, the indicator improved nine times and regressed 11 times in the month of January since 1993. The indicator averaged 255.7 in 2011, 249.5 in 2010 and 225.9 in 2009.

IMF highlights statistical shortage, points to weaknesses in national accounts data

The International Monetary Fund indicated that Lebanon's statistical system suffers from fragmentation and has limited capacity to provide timely and reliable data. It said that Lebanon has data gaps in many economic areas, including in national accounts, balance of payments, the general government and the non-financial public sector, as well as in social and labor market indicators. It added that Lebanon lacks national data on wages and real estate activity and prices; while data on poverty and income distribution is unreliable, which hinders social policy formulation.

It said that national accounts data is weak and is published just once a year. It added that national accounts statistics are still being produced by a team at the Prime Minister's office using mostly administrative data sources and compilation methods that do not conform to best practices. It noted that the launch of comprehensive economic surveys and the transfer of national accounts compilation to the Central Administration of Statistics (CAS) have been repeatedly delayed. Further, it said that the CAS compiles and publishes a monthly Consumer Price Index since May 2008 that follows an internationally accepted methodology. But it noted that the CAS needs to address remaining shortcomings in its index, including delays in the survey of some prices such as housing prices; and to develop regular and timely statistics on producer prices, wages, and real estate prices.

Also, the Fund said that the publication of the government's fiscal figures has improved significantly in recent years, but it noted that the coverage is not comprehensive. It added that the published monthly data about the budget's accounts do not cover items such as certain transfers, financing data, foreign-financed capital expenditures, and arrears. It pointed out that certain Treasury expenditures are only identified ex-post and are presented with a lag.

In parallel, the IMF considered that Lebanon's monetary statistics are adequate. But it added that the lack of a reliable classification of deposits by residency complicates the balance of payments (BoP) analysis. Also, it pointed out that BoP statistics are weak given the deficiencies in the current account, such as unrecorded exports, uncertainty with respect to the estimates of private sector services, workers' remittances, and investment income; as well as due to weaknesses in the capital account, especially grants; and the financial account that includes foreign direct investment, equity investment in the non-bank private sector, and corporate borrowing abroad. It noted that the Central Bank does not publish its externally audited financial statements, and its reporting practices are not yet fully compliant with the International Financial Reporting Standards.

The Fund said that Lebanon's statistics lag behind those of most middle-income countries. As such, it noted that raising Lebanon's statistical capacity to those of other upper middle income countries requires a firm commitment and high-level support from the government, including the allocation of sufficient resources and the provision of a clear legal mandate to the CAS.

Stock market activity down 48% to $126m in first four months of 2012

Figures released by the Beirut Stock Exchange indicate that total trading volume reached 17.3 million shares in the first four months of 2012, constituting a decrease of 61% from the same period last year, while aggregate turnover amounted to $125.9m, down 48.4% from a turnover of $243.9m in the first four months of 2011. Market capitalization decreased by 11.8% from end-April 2011 to $10.5bn, of which 74.3% was in banking stocks, 21.5% in real estate stocks, 3.6% in industrial stocks, 0.3% in fund stocks, and 0.3% in trading stocks. The market liquidity ratio was 1.2%, down from 2% from the same period last year. Bank stocks accounted for 82.9% of aggregate trading volume in the first four months of the year, followed by real estate stocks with 15.2%, trading stocks with 1.6%, and industrial stocks with 0.2%. In terms of value of shares traded, banking stocks accounted for 70.1% of aggregate value, followed by real estate stocks with 29.2%, industrial stocks with 0.3%, and trading stocks with 0.2%. The average daily traded volume for the period was 218,458 shares for an average daily value of $1.6m. The figures reflect decreases of 61% in volume and 49% in value year-on-year.

Public Works Ministry launches tender to buy public buses

The Ministry of Public Works & Transportation announced that it will launch tenders to buy 250 public buses as part of a comprehensive plan that aims to improve the public transport system in Lebanon. Also, a draft public transportation law will allow taxi drivers to exchange their old vehicles with new ones. Last September, Parliament endorsed a gasoline subsidy plan that would allocate monthly payments to public transport drivers over a three-month period.

Lebanon ranks 107th globally, first in Arab world in press freedoms

In its annual report on press freedoms in 196 countries, independent think tank Freedom House ranked Lebanon in 107th place globally and first among 20 Arab countries in 2012. Lebanon also came in 28th place among 46 upper middle-income countries (UMICs) included in the survey. Lebanon ranked in 108th place globally and in first place regionally in the 2011 survey.

The survey assesses the degree of print, broadcast, and Internet freedom across the world. The 2012 ratings are based on an assessment of the legal environment in which media operate; political influences on reporting and access to information; and economic pressures on content and the dissemination of news in 2011. It provides a numerical rating from zero as most free to 100 as least free for each country, and categorizes each country's level of press freedom as 'Free,' 'Partly Free,' or 'Not Free' based on its numerical rating. Lebanon, along with Kuwait, Egypt, Tunisia, Libya and Mauritania were the only Arab countries where the media was considered to be 'Partly Free', while the media in the remaining 14 countries came in the 'Not Free' category.

Globally, Lebanon tied with Albania, Tunisia, and the Maldives, ranked immediately ahead of Bangladesh, Georgia, Kenya and Mauritania, and came behind Argentina, Haiti and Nigeria. Lebanon also tied with Albania, ranked ahead of Macedonia and Turkey and behind Argentina and Bosnia and Herzegovina among UMICs. Lebanon received a score of 51 points better than the 53 points in the 2011 survey, the 55 points it received in 2010 and the 56 points received in 2009. Lebanon's score was also better than the Arab average of 68.8 points but worse than the global and UMICs' averages of 47.3 points and 46.5 points, respectively.

Press Freedom Rankings & Ratings for 2012

	Rating	Arab Rank	Global Rank
Lebanon	**51**	**1**	**107**
Tunisia	51	1	107
Mauritania	52	3	111
Egypt	57	4	123
Kuwait	57	4	123
Libya	60	6	132
Algeria	62	7	139
Jordan	63	8	144
Qatar	67	9	150
Morocco	68	10	153
Iraq	69	11	155
Oman	71	12	160
UAE	72	13	161
Djibouti	74	14	164
Sudan	78	15	170
Palestine	83	16	179
Yemen	83	16	179
Bahrain	84	18	182
Saudi Arabia	84	18	182
Syria	89	20	189

Source: Freedom House

Trade deficit up 48% to $3.5bn in first two months of 2012, volume of non-hydrocarbon imports down 9%

Total imports reached $4.3bn in the first two months of 2012 constituting an increase of 44% from the same period last year, while aggregate exports rose by 29% to $777m, leading to a trade deficit of $3.5bn, up 48% year-on-year. This trade deficit constituted the highest deficit in five years in both value and volume terms and was caused by a rise of $1.3bn in imports from the same period of the previous year despite an increase of $176m in exports. Imports of oil and mineral fuels increased by 146% year-on-year to $1.9bn, and non-hydrocarbon imports grew by 9.2% to $2.4bn, representing the highest level in five years in nominal terms. In volume terms, imports reached 3,435 million tons in the first two months of 2012, constituting an increase of 37% from the same period in 2011; while exports posted a 41% drop to 314 million tons in the covered period, leading to a trade deficit of 3,122 million tons, up 58% year-on-year. Imports of oil and mineral fuel surged by 94% year-on-year to 2,166 million tons, while non-hydrocarbon imports dropped by 8.6% annually to 1,269 million tons. The trade deficit was $2.4bn in February 2012, up 160% from the same month of the previous year. Imports averaged $2.1bn and exports averaged $389m on a monthly basis year-to-February, resulting in an average monthly trade deficit of $1.7bn during the covered period. The coverage ratio reached 18.3% in the first two months of 2012 compared to 20.4% in the same period in 2011, while it reached 15.3% in February 2012 relative to 25% in February of the previous year.

The rise in imports was mainly due to a significantly higher mineral fuels & oil bill. The increase in exports was mainly driven by the rise in international gold and silver prices, with exports of unwrought gold, un-mounted diamond, & precious metals increasing in value by 140% or $234m and decreasing by 7% in volume terms in the first two months of the year. Excluding this item, exports dropped in value by 13%, or by $58m, representing the lowest level of exports in five years in nominal terms, partly due to lower exports to Arab countries. Exports to Arab countries dropped by 10%, largely due to a 47% drop in exports to Iraq, a 44% decrease in exports to Egypt and a 13% fall in exports to the UAE.

The United States was the main source of imports with $1.1bn or 27% of the total, followed by Italy with $282m (7%), China with $265m (6.2%), France with $239m (5.6%), and Germany with $168m (4%). Imports from the US surged by 245% year-on-year; while imports from Germany dropped by 11%, from Italy by 10%, from France by 5% and from China by 2% during the covered period. Switzerland was the main export destination with $163m or 21% of the total, followed by the UAE with $52m (7%), Saudi Arabia with $50m (6%), Syria with $33m (4%), Turkey with $29m (3.7%), Jordan with $20m (3%) and Iraq with $19m (2%). Exports to Switzerland rose by 90%; while they dropped by 44% to Iraq, they regressed by 36% to Turkey, contracted by 8% to Syria, decreased by 5% to Jordan, declined by 4% to the UAE and fell by 2% to Saudi Arabia. Lebanon's main export was jewelry at $401m or 52% of the total, followed by base metals with $80m (10%), machinery & mechanical appliances with $70m (9%), prepared foodstuff with $61m (8%) and chemical products with $36m (5%). Re-exports totaled $34m in the first two months of 2012, compared to $37m in the same period of the previous year.

Lebanese youth are less optimistic about economic prospects than their Arab counterparts

The ASDA'A Burson-Marsteller 2012 Arab Youth Survey indicated that 82% of Lebanese between 18 and 24 year-old consider that being paid a fair wage is very important, 75% of Lebanese youth cite owning their own home as very important, and 65% of them acknowledge that living in a democratic country is very important. In comparison, 82% and 65% of Arab youth cite being paid a fair wage and owning their own home, respectively, as very important issues.

Percent of Respondents who are Concerned about Issues

	Fewer Opportunities (%)	Economy (%)	Unemployment (%)
Lebanon	**53**	**63**	**60**
Kuwait	37	52	43
Iraq	34	37	41
Bahrain	34	43	27
Qatar	33	63	37
Egypt	33	46	56
Jordan	32	35	32
Tunisia	29	36	49
Oman	26	50	39
Saudi Arabia	24	54	51
Libya	20	58	54
UAE	18	39	44

Source: ASDA'A Burson-Marsteller, Byblos Research

In parallel, the survey's results showed that 63% of Lebanese youth are very concerned about the rising cost of living, 63% are worried about the economy, and 60% are very anxious about unemployment. In comparison, 63% of Arab youth are very concerned about the rising cost of living, 48% are worried about the economy, and 44% are concerned about unemployment.

Also, the survey's findings revealed that 33% of Lebanese youth consider that things in Lebanon are going in the right direction, down from 35% who had a similar view in the 2011 survey. It added that 50% of young Lebanese feel anxious about what the future holds for their country compared to 46% who feel optimistic about Lebanon's future. Further, 53% of Lebanese respondents believe that they have fewer opportunities currently than they did a year ago, while 39% of them consider that they have more opportunities presently than they did 12 months earlier. In comparison, 31% of Arab youth consider that they have fewer opportunities currently than they did a year ago, and 60% of Arab respondents believe they have more opportunities. The survey noted that 55% of young Lebanese consider that their best days are ahead of them compared to 72% of Arab youth who think the same, while 40% of Lebanese youth acknowledge that their best days are behind them relative to 20% of Arab youth who share this opinion.

Further, the survey pointed out that 29% of Lebanese youth would like Lebanon's growth and development model to emulate that of the UAE, 25% prefer the U.S. model, 18% chose the French system, 16% want the Chinese model, and 12% each opted for the German and Turkish systems.

ASDA'A Burson-Marsteller conducted the survey through face-to-face interviews between December 2011 and January 2012 on a sample size of 200 respondents between 18 and 24 year-old in each of 12 Arab countries. The survey covered the UAE, Oman, Qatar, Bahrain, Saudi Arabia, Kuwait, Egypt, Jordan, Lebanon, Iraq, Tunisia and Libya. ASDA'A Burson-Marsteller is a public relations consultancy firm.

Launch of mediation center, EU to support reforms

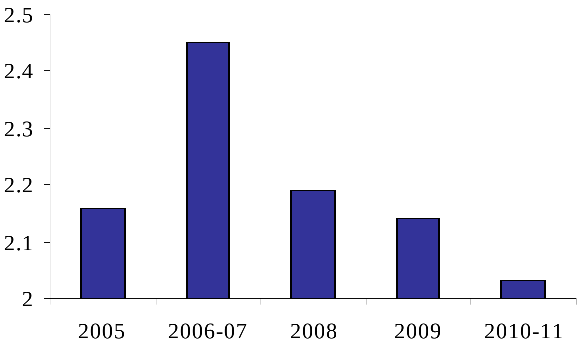
The Lebanese Customs Authority and the University of Genoa signed a Partnership Agreement for the Custom MED project, which is part of the European Neighborhood Partnership Instrument Cross-Border Cooperation for Mediterranean Countries. The 30-month project aims to improve goods circulation between the Middle East and the European Union by networking and adopting shared procedures and technologies among selected Mediterranean ports. The Lebanese government will finance €120,225 of the project's total cost of €1.2m. Further, the European Union announced an additional €30m allocation to Lebanon from the Support for Partnership, Reform and Inclusive Growth (SPRING) instrument, which comes on top of the allocation for this year to Lebanon of €62m. The funds will finance reforms in institution-building, democracy, and inclusive economic growth.

In parallel, the Beirut & Mount Lebanon Chamber of Commerce, Industry & Agriculture launched the Lebanese Mediation Center (LMC) to help small- and medium-sized enterprises resolve commercial disputes through mediation, instead of resorting to long and expensive judicial processes. LMC's mission covers training and accreditation of mediators, as well as conducting commercial mediation cases and raising awareness about the benefits of mediation. LMC was established through a cooperation agreement between the Chamber and the International Finance Cooperation, the private sector arm of the World Bank. The two-year project is financed by Switzerland for a total cost of $0.8m.

Media sector's sustainability regresses

The Media Sustainability Index (MSI) for 2010-11 assigned a score of 2.03 points for Lebanon, constituting Lebanon's lowest score since it was first included in the index in 2005. The index is produced by non-governmental organization IREX to assess the development of media systems over time and across countries. It is based on five objectives that are considered to be the most important aspects of a sustainable and professional independent media sector. The objectives are Freedom of Speech, Professional Journalism, Plurality of News Sources, Business Management, and supporting institutions. The MSI's results are produced from a simple average of the five objectives' scores that range between zero and four, with a score below one indicating an "unsustainable anti-free press"; a score between one and two representing an "unattainable mixed system"; a score between two and three indicating a "near sustainability" media system; and a score between three and four pointing to a "sustainable" media system.

Media Sustainability Index Scores for Lebanon



Source: IREX, Byblos Research

Lebanon received a score of 1.99 points on the Freedom of Speech objective, unchanged from the previous survey, but below the 2.17 points in 2008 and 2.24 points in 2006-07. Lebanon came in the "unsustainable mixed system", unchanged from 2009, but reflecting a downgrade from the "near sustainability" system reached during the 2006-08 period.

Further, Lebanon's score regressed from 2.2 points in 2009 to 2.04 points in the current survey on the Professional Journalism objective. Lebanon posted its lowest score on this objective since 2005. Also, Lebanon's score decreased marginally from 2.43 points in 2009 to 2.41 points in the current survey on the Plurality of News Sources, posting its lowest score so far on this category. Lebanon remained in the "near sustainability" category on both objectives despite the decrease in its scores.

Also, Lebanon received a score of 2.05 points on the Business Management objective, its lowest score on this category since 2005, and fell in the "near sustainability" category. Further, Lebanon's score dropped significantly to 1.64 points from 1.94 in 2009 on the Supporting Institutions objective, posting the steepest drop across objectives. As a result, Lebanon came in the "unsustainable mixed system". In parallel, Lebanon's 2010-11 MSI included Serving Public Needs as a sixth objective. The latter rates the extent to which the traditional media such as newspapers and broadcasters, and new media such as blogs and other online or mobile formats, capture citizens' concerns in a non-partisan manner. It is not included in the overall index's score. Lebanon received a score of 1.28 points on this objective and came in the "unsustainable mixed system".

Industrial exports increase by 11% to $527m in first two months of 2012, imports up 19% to $42m

Figures released by the Ministry of Industry show that industrial exports totaled $527.1m in the first two months of 2012, constituting an increase of 10.6% from $476.6m in the same period last year. Industrial exports reached $288.4m in February 2012, up 20.8% from $238.7m in January 2012 and up 17.7% from $245.1m in February 2011. Pearls & precious or semi-precious stones accounted for $175.9m, or 33.4% of total industrial exports in the first two months of the year, followed by base metals & articles of base metals with $80.2m (15.2%), and machinery and mechanical appliances with $70m (13.3%). Arab countries accounted for 36.3% of total industrial exports in February, followed by African countries with 31.5%, European countries with 21.3%, and Asian countries with 7.9%. In parallel, industrial imports reached $42.2m in the first two months of the year, up 19% from the same period in 2011. Italy was the main source of such imports and accounted for 19.1% of the total. It was followed by China with 18.9% and Germany with 11.6%. Further, imports of industrial equipment and machinery reached $18.7m in February 2012, decreasing by 1.6% year-on-year. China was the main source of imports of industrial equipments, accounting for 23.3% of the total, followed by Italy with 21.7% and Germany with 11.3%.

Customs receipts down 1% to $242m in first two months 2012

Figures released by the Customs Directorate indicated that customs revenues reached $242.2 in the first two months of 2012, constituting a decline of 1.1% from $244.7m in the same period of 2012. The Port of Beirut continues to be the main point of customs receipts, as it accounted for 87.3% of the total in the first two months, and was followed by the Hariri International Airport with 7.5%, the Port of Tripoli with 2.1%, the Masnaa crossing point with 1.7%, the Port of Saida with 0.8%, the crossing point of Abboudieh by 0.4% and the Port of Tyre with 0.1%. Customs receipts from the value-added tax totaled $262.5m in the first two months of 2012, constituting an increase of 25.3% year-on-year. The Port of Beirut accounted for 79% of such receipts, and was followed by the Hariri International Airport with 7.6%, the Port of Tripoli with 6%, the Masnaa crossing point with 4.7%, and the Port of Saida with 2.6% of the total. As such, overall customs receipts reached $504.7m in the first two months, with the Port of Beirut accounting for 83% of the total. It was followed by the Hariri International Airport with 7.6% and the Port of Tripoli with 4.1% and the Masnaa crossing point with 3.3%. In addition, other entry points represented the balance, with the port of Saida accounting for 1.7%, the crossing point of Abboudieh for 0.2%, and the port of Tyre for 0.1%.

Byblos Bank's first quarter earnings 23% higher than forecast

Regional investment bank EFG Hermes indicated that the Bank's earnings in the first quarter of 2012 were 23% higher than forecast due to stronger-than expected non-interest income and lower-than-expected provisionig. It said that Byblos Bank's loan and deposit growth were in line with expectations, as well as with the reported figures of its two main competitors. It indicated that Byblos Bank has been growing strongly, as its assets and earnings grew rapidly over the past three years due to its international expansion in countries with low banking penetration or with a large base of Lebanese expatriates. But it noted that growth momentum has slowed due to a decline in private consumption and investment in Lebanon, as well as in regional markets, on political uncertainties. It estimated that Byblos Bank's share price has a 10% upside potential under its fair value price of $1.72 per share and based on the closing price of April 30, 2012.

In parallel, EFG Hermes said that the Bank's provisioning charges declined quarter-to-quarter due to a recovery in investment provisions. It added that loan-loss provisions were broadly stable from the preceding quarter, as Byblos continues to allocate collective provisions for its Syrian subsidiary. It expected the NPL coverage for Byblos' NPL book to remain high at 134% at the end of 201e, the highest such ratio by far among the top 3 Lebanese banks. It estimated Byblos Bank's capital adequacy ratio to reach 15.8% at end-2012, well above the minimum 8% required by the Central Bank and better than that of its Lebanese peers. EFG Hermes indicated that some of Byblos Bank's strengths include its strong consumer and SME franchise that places it in a strong position, as well as its expansionary strategy in markets where there is a large Lebanese Diaspora.

Profits drop by 0.6% at Syrian affiliates of Lebanese banks, assets fall 17% and deposits decline 27% in 2011

The recently-released detailed financial results 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 decline was due to an average drop of 30.3% in the assets of Banque BEMO Saudi Fransi, Bank of Syria & Overseas, and Bank Audi Syria, the three largest private commercial banks by assets. The banks' loans totaled SYP137.5bn, or $2.5bn at end-2011, reflecting a drop of 7.7% from the end of 2010. The loans' decline was mainly caused by an average contraction of 22.3% in the lending of Banque BEMO Saudi Fransi, Bank of Syria & Overseas, and Bank Audi Syria. Also, the banks' customer deposits reached SYP242.7bn, or $4.4bn at the end of 2011, regressing by 27.2% year-on-year. The drop was prompted by an average contraction of 36.4% in the deposits of Banque BEMO Saudi Fransi, Bank of Syria & Overseas, and those of Bank Audi Syria. The deposits of each of Banque BEMO Saudi Fransi and Bank Audi Syria contracted by around 40% year-on-year, and posted the steepest drop among the affiliates of Lebanese banks operating in Syria in 2011. They were followed by Bank of Syria & Overseas with a 30% drop in deposits. In parallel, Bank Al-Sharq, the affiliate of Banque Libano-Française, saw deposit growth of 69.3%; followed by Syria Gulf Bank with a 16.8% rise, and Byblos Bank Syria with an increase of 6%. The ratio of the banks' loans-to-customer deposits stood at 56.7% at end-2011 compared to 44.7% a year earlier. Also, the aggregate shareholders equity of the banks reached SYP35.2bn, or $632m, at end-2011, constituting an increase of 27.3% from end-2010.

In parallel, the aggregate net profits of the seven banks reached SYP1.97bn, or $35.4m in 2011, constituting a marginal drop of 0.6% from 2010. The aggregate net interest income of the banks reached SYP7.5bn, or $133.8m, in 2011, up 22.3% year-on-year; while their total net fees & commission income increased by 8.5% to around SYP2bn, or $35.6m. The banks' total operating income reached SYP13.2bn, or $236.3m in 2011, up 49.2% year-on-year. The contraction in net income is mainly attributed to a drop of 83.2% in the profits of Bank Audi Syria, a decline of 26.8% in the profits of Byblos Bank Syria, as well as a reduction of around 20% in the profits of Bank of Syria & Overseas and a drop of 1.2% in the profits of Banque BEMO Saudi Fransi. The drop in the profits of these four banks was offset by a shift from a loss to a profit for Syria Gulf Bank, the affiliate of First National Bank sal, and Bank Al-Sharq as well as to a rise from a very low base in 2010 of Fransabank Syria's profits.

Results of Affiliates of Lebanese Banks in Syria for 2011

	Banque BEMO Saudi Fransi	Bank of Syria & Overseas	Bank Audi Syria	Byblos Bank Syria	Syria Gulf Bank	Fransabank Syria	Bank Al-Sharq
Net Profits	$11.8m	$10.2m	$2.1m	$3.0m	$4.6m	$2.7m	$0.9m
% Change*	-1.2%	-19.9%	-83.2%	-26.8%	-	2775.5%	-
Total Assets	$1.36bn	$1.25bn	$1.14bn	$0.83bn	$0.40bn	$0.56bn	$0.28bn
% Change**	-34.1%	-24.6%	-32.4%	9.1%	41.9%	31.3%	72.2%
Loans	$591m	$381m	$523m	$426m	$228m	$207m	$111m
% Change**	-10.6%	-30.1%	-26.1%	6.1%	70.4%	32.0%	69.0%
Customer Deposits	$1.11bn	$1.05bn	$0.90bn	$0.64bn	$0.25bn	$0.24bn	$0.17bn
% Change**	-40.4%	-29.7%	-39.2%	6.0%	16.8%	0.5%	69.3%

*Year-on-year

***Change from end-2010*

Source: Banks' financial statements

Ratio Highlights

(in % unless specified)	2009	2010	2011	Change*
Nominal GDP(1) ($bn)	34.7	37.1	39.1	
External Debt / GDP	61.3	55.4	53.5	(190)
Local Debt / GDP	86.0	86.3	83.7	(260)
Total Debt / GDP	147.2	141.8	137.2	(460)
Total External Debt / GDP	176.1	167.0	163.2	(380)
Trade Balance / GDP	(36.8)	(36.9)	(40.7)	(380)
Exports / Imports	21.5	23.7	21.2	(250)
Budget Revenues / GDP	24.3	22.7	22.7	(5)
Budget Expenditures / GDP	32.8	30.6	27.2	(342)
Budget Balance / GDP	(8.5)	(7.9)	(6.0)	191
Primary Balance / GDP	3.1	3.2	4.3	105
BdL FX Reserves / M2	74.0	77.1	78.8	172
M3 / GDP	236.5	248.4	248.7	30
Bank Assets / GDP	332.1	347.5	359.5	1,200
Bank Deposits / GDP	276.0	289.0	296.0	695
Private Sector Loans / GDP	81.8	94.2	100.7	650
Dollarization of Deposits	64.5	63.2	65.9	270
Dollarization of Loans	84.0	80.3	78.4	(190)

** Change in basis points 10/11*
(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

Economic Research & Analysis Department
Byblos Bank Group
P.O. Box 11-5605
Beirut – Lebanon
Tel: (961) 1 338 100
Fax: (961) 1 217 774
E-mail: research@byblosbank.com.lb
www.byblosbank.com

BYBLOS BANK GROUP

LEBANON

Byblos Bank S.A.L
Achrafieh - Beirut
Elias Sarkis Avenue - Byblos Bank Tower
P.O.Box: 11-5605
Riad El Solh - Beirut 1107 2811 - Lebanon
Phone: (+ 961) 1 335200
Fax: (+ 961) 1 339436

SYRIA

Byblos Bank Syria S.A.
Damascus Head Office
Al Chaalan - Amine Loutfi Hafez Street
P.O.Box: 5424 Damascus - Syria
Phone: (+ 963) 11 9292 - 3348240/1/2/3/4
Fax: (+ 963) 11 3348205
E-mail: byblosbanksyria@byblosbank.com

IRAQ

Erbil Branch, Kurdistan, Iraq
Street 60, Near Sports Stadium
P.O.Box: 34 - 0383 Erbil - Iraq
Phone: (+ 964) 66 2233457/8/9 - 2560017/9
E-mail: erbilbranch@byblosbank.com.lb

Baghdad Branch, Iraq
Al Karrada - Salman Faeq Street
Al Wahda District, No. 904/14
Facing Al Shuruk Building
P.O.Box: 3085 Badalat Al Olwiya – Iraq
Phone: (+ 964) 770 6527807
(+ 964) 780 9133031/2
(+ 964) 1 7177493
E-mail: baghdadbranch@byblosbank.com.lb

UNITED ARAB EMIRATES

Byblos Bank Abu Dhabi Representative Office
Intersection of Muroor and Electra Streets
P.O.Box: 73893 Abu Dhabi - UAE
Phone: (+ 971) 2 6336050 - 2 6336400
Fax: (+ 971) 2 6338400
E-mail: abudhabirepoffice@byblosbank.com.lb

ARMENIA

Byblos Bank Armenia CJSC
18/3 Amiryan Street - Area 0002
Yerevan - Republic of Armenia
Phone: (+ 374) 10 530362
Fax: (+ 374) 10 535296
E-mail: infoarm@byblosbank.com

CYPRUS

Limassol Branch
1, Archbishop Kyprianou Street
Loucaides Building
P.O.Box 50218
3602 Limassol - Cyprus
Phone: (+ 357) 25 341433/4/5
Fax: (+ 357) 25 367139
E-mail: byblosbankcyprus@byblosbank.com.lb

BELGIUM

Byblos Bank Europe S.A.
Brussels Head Office
Rue Montoyer 10
Bte. 3, 1000 Brussels - Belgium
Phone: (+ 32) 2 551 00 20
Fax: (+ 32) 2 513 05 26
E-mail: byblos.europe@byblosbankeur.com

UNITED KINGDOM

Byblos Bank Europe S.A., London Branch
Berkeley Square House - Suite 5
Berkeley Square
GB - London W1J 6BS - United Kingdom
Phone: (+ 44) 207 493 3537
Fax: (+ 44) 207 493 1233
E-mail: byblos.europe@byblosbankeur.com

FRANCE

Byblos Bank Europe S.A., Paris Branch
15 Rue Lord Byron
F- 75008 Paris - France
Phone: (+33) 1 45 63 10 01
Fax: (+33) 1 45 61 15 77
E-mail: byblos.europe@byblosbankeur.com

SUDAN

Byblos Bank Africa
Khartoum Head Office
Intersection of Mac Nimer and Baladiyya Streets
P.O.Box: 8121 - Khartoum - Sudan
Phone: (+ 249) 1 56 552 222
Fax: (+ 249) 1 56 552 220
E-mail: byblosbankafrica@byblosbank.com

NIGERIA

Byblos Bank Nigeria Representative Office
161C Rafu Taylor Close - Off Idejo Street
Victoria Island, Lagos - Nigeria
Phone: (+ 234) 706 112 5800
(+ 234) 808 839 9122
E-mail: nigeriarepresentativeoffice@byblosbank.com.lb

DEMOCRATIC REPUBLIC OF CONGO

Byblos Bank RDC S.A.R.L
Avenue du Marché No. 4
Kinshasa-Gombe, Democratic Republic of Congo
Phone: (+ 243) 81 7070701
(+ 243) 99 1009001
E-mail: byblosbankrdc@byblosbank.com

ADIR INSURANCE

Dora Highway - Aya Commercial Center
P.O.Box: 90-1446
Jdeidet El Metn - 1202 2119 Lebanon
Phone: (+ 961) 1 256290
Fax: (+ 961) 1 256293