

## LEBANON THIS WEEK

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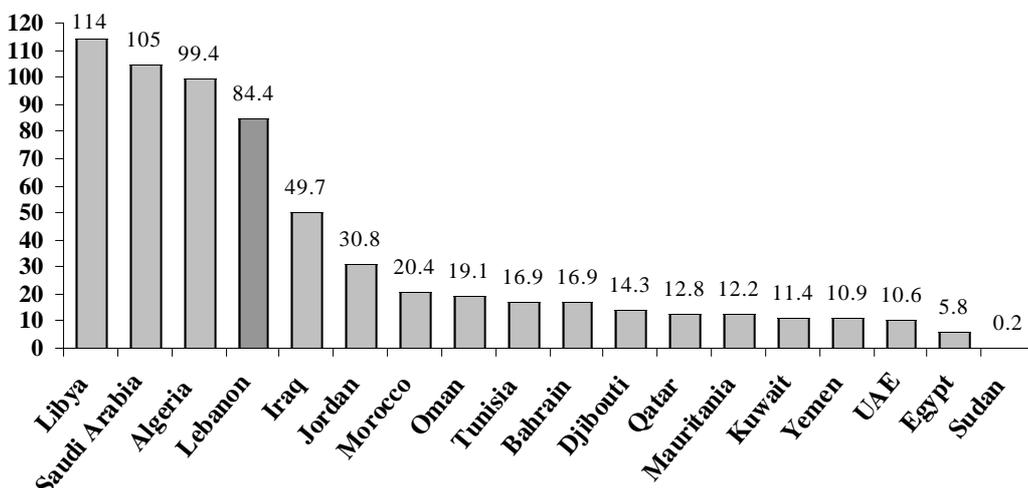
Standard & Poor's affirms ratings on Crédit Agricole

HSBC Bank Middle East's ratings affirmed

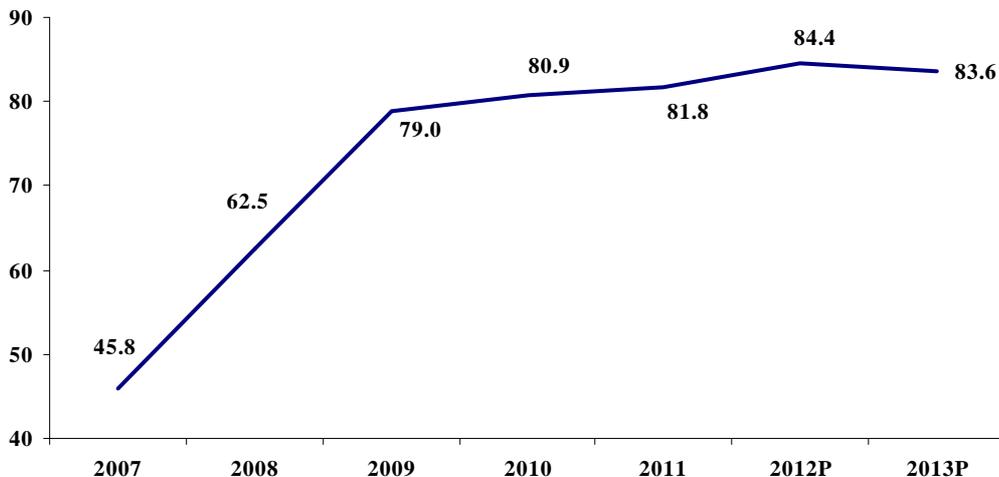
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### Charts of the Week

Projected Gross Official Foreign Currency Reserves in Arab Countries in 2012 (% of GDP)



Gross Official Foreign Currency Reserves in Lebanon (% of GDP)



Source: International Monetary Fund, Byblos Bank

### Quote to Note

"Progress on economic reforms will proceed haltingly owing to competing political demands from Cabinet members."

*The Economist Intelligence Unit, on the low prospects of meaningful reforms over the short term*

### Number of the Week

**63.3%:** Share of smartphone users in Lebanon who utilize applications, according to the Arab Advisors Group

## Economic Indicators

<b>\$m (unless otherwise mentioned)</b>	<b>2010</b>	<b>Mar 11</b>	<b>2011</b>	<b>Jan 12</b>	<b>Feb 12</b>	<b>Mar 12</b>	<b>% Change*</b>
Exports	4,256	354	4,276	348	429	377	6.50
Imports	17,956	1,631	20,170	1,454	2,799	1,723	5.64
Trade Balance	(13,700)	(1,277)	(15,894)	(1,106)	(2,370)	(1,346)	5.40
Balance of Payments	3,326	270	(1,996)	(290)	(134)	51	(81.11)
Checks Cleared in LBP	13,519	1,301	14,251	1,246	1,152	1,192	(8.38)
Checks Cleared in FC	53,925	4,798	57,852	4,665	4,272	4,844	0.96
Total Checks Cleared	67,444	6,099	72,103	5,911	5,424	6,036	(1.03)
Budget Deficit/Surplus	(2,894)	(548)	(2,342)	(176)	(181)	(312)	(42.99)
Primary Balance	1,231	(120)	1,662	33	11	133	(210.84)
Airport Passengers	5,512,435	344,024	5,596,034	424,741	374,252	438,570	27.48

<b>\$bn (unless otherwise mentioned)</b>	<b>Dec 2010</b>	<b>Mar 11</b>	<b>Dec 11</b>	<b>Jan 12</b>	<b>Feb 12</b>	<b>Mar 12</b>	<b>% Change*</b>
BdL FX Reserves	28.60	28.54	30.82	30.74	30.76	30.99	8.58
<i>In months of Imports</i>	<i>19.46</i>	<i>17.40</i>	<i>18.51</i>	<i>21.14</i>	<i>10.99</i>	<i>17.99</i>	<i>3.37</i>
Public Debt	52.59	52.59	53.64	53.65	53.94	54.08	2.83
Net Public Debt	45.01	45.61	46.35	46.54	46.74	46.91	2.85
Bank Assets	128.93	132.49	140.58	142.85	144.11	144.73	9.24
Bank Deposits (Private Sector)	107.20	108.15	115.72	116.69	117.42	118.22	9.31
Bank Loans to Private Sector	34.93	36.43	39.38	40.51	40.45	41.00	12.54
Money Supply M2	39.40	37.14	38.90	39.09	39.46	40.04	7.81
Money Supply M3	92.15	92.76	97.23	97.49	98.13	98.94	6.66
LBP Lending Rate (%)	7.91	7.73	7.38	7.19	7.07	7.16	(57b.p.)
LBP Deposit Rate (%)	5.68	5.63	5.63	5.60	5.47	5.46	(17b.p.)
USD Lending Rate (%)	6.74	7.24	7.02	6.99	7.13	7.06	(18b.p.)
USD Deposit Rate (%)	2.80	2.82	2.83	2.87	2.87	2.83	1b.p.
%* Change in CPI**	6.19	6.94	4.27	4.47	3.71	4.40	(254b.p.)

\* Year-on-Year; \*\* Consumer Price Index

Note: b.p. i.e. basis point

Sources: ABL, BdL

## Capital Markets

<b>Most Traded Stocks on BSE</b>	<b>Last Price (\$)</b>	<b>% Change*</b>	<b>Total Volume</b>	<b>Weight in Market Capitalization</b>
Solidere "A"	13.20	0.92	68,923	13.02%
Solidere "B"	13.09	(0.30)	7,005	8.39%
Byblos Common	1.50	(3.85)	423,101	5.32%
Byblos Pref. 08	100.00	(0.99)	12,630	1.97%
Byblos Pref. 09	101.00	0.00	2,263	1.99%
BLOM GDR	7.70	0.00	379,000	5.61%
BLOM Listed	7.40	0.00	110,664	15.69%
Audi GDR	6.45	0.00	0	6.37%
Audi Listed	5.73	(1.88)	36,600	19.75%
HOLCIM	16.80	4.87	1,001	3.23%

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

<b>Sovereign Eurobonds</b>	<b>Coupon %</b>	<b>Mid Price \$</b>	<b>Mid Yield %</b>
Sep. 2012	7.750	100.13	2.32
June 2013	8.625	104.00	5.55
Apr. 2014	7.375	105.00	4.33
Jan. 2015	5.875	103.00	4.54
Apr. 2015	10.00	114.13	4.91
Jan. 2016	8.500	112.00	5.16
Mar. 2017	9.000	115.38	5.00
Nov. 2018	5.150	99.75	4.58
Apr. 2021	8.250	116.00	5.27
Nov. 2026	6.600	101.00	5.83

Source: Byblos Bank Capital Markets

	<b>June 18-22</b>	<b>June 11-15</b>	<b>% Change</b>	<b>May 2012</b>	<b>May 2011</b>	<b>% Change</b>
<b>Total Shares Traded</b>	1,097,730	339,392	223.44	7,256,285	6,771,576	7.16
<b>Total Value Traded</b>	\$8,755,117	\$3,078,253	184.42	\$49,148,802	\$62,013,241	(20.74)
<b>Market Capitalization</b>	\$10.14bn	\$10.19bn	(0.47)	\$10.20bn	\$11.70bn	(12.83)

Source: Beirut Stock Exchange (BSE)



### Economic growth revised downward for 2012 on increased political tensions

Barclays Capital revised downward its projection for real GDP growth in Lebanon to 3.1% in 2012 from an earlier forecast of 3.6% due to increased domestic political tensions, the deterioration of security conditions, and an expected weakening of tourism activity this year. It said that political risks in Lebanon are increasing due to the spillovers of the ongoing Syrian conflict, which is weakening Lebanon's macroeconomic outlook. It noted that the rapid deterioration in Lebanon's security situation led several Gulf and European countries to ban or discourage their nationals from visiting Lebanon in anticipation of further problems. It added that tourists from GCC and other Arab countries account for more than 50% of Lebanon's total number of visitors and contribute significantly to commercial and trade activities. It added that the slowdown in the construction and real estate sector is continuing.

In parallel, it indicated that Lebanon's fiscal performance remains favorable, even though the underlying dynamics reflect little structural improvement. It noted, however, that the narrowing of the deficit masks a mixed performance, as the drop in debt servicing by 12% cannot hide the ballooning transfers to Electricité du Liban and the rise of spending on wages and salaries. It expected the fiscal deficit to remain constrained by the absence of a voted budget and, consequently, of parliamentary approval for new foreign currency borrowing to finance planned increases in new capital spending. It noted that the revised 2012 draft budget has yet to be discussed by the government amid opposition to some proposed tax measures. It added that the draft budget is unlikely to be ratified given the continued deadlock in Parliament over the bill regularizing past spending. As such, Barclays reduced its projection for Lebanon's budget deficit to 8% of GDP in 2012 from an earlier forecast of 9% of GDP and compared to a deficit of 6% of GDP in 2011. Further, it said that Lebanon's trade deficit widened in the first four months of the year driven by the increase in the quantity and price of imported energy products. It forecast the current account deficit to reach 14% of GDP in 2012 relative to 14.3% of GDP in 2011.

In parallel, Barclays Capital considered that the performance of the banking sector is key given the heightened risks. It noted that the banking sector remains robust, as deposit growth is still higher than growth rates posted during the periods of extreme stress, such as after the assassination of Prime Minister Rafiq Hariri in 2005 and during the Israeli war in the summer of 2006. It added that the sector's dollarization rate has not jumped to levels seen in previous periods of political stress, as deposit dollarization slightly declined to 65.1% at end-April 2012 from 65.6% at the end of 2011.

Key Macroeconomic Indicators				
	2010	2011	2012F	2013F
<b>Activity</b>				
Real GDP (% yoy)	7.0	1.5	3.1	3.7
CPI (% average)	4.0	5.0	5.2	4.3
<b>External Sector</b>				
Current account balance (\$bn)	(3.9)	(5.6)	(5.9)	(6.1)
Current account balance (% of GDP)	(10.6)	(14.3)	(14.0)	(13.5)
Gross external debt (% of GDP)	169.7	167.0	169.7	172.1
International reserves (\$bn)	31.5	33.5	35.6	37.3
<b>Public Sector</b>				
Public sector balance (% of GDP)	(7.8)	(6.0)	(8.1)	(8.6)
Primary balance (including grants) (% of GDP)	3.3	1.2	0.3	0.5
Gross public debt (\$bn)	52.6	53.2	56.3	60.0
Gross public debt (% of GDP)	141.7	136.0	134.6	133.7

Source: Barclays Capital, June 2012

### Consumer Price Index up 3% annually in May

The Central Administration of Statistics' Consumer Price Index indicates that inflation increased by 3% in May 2012 from May 2011. Prices of alcoholic beverages & tobacco increased by 11.1%, followed by education (+7.5%), food & non-alcoholic beverages (+7.3%), recreation & entertainment (+5.2%), restaurants & hotels (+4.4%), miscellaneous goods & services (+4.1%), furnishings & household equipment (+2.2%), transportation (+1.6%), clothing & footwear (+1.5%), health care (+0.7%); while prices of water, electricity, gas & other fuels decreased by 1.4%. In parallel, housing and communication prices remained unchanged year-on-year. Imported inflation accounts for about 70% of inflation in the country, as Lebanon has an import-based economy. Lebanon imports most of its energy needs and the value of imports historically has been equivalent to about five times that of exports. The Consumer Price Index declined by 0.3% in May 2012 from April 2012. Prices of miscellaneous goods & services increased by 0.7%, followed by clothing & footwear (+0.5%), food & non-alcoholic beverages and restaurants & hotels (+0.3% each), recreation & entertainment and health care (+0.1% each); while transportation prices declined by 2.2%, followed by water, electricity, gas & other fuels (-1.5%). Further, the cost of alcoholic beverages & tobacco, housing, communication, furnishings & household equipment, and education remained unchanged month-on-month. The Consumer Price Index grew by 3.5% year-on-year in April 2012 and by 4% year-on-year in March 2012.

### **Market accessibility of Beirut Stock Exchange needs improvement in several areas**

In its annual assessment of the market accessibility of 78 Developed, Emerging and Frontier equity markets, global portfolio analytics and indices provider MSCI Barra maintained Lebanon in its Frontier Markets category and evaluated the country's stock market based on four accessibility criteria that are openness to foreign ownership, ease of capital inflows and outflows, efficiency of the operational framework, and stability of the institutional framework. It said that the four criteria reflect the views of international institutional investors, which generally put a strong emphasis on equal treatment of investors, free flow of capital, cost of investment and country specific risk.

In terms of openness to foreign ownership, it said that there are no limits to foreign ownership on the Beirut Stock Exchange except for Israeli nationals whom are formally prohibited from investing in Lebanese companies. It noted the need to improve equal rights to foreign investors as company-related information is not always readily available in English. Lebanon was one of two frontier markets with a 'no major issues' rating in terms of investor qualification requirements, one of 15 markets with the same rating in terms of equal rights to foreign investors, one of 21 frontier markets with a 'no issues' rating in terms of foreign room level, and one of 16 markets with the same rating in terms of foreign ownership limit. Regarding capital inflows and outflows, it said there are no restrictions on capital flows, but noted that there is no offshore currency market and there are constraints on the onshore currency market, as foreign investors are not allowed to hold Lebanese pound balances. Lebanon was among 21 frontier markets with a 'no issues' rating in terms of capital flows restrictions, and one of nine markets with an 'improvements needed' rating in terms of liberalization level of the foreign exchange market.

Regarding the efficiency of the operational framework, it said market entry needs improvement, as registration is mandatory and may take up to five days. Also, not all regulations can be found in English, and the flow of information needs improvement as detailed stock market information is not always disclosed in English. It added that clearing and settlement procedures can be improved, as there is an absence of a real DVP system on the Beirut Stock Exchange, while there is no nominee status and no omnibus structures. In terms of custody, MSCI Barra said there is no formal segregation between custody and trading accounts for transactions on the Beirut market. In addition, there is only one active custodian available to foreign investors. It added that investors would welcome improvements in this area. Lebanon was among nine frontier markets that received a 'no major issues' rating in terms of market regulations and one of five markets to get the same rating in terms of information flow.

In parallel, it said that not all listed shares are dematerialized in terms of registry and depository, and in most instances the central depository acts as a central registry. It added that there are now lower trading costs in Lebanon due to a higher level of competition among brokers, while in-kind transfers and off-exchange transactions are prohibited. Finally, MSCI Barra said that Lebanon, like most Emerging and Frontier Markets, exhibits some shortcomings but "no major issues" in the stability of the institutional framework, and in particular in the enforcement of the rule of law.

Lebanon is one of 25 stock markets worldwide that fall under MSCI Barra's definition of Frontier Markets. The other such markets in the region are Tunisia, Bahrain, Jordan, Kuwait, Oman, Qatar, and the UAE. In November 2007, MSCI Barra included Lebanon in its MSCI Frontier Markets Index, a fully investable index for frontier equity markets. The index contains stocks from 25 developing markets in Asia, Emerging Europe, the Commonwealth of Independent States, Africa, and the Middle East.

### **Establishment of Lebanese Promotion Board**

The Cabinet approved the establishment of the Lebanese Promotion Board whose mandate is to support and promote the tourism sector and, more broadly, improve the brand perception of Lebanon. The Council will be headed by the Minister of Tourism, and will be composed of the First Vice Governor of the Central Bank of Lebanon, the Chairman of Middle East Airlines, the Chairman of the Casino du Liban, the President of the Association of Banks in Lebanon, the Head of the Federation of Tourism Syndicates, the President of the Economic Associations, and the Head of the Syndicate of Advertising Firms, in addition to five persons from the tourism sector to be selected by the Tourism Minister. The Council will play an advisory role to the Tourism Ministry. It will provide suggestions and recommendations to support the development of the tourism sector; identify priorities for the promotion and marketing of Lebanese tourism domestically, regionally and internationally; encourage domestic tourism; encourage investment in tourism-related projects; and raise funds that would finance various tourism promotion activities.

Lebanon's brand perception has suffered, even though the country did not see the type of upheavals that other Arab countries have gone through since early 2011. The Nation Brand Perception Index ranked Lebanon in 189th place among 200 countries and territories around the world and in 13th place among 19 countries in the Middle East & North Africa region in 2011. Also, the index ranked Lebanon in 188th place globally and in 15th place in the MENA region in the fourth quarter of last year.

### **Ministry of Finance issues \$2bn in Eurobonds for early redemption of domestic T-bills**

The Ministry of Finance issued three new Eurobonds totaling \$2bn under the Republic of Lebanon's Global Medium Term Note Program to be used for early redemption and cancellation of Lebanese pound-denominated Treasury bills held by the Central Bank of Lebanon. The bonds were issued on June 12, 2012. The government issued an \$800m Eurobond that matures in June 2025 and carries a 6.25% fixed coupon rate. The bond will replace five-year T-bills that mature in 2016 and that have a coupon rate of 6.18%. Also, it issued a \$700m Eurobond that matures in June 2018 and that carries a coupon rate of 5.15%. The bond will be exchanged with five-year T-bills that mature in 2016 and have a rate of 6.18%. Further, it issued a \$500m Eurobond that matures in June 2015 and that carries a fixed coupon payment of 4.1%. The bond will be swapped with three- and five-year T-bills that mature in 2015 and 2016 and that carry rates of 6.48% and 6.18%, respectively. The Eurobonds were issued under Law 212 dated March 30, 2012 that authorizes the government to issue foreign currency debt in order to refinance existing debt denominated in Lebanese pounds. The Central Bank held the equivalent of \$12.3bn in Treasury bills and about \$1.28bn in Eurobonds at end-April 2012. The new Eurobonds will be listed on the Beirut Stock Exchange and the Luxembourg Stock Exchange.

### **Number of tourists down 7% in first five months of 2012**

The number of incoming tourists to Lebanon totaled 556,558 in the first five months of 2012, constituting a decrease of 6.7% from 596,298 tourists during the same period last year and a decline of 24.1% from 732,855 tourists during the first five months of 2010. Arab tourists accounted for 39.9% of total visitors in the first five months of the year, and were followed by visitors from Europe with 29.7%, the Americas with 12.8%, Asia with 10.1%, Africa with 4.4%, and Oceania with 3%. The number of African tourists increased by 16.1% annually in the first five months of 2012, followed by Arab tourists with a 15.2% increase, and tourists from the Americas with a rise of 5.7%. In parallel, the number of tourists from Asia declined by 55.3% annually, those from Oceania dropped by 4.2%, and tourists from Europe decreased by 3.4%. Also, tourists from Iraq accounted for 8.3% of total visitors in May 2012, followed by visitors from the United States with 8.1%, France with 7.3%, Jordan with 7% and Saudi Arabia with 6%. Incoming tourists totaled 1.66 million in 2011, down 24% year-on-year.

### **Industrial exports flat at \$1bn in first four months of 2012, imports up 16% to \$89m**

Figures released by the Ministry of Industry show that industrial exports totaled \$1bn in the first four months of 2012, constituting a marginal increase of 0.5% from the same period last year. Industrial exports reached \$222.7m in April 2012, down 20.8% from \$281m in March 2012 and down 21.8% from \$284.9m in April 2011. Pearls & precious or semi-precious stones accounted for \$257.8m, or 25% of total industrial exports in the first four months of the year, followed by machinery & mechanical appliances with \$160.9m (15.6%), and base metals & articles of base metals with \$153m (14.8%). Arab countries accounted for 57.4% of total industrial exports in April, followed by European countries with 14%, African countries with 11.6%, and Asian countries with 10.9%. In parallel, industrial imports reached \$89.4m in the first four months of the year, up 15.7% from the same period in 2011. Italy was the main source of such imports and accounted for 24.1% of the total. It was followed by China with 17.1% and Germany with 12.4%. Further, imports of industrial equipment and machinery reached \$23.4m in April 2012, decreasing by 4.1% year-on-year. Italy was the main source of imports of industrial equipments, accounting for 25.9% of the total, followed by China with 18.6% and Germany with 16.3%.

### **Cleared checks up 1%, returned checks increase by 3% in first four months of 2012**

The value of cleared checks reached \$22.8bn in the first four months of 2012, constituting an increase of 0.9% from the same period last year and an increase of 1% from the same period of 2010. The value of cleared checks in Lebanese pounds declined by 2% annually to the equivalent of \$4.7bn in the first four months of 2012, while the value of cleared checks in US dollars increased by 1.6% to \$18.1bn. The dollarization rate of cleared checks increased to 79.2% from 78.6% in the same period last year. Also, the value of returned checks in domestic and foreign currency amounted to \$504m in the first four months of 2012, up 2.9% from the same period of 2011 but down 10.8% from the first four months of 2010. In parallel, the number of cleared checks totaled 4.2 million checks in the first quarter of 2012, up 0.7% from the same period of 2011. Also, the number of returned checks totaled 92,000 checks and rose by 11.2% in the covered period.

### **Construction permits down 10% in first four months of 2012**

Figures released by the Association of Engineers of Beirut & Tripoli show that construction permits issued in the first four months of 2012 reached 4.7 million square meters, constituting a decrease of 10% from 5.2 million square meters in the same period last year. Construction permits totaled 1.1 million square meters in April 2012, down 25.6% year-on-year from 1.5 million square meters in April 2011. In parallel, cement deliveries reached 1.5 million tons in the first four months of 2012, a decrease of 2.8% from 1.6 million tons in the same period last year. Cement deliveries reached 520,000 tons in April 2012, down 0.2% from 521,000 tons in April 2011.

### Lebanon has 78th highest level of municipal waste generation per capita

The World Bank ranked Lebanon in 78th place among 161 countries around the world in terms of municipal solid waste (MSW) generation per capita per day. Also, Lebanon ranked in ninth place among 15 Arab countries and in 19th place among 35 Upper Middle Income Countries (UMICs) included in the survey. The World Bank said that the amount of municipal solid waste (MSW) is one of the most important by-products of an urban lifestyle, and is growing faster than the rate of urbanization. On a global basis, Lebanon generates 1.18 kg of MSW per capita per day, which is more than what Venezuela, Ecuador and El Salvador produce; and less than what the Dominican Republic, Slovenia, and Panama generate. Lebanon ranked ahead of Venezuela and Lithuania, and behind Panama and Argentina among UMICs in terms of MSW generation per capita. It also came ahead of Jordan, Bahrain and Tunisia and behind Algeria, Saudi Arabia and Qatar among Arab countries.

In parallel, the World Bank projected Lebanon to produce 1.7 kg of MSW per capita per day in 2025. Lebanon would rank in 63rd place worldwide and would tie with 10 countries that include Japan and Slovenia. Also, Lebanon would rank in 15th place among UMICs in terms of MSW generation per capita and in fifth place among Arab countries in 2025.

Lebanon currently produces 3,836 tons of MSW per day and accounts for 2.3% of MSW generation in the Arab world and for 0.1% of global MSW production. Lebanon ranks in 77th place globally, in 15th place among UMICs, and in 11th place among Arab countries in the volume of MSW generation. Globally, it ranks ahead of Ethiopia and Madagascar and behind Georgia and El Salvador; while it comes ahead of Costa Rica and behind Belarus among UMICs; and ranks ahead of Oman and behind Jordan in the Arab world.

The World Bank forecast total MSW generation in Lebanon at 7,268 tons per day in 2025, which would rank the country in 83rd place globally, ahead of Mozambique and Costa Rica and behind Nepal and Senegal. Also, Lebanon is projected to rank in 14th place among UMICs and in 11th place among Arab countries. Further, Lebanon is expected to account for 2.1% of Arab MSW generation in 2025. The United States currently accounts for 17.7% of MSW generation globally, followed by China (14.7%), Brazil (4.2%), Japan (4.1%) and Germany (3.6%).

### Public-sector salaries and benefits up 8% in the first two months of 2012

Figures issued by the Ministry of Finance show that salaries, wages and related benefits paid to public-sector employees totaled \$435.8m in the first two months of 2012, constituting an increase of 7.9% from the same period last year. They represented the largest component of total primary spending and accounted for 28% of such expenditures in the first two months 2012. 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 \$260.7m and accounted for 59.8% of the total, followed by salaries of civil staff with \$106.8m (24.5%), educational personnel with \$59m or 13.5% of the total, and customs employees with \$9.3m (2.1%). Also, the Lebanese Army's salaries totaled \$170.5m in the first two months of 2012 and represented 65.4% of military personnel salaries and benefits. It was followed by salaries of the Internal Security Forces with \$54.4m (20.9%), State Security Forces with \$25.2m (9.7%), and General Security Forces with \$10.6m (4.1%). The ministry attributed the rise to a 1.3% increase in basic salaries, partially offset by a 19.8% drop in allowances and a 14.7% increase in indemnities. It said basic salaries increased by \$4m to \$300.5m due to a rise of \$21.2m in payments to civil personnel, which was partly offset by a decrease of \$5.3m in payments to military personnel and a \$11.9m decline in payments to education personnel. It added that allowances decreased by \$15.9m due to lower payments to the Army and the Internal Security Forces, while indemnities declined by \$2.7m to \$19.9m. Salaries, wages and related benefits paid to public sector employees represent the largest component of primary spending and accounted for 33% of such expenditures last year.

### Municipal Solid Waste Generation in 2012

	MSW Per Capita (kg/Day)	Arab Rank	Global Rank
Kuwait	5.72	1	2
UAE	1.66	2	51
Morocco	1.46	3	58
Egypt	1.37	4	62
Syria	1.37	5	62
Qatar	1.33	6	67
Saudi Arabia	1.30	7	69
Algeria	1.21	8	75
<b>Lebanon</b>	<b>1.18</b>	<b>9</b>	<b>78</b>
Bahrain	1.10	10	83
Jordan	1.04	11	89
Tunisia	0.81	12	104
Sudan	0.79	13	107
Oman	0.70	14	112
Mauritania	0.50	15	129

Source: World Bank, Byblos Research

### Lebanon ranks 45th globally, 8th in MENA region on Failed States Index

The 2012 Fund for Peace/*Foreign Policy Magazine* Failed States Index ranked Lebanon in 45th place among 177 countries globally and in eighth place among 21 countries in the Middle East and North Africa region. It also ranked Lebanon in second place among 42 upper-middle income countries (UMICs) included in the survey. Lebanon came in 43rd place globally and in fifth place regionally in the 2011 survey. The index ranks countries by their vulnerability to violent internal conflict and deteriorating conditions where Somalia, which ranked first globally, represents the country with the highest risk of failure; and Finland, that ranked last, represents the country with the lowest risk of failure. The index is based on 12 political, social and economic indicators with each indicator rated on a scale of one to 10, with one being the most stable and 10 being at the highest risk of collapse and violence. The index's numerical scores are in descending order, with the least vulnerable states receiving a lower score and the most vulnerable countries getting the highest scores.

Lebanon received a score of 85.8 points, advancing from 87.7 points in 2011. Also, Lebanon's score improved by 6.6 points between 2007 and 2012 and posted the ninth best improvement globally, similar to that of Bosnia & Herzegovina. Lebanon's 2012 score remained worse than the global average of 70.9 points, the MENA average of 78.9 points, and the UMICs' average of 67.8 points. Globally, Lebanon had a lower risk of state failure than Zambia, Equatorial Guinea, and Kyrgyzstan and a higher risk level than Tajikistan, Solomon Islands and Laos. It had the second highest risk among UMICs after Iran.

#### Failed States Index 2012

	Score	MENA Rank	Global Rank
Sudan	109.4	1	3
Yemen	104.8	2	8
Iraq	104.3	3	9
Syria	94.5	4	23
Egypt	90.4	5	31
Iran	89.6	6	34
Mauritania	87.6	7	38
<b>Lebanon</b>	<b>85.8</b>	<b>8</b>	<b>45</b>
Libya	84.9	9	50
Israel/West Bank	82.2	10	61
Algeria	78.1	11	77
Turkey	76.6	12	85
Morocco	76.1	13	87
Jordan	74.8	14	90
Tunisia	74.2	15	94
Saudi Arabia	73.4	16	100
Bahrain	62.2	17	125
Kuwait	58.8	18	128
Oman	51.7	19	137
UAE	48.9	20	140
Qatar	48.0	21	142

Source: Fund for Peace, *Foreign Policy Magazine*, Byblos Research

### Car sales up 14% in first five months of 2012

Figures released by the Association of Automobile Importers in Lebanon indicate that a total of 13,418 new passenger cars were sold in the first five months of 2012, constituting an increase of 14.3% from the 11,737 cars sold in the same period last year. Korean cars accounted for 46% of total sales, followed by Japanese cars with a 27.8% share, European automobiles with 19.4%, American vehicles with 6.2%, and Chinese cars with 0.7%. Korean cars posted the highest growth in sales with a 25.7% rise year-on-year, followed closely by American cars with a 25.6% rise, Chinese cars with a 9.3% increase, Japanese cars with a 6.6% rise, and European automobiles with a 0.6% growth. Kia is the leading brand in the Lebanese market with 3,832 cars sold in the first five months of 2012, followed by Hyundai with 2,331, Nissan with 2,314 cars sold, Toyota (702), Chevrolet (583), Renault (425), and Volkswagen (301). In parallel, a total of 946 new commercial vehicles were sold in the first five months of 2012, up 9.1% from the 867 vehicles sold in the same period last year.

### Arabian Construction Company acquires Gefinor Center for \$100m

Arabian Construction Company (ACC), a leading Lebanese construction firm in the Arab world, bought the office complex Gefinor Center located in the Clemenceau district of Ras Beirut for \$100m. Built in 1969, the Gefinor Center has 26,000 square meters of surface for rent that include 21,000 square meters of office space. It has a current occupancy rate of 90%, of which 40% corresponds to old leases. Its rental prices range between \$300 and \$400 per square meter. ACC is a civil, infrastructure, heavy, electrical and mechanical contractor for residential and commercial buildings, as well as for power and desalination plants. ACC is a subsidiary of the Arab Construction Group Holding, which has subsidiaries in Saudi Arabia, Qatar, Egypt, Syria and Pakistan and has worked on major projects across the Arab world.

### HSBC updates opinion on stocks of BLOM and Audi

HSBC Bank maintained its 'Overweight' rating on the stock of BLOM Bank and downgraded its rating on Bank Audi's stock to 'Neutral' from 'Overweight'. It also maintained its target price for BLOM Bank's shares at \$10.1 and reduced its target price for Bank Audi's shares to \$6.5 from \$8.10. HSBC cited three reasons for preferring the stock of BLOM over Audi. First, it considered that pre-provision income is more sustainable at BLOM because of the bank's better earnings quality and cost efficiency. It noted that non-interest income is 40 basis points of average assets at BLOM compared to 80bp at Audi. It added that BLOM operates more efficiently, with a cost-to-assets ratio of 1.2% relative to 1.7% at Audi. Second, it indicated that BLOM's capital position is better than Audi's. It noted that both banks had identical capital adequacy ratios of 13% in 2008, but added that BLOM has generated better profitability and paid lower dividends than Audi, therefore conserving its capital position. It said this means that BLOM is better prepared than Audi for a potential deterioration in asset quality, as the former could accommodate a maximum NPL ratio of 19%, compared to 11% at Audi, before requiring additional capital. Third, it considered that BLOM offers better value than Audi on the basis of a price-to-net asset value versus return on equity-to-cost of equity.

HSBC said that asset quality risks are higher for Audi than for BLOM in Egypt, as loans in Egypt account for 15% of Audi's loan portfolio compared to 8% for BLOM. It added that asset quality has deteriorated faster in Syria for Audi than for BLOM since 2010. But it noted that BLOM's domestic NPL ratio rose to 2.5% in the first quarter of 2012 from 1.4% in 2010; while Audi's domestic NPL ratio has stayed flat at 2.3% since 2010. It expected the cost of risk of both banks to stay elevated in 2013-14 as it anticipated NPLs to peak in the coming two years. However, it expected BLOM to recover faster due to its better revenue quality and lower costs. It forecast BLOM's earnings to grow by 8% in 2013 and by 13% in 2014, and for Audi's earnings to contract by 5% in 2013 and to grow by 2% in 2014.

HSBC added that the results of the first quarter of 2012 show that Audi is having more difficulties than BLOM in Syria. It said that its stress test for NPLs in Syria shows that, in a base case scenario, the NPL ratio would be 20% for BLOM and 23% for Audi and the NPL coverage would be 75% for BLOM and 66% for Audi. In a bear case scenario, BLOM's NPL ratio would be 61% and that of Audi 69%, while their NPL coverage would be 72% and 71%, respectively. Also, its stress test for NPLs in Egypt shows that in a base case scenario, the NPL ratio would be 27% for BLOM and 5% for Audi and the NPL coverage would be 71% for BLOM and 83% for Audi. In a bear case scenario, BLOM's NPL ratio would be 54% and that of Audi 10%, while their NPL coverage would be 67% and 79%, respectively. It said the bear case scenario would result in a share price that is just 10% lower than the current target for both banks. It added that if the two banks wrote off in full all of their loans in Syria, the target share price for the two banks would face only a 10% downside. It noted that another risk to asset quality comes from currency depreciation. It said a bear case scenario of a 30% depreciation of the Egyptian pound and a 75% devaluation of the Syrian pound would result in just a 5% downside to the current share price target of both banks.

### EIB extends €15m credit line to support SMEs

The European Investment Bank (EIB) signed an agreement with Société Générale de Banque au Liban sal (SGBL) to establish a €15m credit line to partially finance investment projects of small- and medium-sized enterprises (SMEs) in Lebanon. It said that the partnership will help Lebanese SMEs finance new projects and expand existing ones. The agreement is part of a €55m plan launched by the EIB in 2011 to finance private sector investments in Lebanon through SMEs operating in the industrial, tourism, health, education, and high technology sectors. The EIB has committed more than €442m since 2002 to support and develop Lebanese SMEs, mainly in the tourism and industrial sectors.

### **Standard & Poor's affirms ratings on Crédit Agricole**

Standard & Poor's affirmed its 'A/A-1' long-term and short-term counterparty credit ratings on Crédit Agricole SA (CASA) and most of its core subsidiaries. It said that the outlook on the long-term rating on CASA is 'stable'. It attributed its decision to the expectations that the ratings on CASA and its standalone credit profile would remain unchanged if Greece exits from the European Economic and Monetary Union in the coming months. It added that Groupe Crédit Agricole's (GCA) capitalization and retained earnings capacity would be sufficient to absorb possible losses associated with Greece's exit from the Eurozone. It noted that CASA's ratings continue to reflect its "strong" business position, "moderate" capital and earnings, "adequate" risk position, "average" funding and "adequate" liquidity. It pointed out that the assessment of CASA's capital and earnings would remain "moderate" even if Greece exited the Eurozone. In parallel, it said that GCA confirmed its objective to achieve a 10% Core Equity Tier One ratio by the end of 2013. The agency said that it would lower CASA's ratings if the exposure of its Greek subsidiary affected GCA's capitalization beyond current expectations. It noted that this would lead to the revision of the capital and earnings assessment to "weak" from "moderate". It added that a significant negative indirect impact on the group would lead to a downgrade of CASA's business position to "adequate" from "strong". Crédit Agricole has a direct presence in Lebanon through its subsidiary Crédit Agricole Suisse (Liban) Financial Services sal. The bank also has a 9% stake in Banque Libano-Française and a 6% stake in Fransabank sal.

### **HSBC Bank Middle East's ratings affirmed**

Fitch Ratings affirmed HSBC Bank Middle East's (HBME) long-term Issuer Default Rating (IDR) at 'AA-' with a 'negative' outlook, and downgraded its Viability Rating (VR) to 'bbb' from 'bbb+'. It also affirmed HBME's short-term IDR at 'F1'. It said that the bank's ratings reflect the extremely high probability of support that would be provided by its parent HSBC Holdings, in case of need. It attributed such probability to HBME's strategic importance to the group as well as to the high level of integration between the parent and subsidiary. It said that the 'negative' outlook on the rating reflects a similar outlook on the bank's parent. HBME is a wholly-owned subsidiary of HSBC Holdings. It operates through a network of 47 branches in Lebanon, Jordan, the UAE, Oman, Bahrain, Qatar, Kuwait, Pakistan, and the Palestinian Territories. HSBC was established in Lebanon in 1946 and operates in the country through three branches located in the Beirut area.

Further, Fitch attributed the downgrade of HBME's VR to the updated disclosure on the asset quality of the bank, resulting in a substantial rise in renegotiated loans as well as faster than previously anticipated new non-performing loan (NPL) formation. It noted that HBME's NPL ratio remained flat at 9.6% at end-2011 mainly due to loan recoveries and the reclassification as performing of certain large UAE-related exposures. It added that renegotiated loans have increased substantially since 2010, indicating that asset quality remains weak and raising concerns that some of these loans could become problematic in the future. It expected the bank's NPLs to rise further in 2012, due to more prudent classification policies as well as continuing turmoil in the region. It added that its action also reflects HBME's high borrower concentration, which exposes it to event risk and potentially high levels of losses. But it said that the ratings continue to be supported by the bank's solid regional franchise, diversified and good earning capabilities, strong liquidity position and the benefits of being part of the HSBC Group.

## Ratio Highlights

(in % unless specified)	2009	2010	2011	Change*
Nominal GDP <sup>(1)</sup> (\$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	Dec 2010	Nov 2011	Dec 2011	Change*	Risk Level
Political Risk Rating	58.5	55.0	54.5	▼	High
Financial Risk Rating	28.5	35.0	35.0	▲	Low
Economic Risk Rating	32.5	34.0	34.0	▲	Moderate
Composite Risk Rating	59.7	62.0	61.7	▲	Moderate

Regional Average	Dec 2010	Nov 2011	Dec 2011	Change*	Risk Level
Political Risk Rating	64.5	60.2	60.6	▼	Moderate
Financial Risk Rating	42.2	42.3	42.2	↔	Very Low
Economic Risk Rating	38.0	36.2	36.6	▼	Low
Composite Risk Rating	72.3	69.3	69.7	▼	Low

\*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	Negative	B	B	Negative
Capital Intelligence	B	B	Stable	B	B	Stable

Source: Rating agencies

Banking Ratings	Banks' Financial Strength	Banking Sector Risk	Outlook
Moody's	E+		Negative
EIU		B	Stable

Source: Rating agencies



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