

## LEBANON THIS WEEK

### In This Issue

**Economic Indicators**.....1

**Capital Markets**.....1

**Lebanon in the News**.....2

Structural reforms are the only path to sustainable growth and fiscal stability

Banking sector's profits to remain flat in 2012

Mobile cellular penetration trails Arab economies, global rates

Cabinet approves modified draft budget

Lebanon's CDS spreads widen by 7% in second quarter of 2012

Lebanon leases electricity-generating ships

Majority of Lebanese consider current economic conditions to be bad or very bad

Airport passengers up 14% in first half of 2012

Industrial exports at \$1.3bn in first five months of 2012, imports up 15% to \$117m

**Corporate Highlights** .....6

Kafalat loan guarantees down 11% year-on-year to \$71m in first half of 2012

MEA no longer interested in Cyprus Airways

CMA CGM seeks Abidjan exposure

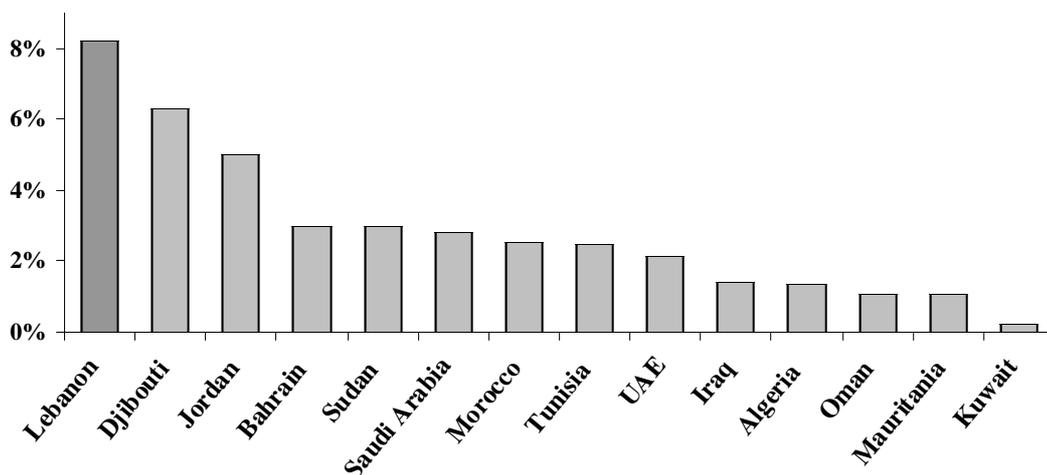
**Ratio Highlights**.....7

**Risk Outlook**.....7

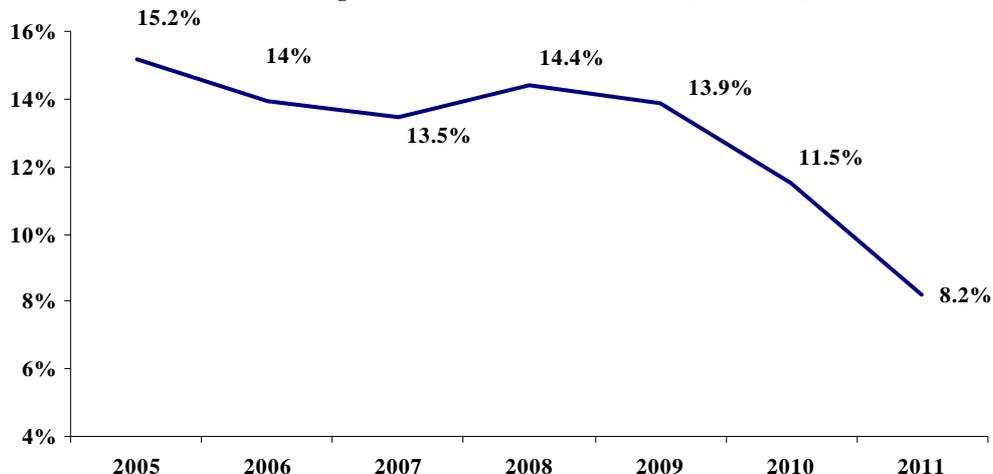
**Ratings & Outlook**.....7

### Charts of the Week

Foreign Direct Investment in Arab Countries in 2011 (% of GDP)



Foreign Direct Investment in Lebanon (% of GDP)



Source: UNCTAD, International Monetary Fund, Byblos Bank

### Quote to Note

"Political instability remains a key risk."

*Citigroup, on the importance of political stability in Lebanon for economic growth, investor sentiment and consumer confidence*

### Number of the Week

**3%:** Projected growth of household consumption in Lebanon in 2012, according to HSBC Bank

## Economic Indicators

<b>\$m (unless otherwise mentioned)</b>	<b>2010</b>	<b>Apr 11</b>	<b>2011</b>	<b>Feb 12</b>	<b>Mar 12</b>	<b>Apr 12</b>	<b>% Change*</b>
Exports	4,256	375	4,276	429	377	319	(14.93)
Imports	17,956	1,501	20,170	2,799	1,723	1,548	3.13
Trade Balance	(13,700)	(1,126)	(15,894)	(2,370)	(1,346)	(1,229)	9.15
Balance of Payments	3,326	(199)	(1,996)	(134)	51	(543)	172.86
Checks Cleared in LBP	13,519	1,160	14,251	1,152	1,192	1,154	(0.52)
Checks Cleared in FC	53,925	4,488	57,852	4,272	4,844	4,286	(4.50)
Total Checks Cleared	67,444	5,648	72,103	5,424	6,036	5,440	(3.68)
Budget Deficit/Surplus	(2,894)	(301)	(2,342)	(181)	(312)	(422)	40.33
Primary Balance	1,231	163	1,662	11	133	15	(90.98)
Airport Passengers	5,512,435	461,517	5,596,034	374,252	438,570	518,723	12.40

<b>\$bn (unless otherwise mentioned)</b>	<b>Dec 2010</b>	<b>Apr 11</b>	<b>Jan 12</b>	<b>Feb 12</b>	<b>Mar 12</b>	<b>Apr 12</b>	<b>% Change*</b>
BdL FX Reserves	28.60	28.76	30.74	30.76	30.99	31.76	10.43
<i>In months of Imports</i>	<i>19.46</i>	<i>19.16</i>	<i>21.14</i>	<i>10.99</i>	<i>17.99</i>	<i>20.52</i>	<i>7.08</i>
Public Debt	52.59	52.63	53.65	53.94	54.08	55.04	4.58
Net Public Debt	45.01	45.74	46.54	46.74	46.91	47.18	3.15
Bank Assets	128.93	133.80	142.85	144.11	144.73	144.71	8.15
Bank Deposits (Private Sector)	107.20	109.93	116.69	117.42	118.22	118.75	8.02
Bank Loans to Private Sector	34.93	36.81	40.51	40.45	41.00	41.67	13.20
Money Supply M2	39.40	37.48	39.09	39.46	40.04	40.46	7.95
Money Supply M3	92.15	94.20	97.49	98.13	98.94	99.77	5.91
LBP Lending Rate (%)	7.91	7.73	7.19	7.07	7.16	7.49	(24b.p.)
LBP Deposit Rate (%)	5.68	5.64	5.60	5.47	5.46	5.42	(22b.p.)
USD Lending Rate (%)	6.74	7.05	6.99	7.13	7.06	7.10	5b.p.
USD Deposit Rate (%)	2.80	2.84	2.87	2.87	2.83	2.84	0b.p.
%* Change in CPI**	6.19	6.56	4.47	3.71	4.40	6.03	(53b.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"	13.37	1.52	72,580	13.00%
Solidere "B"	13.31	2.31	22,474	8.41%
Byblos Common	1.50	0.00	22,474	5.24%
Byblos Pref. 08	100.00	0.00	900	1.94%
Byblos Pref. 09	100.30	0.00	200	1.95%
BLOM GDR	7.70	0.00	71,179	5.53%
BLOM Listed	7.40	0.00	5,000	15.47%
Audi GDR	6.20	0.81	12,900	6.03%
Audi Listed	5.70	0.71	7,735,676	19.37%
HOLCIM	17.00	1.19	220	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	100.00	7.61
June 2013	8.625	103.88	4.30
Apr. 2014	7.375	105.00	4.36
Jan. 2015	5.875	103.00	4.59
Apr. 2015	10.00	113.75	4.65
Jan. 2016	8.500	112.00	4.75
Mar. 2017	9.000	115.75	5.16
Nov. 2018	5.150	99.25	5.29
Apr. 2021	8.250	115.00	6.02
Nov. 2026	6.600	101.38	6.45

Source: Byblos Bank Capital Markets

	<b>July 2-6</b>	<b>July 2-6</b>	<b>% Change</b>	<b>June 2012</b>	<b>June 2011</b>	<b>% Change</b>
<b>Total Shares Traded</b>	7,951,665	601,825	(1221.26)	6,244,741	2,792,846	123.60
<b>Total Value Traded</b>	\$46,855,743	\$5,253,187	(791.95)	\$60,044,046	\$34,880,478	72.14
<b>Market Capitalization</b>	\$10.28bn	\$10.31bn	(-0.26)	\$10.07bn	\$11.33bn	(11.14)

Source: Beirut Stock Exchange (BSE)



### Structural reforms are the only path to sustainable growth and fiscal stability

Standard & Poor's maintained its projection of Lebanon's real GDP growth at 3% in 2012 compared to an estimated growth of 1.7% in 2011. It said economic activity tends to be supported by regional growth, mainly in the GCC countries, which ensures stable financial and remittances inflows, with the latter mainly spent on consumption. It said that the government's proposed public infrastructure investments would also support growth, but it noted that these investments are unlikely to materialize in the current political environment, given Lebanon's weak fiscal management. It added that the current Cabinet remains factionalized, which is obstructing macroeconomic and fiscal policy decision-making. It pointed out that the government has yet to implement the much anticipated key reforms due to internal political tensions and a deteriorating external environment. It noted that the unrest in Syria has weighed on Lebanon's economic growth for the past 15 months, constraining key sectors such as tourism, financial services and construction, which collectively accounted for more than 50% of GDP between 2007 and 2010. It added that Lebanon has not benefited from the regional turmoil in 2011 and 2012, as it was not able to capture outflows from unstable neighbors due to domestic instability in the first half of 2011 and the ongoing perceived risk for Lebanon stemming from the crisis in Syria. It considered that risks to Lebanon's near-term growth outlook are on the downside, given the destabilizing situation in Syria. It said that prospects of higher and sustainable medium-term growth, which would increase competitiveness, enable private sector development and improve fiscal stability, depend on the implementation of key structural reforms by the government.

In parallel, S&P indicated that the Lebanon continues to show resilience against external risks despite significant external imbalances. It noted that foreign currency reserves, excluding gold, reached historic highs of \$31bn at end-2011 that, together with large inflows of remittances, FDI, and foreign deposits, provide an important buffer for the country's very large trade deficit. However, it pointed out that Lebanon's balance of payments remains vulnerable in both the current and financial accounts. It noted that net recorded remittances, equivalent to 8% of GDP annually; and official FDI, which averaged 13% of GDP annually between 2007 and 2010, are likely underestimated by the Central Bank given the difficulty of classifying residents and non-residents. It noted that Lebanese expatriates are often classified as residents. As such, it said that the discrepancies between the country's balance of payments and its international investment position make the analysis of Lebanon's external position difficult. It noted that Lebanon's balance of payments is characterized by large trade deficits, which reflect the country's heavy dependence on oil imports. It projected Lebanon's current account deficit to further widen to 25% of GDP in 2012 from 23.1% of GDP in 2011. But it forecast Lebanon's current account deficit to narrow to 19.4% of GDP by 2015 as services receipts will begin to improve from 2013.

Further, it expected Lebanon's fiscal deficit to widen to 8.5% of GDP in 2012 from 6% of GDP in 2011, and considered that a budget will not be ratified this year, as in previous years. It noted that the fiscal deficit narrowed to 6% of GDP in 2011 from 7.8% of GDP in 2010, mainly due to under-execution of spending plans and an increase in revenue from 22.6% of GDP in 2010 to 23.8% of GDP in 2011 because of transfers from the Telecommunications Ministry.

Macroeconomic Indicators					
	2011	2012F	2013F	2014F	2015F
Real GDP Growth (% change)	1.7	3.0	3.8	4.0	4.0
Real GDP per capita (% change)	0.9	2.2	3.0	3.2	3.2
Real domestic demand (% change)	3.3	4.0	3.9	3.9	4.1
Real investment (% change)	2.0	3.5	4.0	4.0	4.0
Consumer price index (avg; % change)	5.5	5.5	3.8	3.0	3.0
Government balance (% of GDP)	(6.0)	(8.5)	(7.5)	(7.0)	(7.0)
Government debt (% of GDP)	136.6	138.5	136.5	133.8	131.3
Net government debt (% of GDP)	118.1	120.9	120.1	118.6	117.1
Government interest expenses (% of revenues)	40.2	44.4	45.6	44.8	43.9
Current account balance (% of GDP)	(23.1)	(24.9)	(23.8)	(20.4)	(19.4)

Source: Standard & Poor's

### Banking sector's profits to remain flat in 2012

Central Bank Governor Riad Salamé expected the aggregate profits of the Lebanese banking sector to remain flat or to drop by 3% in 2012 due to the negative impact of the political unrest in Syria. He noted that Lebanese banks and their affiliates in Syria reduced their exposure to the Syrian market in terms of loans and deposits by about 45% over the past 16 months. More specifically, he stated that Syrian deposits at Lebanese banks have declined since the start of unrest in Syria in March 2011. He indicated that the seven Lebanese banks operating in Syria had an overall direct and indirect exposure to Syria of \$4.9bn. He added that they have taken general provisions of about \$380m based on stress tests in anticipation of loans that could not be repaid. He noted that this has weighed on the growth in profits of Lebanese banks last year. He forecast the sector's deposits to grow by 8% in 2012 similar to the growth level in 2011, and expected lending growth to exceed 10%. Further, he said that investors' appetite for Lebanese debt instruments is strong, as the auctions and offerings of such instruments are being oversubscribed. In parallel, Governor Salamé refuted allegations that Lebanese banks are being sued for the conduit of illicit money. He stressed that Lebanese banks abide by international rules and standards, have good relations with correspondent banks around the world, and have invested significant resources in recent years in anti-money laundering and combating the financing of terrorism.

### Mobile cellular penetration trails Arab economies, global rates

Figures released by the International Telecommunication Union (ITU) indicate that Lebanon ranked in 130th place among 195 countries at the end of 2011 in terms of mobile cellular penetration, which is the number of subscriptions to the service per 100 inhabitants. Lebanon's rank improved by three spots from its rank in 2010 based on the same number of countries year-on-year, as the ITU did not include data for 23 countries in the 2011 survey. Lebanon also came in 13th place among 18 Arab countries and ranked in 40th place among 43 upper middle income countries (UMICs) included in the survey. Lebanon's rank was unchanged among UMICs and improved by one spot in the Arab world from the previous year. On a global basis, Lebanon had a higher penetration rate than Iraq, Andorra and Canada, and a lower rate than Nicaragua, French Polynesia and Cape Verde. Also, it ranked ahead of Palau, Iran and Cuba and came behind Bosnia & Herzegovina, Fiji and Mexico among UMICs. Lebanon had 78.7 mobile subscriptions per 100 inhabitants in 2011, constituting an increase from 68 subscriptions per 100 inhabitants in 2010. Lebanon's penetration rate was similar to that in developing economies, but lower than the global average of 86.7 subscriptions per 100 inhabitants and the Arab average of 96.7 subscriptions per 100 inhabitants last year. Mobile cellular penetration in Lebanon grew by a compound annual growth rate (CAGR) of 23.8% during the 2006-2011 period compared to a CAGR of 21.1% for developing economies and 19.7% for Arab countries.

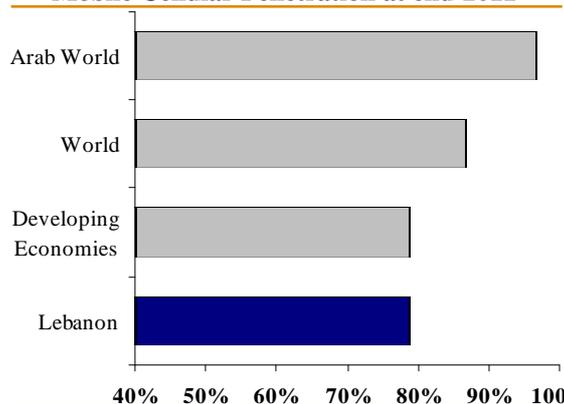
In parallel, Lebanon ranked in 77th place among 191 countries in terms of fixed telephone lines penetration last year, which represents the number of subscriptions to fixed telephone lines per 100 inhabitants. Lebanon also ranked in second place among 18 Arab countries and in 19th position among 42 UMICs. Lebanon's rank improved by two spots worldwide and by one place among UMICs, but regressed by one spot among Arab countries year-on-year. On a global basis, Lebanon had a higher penetration rate than Syria, the Czech Republic and Bahrain, and a lower rate than Lithuania, Trinidad & Tobago and China. Also, it ranked ahead of St. Vincent & the Grenadines, Turkey and St. Lucia, and came behind Romania, Brazil and Lithuania among UMICs. Lebanon had 21.1 fixed telephone lines subscriptions per 100 inhabitants in 2011, almost unchanged from 21 subscriptions per 100 inhabitants in 2010. Lebanon's penetration rate was higher than the global average of 16.6 subscriptions, the average of 16.6 subscriptions per 100 inhabitants in developing economies, and the Arab average of 9.7 subscriptions per 100 inhabitants. Fixed telephone lines penetration in Lebanon grew by a CAGR of 4.9% during the 2006-2011 period, compared to a CAGR of -2.3% for developing economies and 0.2% for Arab countries.

### Cabinet approves modified draft budget

The Council of Ministers endorsed a modified version of the 2012 draft budget by removing items that called for including new taxes or raising existing ones from the revenues side, as well as by removing the cost of the increase in the public sector's salaries and wages from the expenditures side. The approved budget is based on \$13.9bn in expenditures and about \$10.2bn in revenues, which would result in a fiscal deficit of \$3.7bn. The deficit would be equivalent to 26.6% of expenditures and to about 8.5% of GDP. The approved budget still includes increases in various fees. Last month, Prime Minister Najib Mikati announced that the 2012 budget would not include new taxes or raise existing ones that would weigh on economic sectors or on the working class in Lebanon. He declared that the government is considering tax increases or new taxes that do not pose further imbalances in the economy, as inappropriate taxes might hurt the economy a lot more than the additional revenues they are supposed to generate. He pointed out that the government will consider ways to secure the necessary revenues to cover the increase in public sector wages and salaries that are expected to cost the Treasury an additional \$1.5bn in direct and indirect spending, equivalent to 2.2% of GDP. The approved budget still needs to be debated and ratified by Parliament.

Last May, The Ministry of Finance unveiled a revised budget draft for 2012 that included a series of new taxes or tax increases. It planned to impose new taxes on the real estate sector that include a capital gains tax of 4% for transactions on real estate owned prior to January 1, 2009 and a capital gains tax of 15% on transactions on real estate that was owned after this date. The draft budget also intended to raise the value added tax from 10% to 12%, the tax on deposit interest from 5% to 7%, and the income tax on the banking sector by 33% from 15% to 20%. It also planned to impose an income tax on universities that do not have a religious affiliation. On the expenditures side, the budget included an increase of 65% in capital spending from 2011 levels and a jump of more than 31% in spending on salaries & wages.

Mobile Cellular Penetration at end-2011



Source: ITU, Byblos Research

### Lebanon's CDS spreads widen by 7% in second quarter of 2012

Figures released by CDS and bond pricing firm CMA Datavision show that spreads on 5-year credit default swaps (CDS) for Lebanon ended the second quarter of 2012 at 478 basis points, widening by 31.7bps from 446.3bps at the end of the first quarter of 2012 and by 12.5bps from 465.5bps at the end of the fourth quarter of 2011. The firm noted that Lebanon's 5-year CDS spreads were the 14th widest among 69 countries during the second quarter. They were wider than Iraq's spreads of 435bps, Romania with 411bps and Slovenia with 400bps, and tighter than Italy's spreads at 480bps, Hungary with 497bps and Croatia with 506bps. It said that Lebanon's CDS spreads widened by just 7.1%, compared to the worst performers during the quarter such as the U.S. with 60.8%, Argentina with 49.5%, Norway with 39.8%, Germany with 36.9% and Sweden with 33.4%.

Further, CMA Datavision indicated that Lebanon ended the second quarter of 2012 with a five-year cumulative probability of default (CPD) of 29.4%, increasing from 27.5% at the end of the first quarter of 2012 and 27.6% at the end of the fourth quarter of 2011. It said the CPD quantifies the probability of an issuer being unable to honor its debt obligations over a given time period. It added that the CPD is a function of the market's recovery level, which varies according to several factors and distance to default. It calculates the CPD using an industry standard model and proprietary credit data. Lebanon's CPD at end-June shows that Lebanese debt was less risky than 14 other sovereigns such as Italy (34.9%), Egypt (35.9%), Spain (37.2%), Ukraine (45.1%), and Cyprus (71.1%). Norway, the United States and Switzerland had the lowest CPDs among the 69 sovereigns covered in the survey, with rates of 2.8%, 4.2% and 4.6%, respectively.

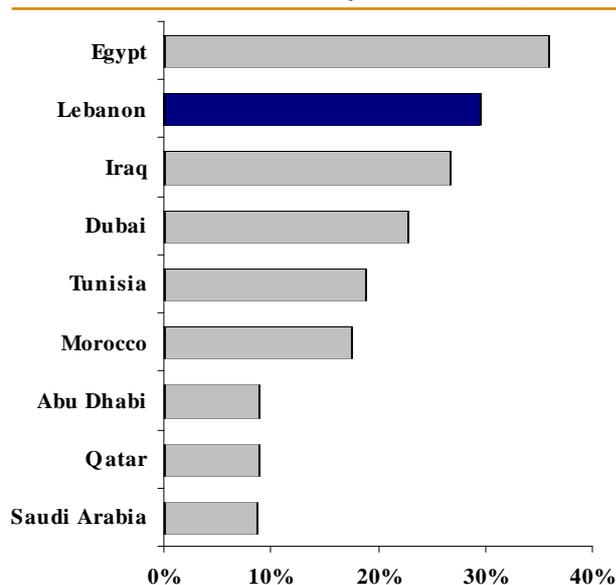
CMA Datavision indicated that CDS prices remained relatively stable in the Middle East & North Africa region despite volatile conditions in Europe, the ongoing war in Syria and lower oil prices. Further, it pointed out that CDS spreads widened by 8% for the MENA region as a whole.

### Lebanon leases electricity-generating ships

The Ministry of Energy & Water signed a \$360m three-year contract to lease electricity-generating ships from Turkish firm Karadeniz. It said that the agreement will provide Lebanon with electricity supply of 270 megawatts through two ships. It expected the first ship to arrive in four months and for the second ship to arrive in six months. However, the new supply would not increase electricity generation in the country, as it aims to offset the planned suspension of production at existing power plants during their rehabilitation. Originally, the ships were supposed to reach Lebanon ahead of the summer season in order to alleviate increased demand for electricity during the summer months. The ministry added that the electricity-generating ships would produce electricity at a rate of \$0.06 per kilowatt hour, significantly lower than the \$0.17 per kilowatt hour produced locally by Electricité du Liban (EdL). It said that it would enforce a \$1000 per megawatt, or up to \$270,000 a day, in penalties if delays on the deadlines for the start of production occur, and a fine ranging between \$400,000 and \$500,000 a day for every 1% of production below the agreed production capacity. Further, the Ministry of Energy claimed that the agreement would allow EdL to generate fuel savings ranging from \$30m to \$130m a year. Lebanon's current electricity production stands at around 1,500 megawatts while demand exceeds 2,400 megawatts.

Treasury transfers to Electricité du Liban totaled \$360.9m in the first two months of 2012, constituting an increase of 56% from \$231.5m in the same period last year mainly due to high oil prices, and totaled \$1.7bn in 2011 up 46% from 2010. EdL contributed just 5.4% of the total oil bill in 2011 compared to 12.9% in 2010. EdL transfers accounted for 22.7% of primary expenditures in 2011, constituting the second highest share of primary spending in the last five years after the peak in 2008, and relative to 17% in 2010. EdL transfers constitute the third largest expenditures item after debt servicing and salaries & wages in overall fiscal spending. Transfers to EdL were equivalent to 3% of GDP in 2010 compared to 4.3% of GDP in 2009 and to 5.4% of GDP in 2008.

### Cumulative Probability of Default (%)



Source: CMA Datavision, Byblos Research

### **Majority of Lebanese consider current economic conditions to be bad or very bad**

A survey conducted in March and April 2012 by the U.S.-based opinion polling think tank Pew Research Center indicated that 53% of Lebanese consider that the current economic situation in Lebanon is very bad and 35% think it is bad, compared to 12% who believe it is good. The trend has somewhat deteriorated from the 2011 survey when 50% of Lebanese respondents believed that the economic situation was very bad, as well as from the 2010 survey when 52% of respondents said the economy was very bad. Overall, 88% of Lebanese respondents said that the current economic situation in Lebanon is bad or very bad, compared to 85% in 2011 and 86% in 2010 who had the same opinion. In parallel, 83% of Tunisians consider that the current economic situation in Tunisia is bad or very bad, 71% of Egyptians acknowledged that their economy is performing badly or very badly, and 70% of Jordanian respondents think the same about their economy.

Further, the survey pointed out that 29% of Lebanese respondents expect the economic situation in the country to remain the same in the next 12 months, 23% of respondents project that it will somewhat worsen, 22% of participants think that it will worsen a lot, and 22% said it will improve. As such, 45% of Lebanese respondents expect the economic situation in Lebanon to worsen or worsen a lot, compared to 34% of Jordanians who anticipate a worsening of their country's economic performance, 20% of Egyptian respondents who consider that local economic conditions will deteriorate or deteriorate a lot, and 12% of survey participants in Tunisia who think the same about their economy.

Expectations of worsening economic conditions in Lebanon started to deteriorate since the 2010 survey when 19% of Lebanese respondents believed at the time that Lebanon's economic performance will worsen a lot in the next 12 months, with this percentage rising to 21% of respondents in 2011 and 22% of survey participants in 2012. Also, expectations of a stagnating economy have strengthened since 2010, when 26% of Lebanese respondents believed at the time that economic conditions will remain the same over the coming 12 months. The percentage of respondents with the same opinion was unchanged in 2011 but rose to 29% in 2012.

In parallel, the survey said that 53% of Lebanese respondents prefer a good democracy if they have to choose between a strong economy and a good democracy, compared to 46% of Lebanese who prefer a strong economy over a good democracy. In comparison, 48% of Egyptians prefer a good democracy over a strong economy, followed by 40% of Tunisians and 33% of Jordanians. Also, the survey pointed out that 87% of Lebanese respondents consider that it is very important to be able to criticize the government, relative to 68% of Turks and 40% of Jordanians who think the same. Also, it noted that 84% of Lebanese respondents believe that democracy is the best form of government, up from 81% in 2011, and compared to 67% of Egyptian respondents, 63% of Tunisians and 61% of Jordanians who participated in the survey. The survey was conducted between March 19 and April 10, 2012 as part of the Pew Research Center's Global Attitudes Project. It selected a sample of 1,000 Lebanese above 18 years old.

### **Airport passengers up 14% in first half of 2012**

Figures released by the Hariri International Airport (HIA) show that the number of airport passengers (arrivals, departures, transit) totaled 2,758,703 in the first half of 2012, constituting an increase of 13.6% from the same period last year. The total number of flights reached 30,593 in the first half of 2012, up 3.4% year-on-year. Also, the HIA processed 38,085 metric tons of cargo in the first half of 2012, of which 37,701 tons of freight and 384 tons of mail.

### **Industrial exports at \$1.3bn in first five months of 2012, imports up 15% to \$117m**

Figures released by the Ministry of Industry show that industrial exports totaled \$1.3bn in the first five months of 2012, constituting a decrease of 2.3% from the same period last year. Industrial exports reached \$255.3m in May 2012, up 14.6% from \$222.7m in April 2012 but down 12.1% from \$290.6m in May 2011. Pearls & precious or semi-precious stones accounted for \$279.8m, or 21.8% of total industrial exports in the first five months of the year, followed by machinery & mechanical appliances with \$214.1m (16.7%), and base metals & articles of base metals with \$183.6m (14.3%). Arab countries accounted for 52.5% of total industrial exports in May, followed by African countries with 13.6%, Asian countries with 12.4%, and European countries with 12.1%. In parallel, industrial imports reached \$116.7m in the first five months of the year, up 15% from the same period in 2011. Italy was the main source of such imports and accounted for 22.5% of the total. It was followed by China with 17.5% and Germany with 11.9%. Further, imports of industrial equipment and machinery reached \$27.3m in May 2012, increasing by 12.8% year-on-year. China was the main source of imports of industrial equipments, accounting for 18.7% of the total, followed by Italy with 17.3% and the Netherlands with 11.4%.

### **Kafalat loan guarantees down 11% year-on-year to \$71m in first half of 2012**

Figures released by the Kafalat Corporation show that loans extended to small- and medium-size companies under the guarantee of Kafalat reached \$71.4m in the first half of 2012, down 11.4% from \$80.5m in the same period last year. The number of loan guarantees totaled 523 in the first six months of 2012 compared to 675 in the same period last year. The average loan size reached \$136,443 compared to \$119,320 in the first half of 2011. Mount Lebanon accounted for 40.7% of guarantees, followed by the South & Nabatieh with 21.6%, the Bekaa with 16.8%, the North with 13.6%, and Beirut with 7.3%. The industrial sector accounted for 38.6% of total guarantees, followed by agriculture with 36.9%, tourism with 18.6%, handicraft with 4.4%, and specialized technologies with 1.5%. Kafalat is a state-sponsored organization that provides financial guarantees for loans up to \$400,000 earmarked for the set up and expansion of small and medium-size companies in productive sectors. It guarantees up to 75% of the loan amount and a similar percentage of the interest that accrues during the grace period.

### **MEA no longer interested in Cyprus Airways**

Central Bank Governor Riad Salamé announced that national flag carrier Middle East Airlines (MEA), in which the Central Bank owns a 99% stake, is no longer interested in acquiring a stake in Cyprus Airways following studies on the company. MEA was seeking to buy a share in the airline after the Cypriot government, which owns 70% of the carrier, revealed last February its intention to sell part of the airline. Cyprus Airways posted losses of €29.3m in the first half of 2011, received €20m in compensation from the government for extra costs incurred as a result of Turkey's ban on Cypriot traffic, and underwent a restructuring plan in an attempt to save €40m annually. It expects to post significant losses in the first half of 2012.

In parallel, MEA signed a Memorandum of Understanding for the purchase of 10 new Airbus planes at an estimated cost of \$1bn, but did not specify how it will fund the deal. It said that the new aircraft will allow the company to benefit from fuel savings and cost effectiveness. MEA has currently a fleet of 16 modern Airbus planes and flies to more than 38 destinations.

### **CMA CGM seeks Abidjan exposure**

The Lebanese-owned and France-based container shipping group CMA CGM announced plans to increase its exposure to Côte d'Ivoire through its participation in a tender to develop a second container terminal in the port of Abidjan. The second terminal project is projected to cost between \$200m and \$250m, has a planned capacity of 1.5 million twenty-foot equivalent units (TEUs), and is expected to be completed in 2016. It would increase the port of Abidjan total container capacity to 2.3 million TEUs. Further, CMA CGM's interest in the project is due to the heavy exposure of its African subsidiary 'Delmas' to the port. Delmas offers four connections between the port and Europe, one service to Asia, two services to the Middle East and the Indian subcontinent, one intra-Africa service linking the port with South Africa, one link to South American ports, and one link to North America. Also, 20 shipping companies have already submitted bids for a tender which will be opened on July 18, 2012.

## 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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