

LEBANON THIS WEEK

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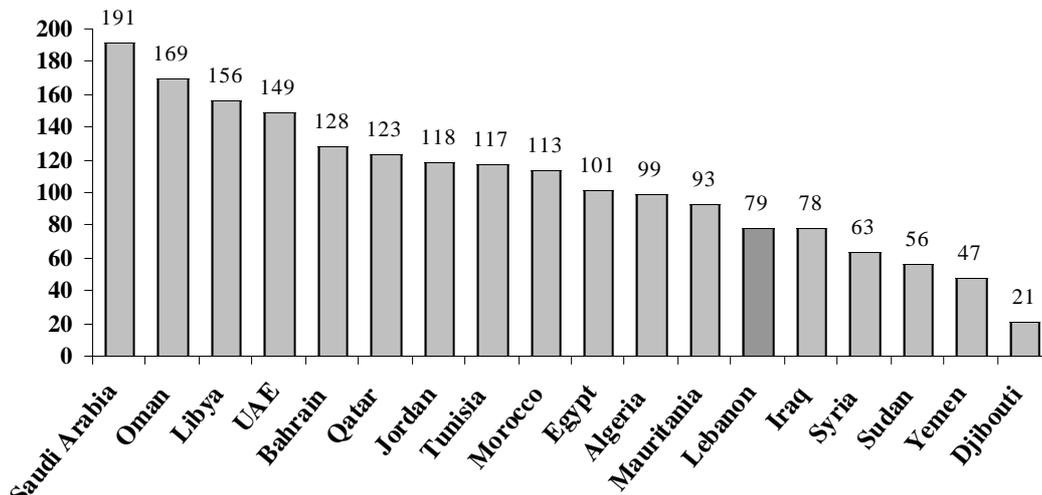
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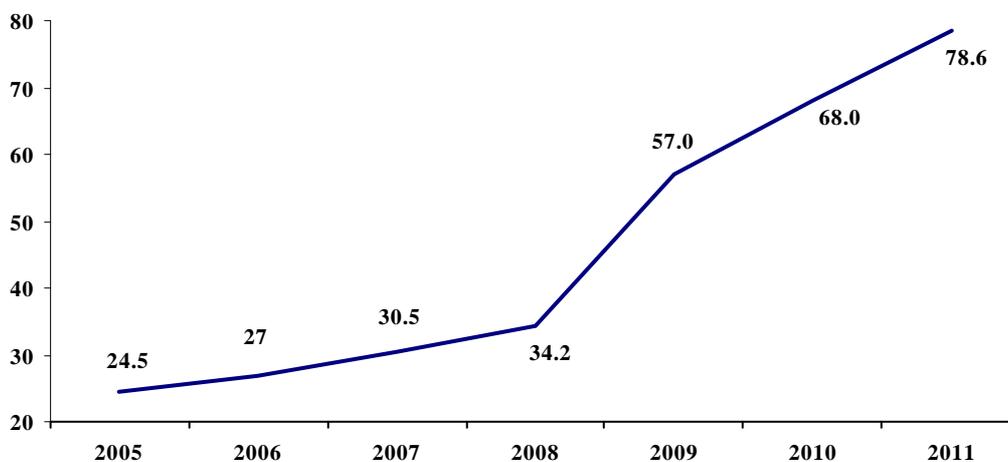
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Charts of the Week

Mobile Cellular Penetration in Arab Countries at end-2011
(subscriptions per 100 inhabitants)



Mobile Cellular Penetration in Lebanon (subscriptions per 100 inhabitants)



Source: International Telecommunication Union, Byblos Bank

Quote to Note

"Regional instability will weigh on near-term growth; medium-term growth prospects depend on reform."

Standard & Poor's, on the factors that will affect Lebanon's growth prospects in the foreseeable future

Number of the Week

84%: Percentage of Lebanese who prefer a democratic political system to any other form of government, according to an opinion poll conducted in March and April 2012 by the Pew Research Center's Global Attitudes Project

Economic Indicators

\$m (unless otherwise mentioned)	2010	Apr 11	2011	Feb 12	Mar 12	Apr 12	% Change*
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

\$bn (unless otherwise mentioned)	Dec 2010	Apr 11	Jan 12	Feb 12	Mar 12	Apr 12	% Change*
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

Most Traded Stocks on BSE	Last Price (\$)	% Change*	Total Volume	Weight in Market Capitalization
Solidere "A"	13.90	3.96	17,141	13.39%
Solidere "B"	13.94	4.73	18,006	8.73%
Byblos Common	1.53	2.00	42,382	5.30%
Byblos Pref. 08	100.00	0.00	0	1.93%
Byblos Pref. 09	100.40	0.10	3,083	1.94%
BLOM GDR	7.85	1.95	15,000	5.59%
BLOM Listed	7.40	0.00	0	15.33%
Audi GDR	6.24	0.65	5,010	6.02%
Audi Listed	5.69	(0.18)	138,850	19.16%
HOLCIM	15.52	(8.71)	1,441	2.92%

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

Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
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	100.00	5.15
Apr. 2021	8.250	115.00	6.02
Nov. 2026	6.600	101.38	6.45

Source: Byblos Bank Capital Markets

	July 16-20	July 9-13	% Change	June 2012	June 2011	% Change
Total Shares Traded	409,364	7,951,665	(94.85)	6,244,741	2,792,846	123.60
Total Value Traded	\$4,476,535	\$46,855,743	(90.45)	\$60,044,046	\$34,880,478	72.14
Market Capitalization	\$10.38bn	\$10.28bn	0.91	\$10.07bn	\$11.33bn	(11.14)

Source: Beirut Stock Exchange (BSE)



Lebanon has 71st lowest barriers globally for investing in oil & gas exploration and production

The Fraser Institute's Global Petroleum Survey for 2012 showed that Lebanon had the 71st lowest barriers among 147 countries and jurisdictions around the world, and ninth lowest barriers among 20 countries in the Middle East and North Africa for investments in oil & gas exploration and production. Lebanon also has the seventh lowest investment barriers among 17 Arab countries as well as the seventh lowest among 32 jurisdictions in 22 Upper Middle Income Countries (UMICs) included in the survey. The Fraser Institute included Lebanon for the first time this year on its Composite Index that measures numerically the barriers to investment in oil & gas.

The survey captures the opinions of managers and executives about the level of investment barriers in oil & gas exploration and production in jurisdictions their companies are familiar with. Respondents evaluated their company's decision-making process to invest in various jurisdictions based on 18 factors that were grouped in three sub-indices that are the Commercial Environment Index, the Regulatory Climate Index, and the Geopolitical Risk Index. Jurisdictions with the lowest score have lower barriers to investment in oil & gas exploration and production, while higher scores reflect greater barriers.

Globally, Lebanon had lower barriers to investment in oil & gas exploration and production than Ethiopia, Timor Gap and Brazil-Offshore, but higher barriers than Azerbaijan, Trinidad & Tobago, and New York. Regionally, Lebanon has lower investment barriers than Bahrain, Mauritania and Jordan, and higher barriers than Turkey, Kuwait and Morocco. Lebanon received a score of 45.61 points on the Composite Index, better than the UMICs average of 63.1 points, the MENA average of 55.3 points, the Arab average of 55.1 points, and the global average of 47.4 points.

Barriers to Investment in Oil & Gas Exploration and Production (lowest to highest barriers)

	Score	MENA Rank	Global Rank
Qatar	25.42	1	32
UAE	30.65	2	42
Oman	32.77	3	46
Israel	37.06	4	54
Tunisia	37.66	5	56
Morocco	37.72	6	57
Kuwait	42.23	7	64
Turkey	43.56	8	66
Lebanon	45.61	9	71
Bahrain	49.71	10	78
Mauritania	57.69	11	97
Jordan	58.86	12	99
Egypt	62.70	13	104
Somalia	65.22	14	110
Algeria	73.23	15	125
Yemen	74.50	16	130
Syria	74.66	17	131
Iraq	82.60	18	139
Libya	85.55	19	143
Iran	88.44	20	145

Source: Fraser Institute, Byblos Research

In parallel, Lebanon came in 76th place globally and in seventh place among Arab countries on the Commercial Environment Sub-Index. This category ranks jurisdictions based on six factors that are the taxation regime, trade barriers, quality of infrastructure, labor availability, corruption, as well as the government's requirements on royalty payments, production shares and licensing fees. The survey indicated that 33% of respondents believe that Lebanon's taxation regime encourages investment in oil & gas exploration and production, and 40% consider that the tax regime in Lebanon does not constitute an obstacle for investment in the oil industry. Globally, Lebanon came in 50th place in terms of its tax burden and second after Qatar among Arab countries.

Further, Lebanon ranked in 75th place globally and in eighth place among Arab countries on the Regulatory Climate Sub-Index. This category ranks jurisdictions according to investors' perceptions of the regulatory hurdles they impose, including regulatory uncertainty and duplication, labor regulations, fairness and transparency of the legal system, and the cost of compliance. The survey pointed out that 36% of participants believe that Lebanon's administration or enforcement of regulations do not create barriers to investment in the country's oil sector, relative to 29% of respondents who think that they encourage investment. In comparison, 21% of respondents consider that Lebanon's administration or enforcement of regulations constitute a mild deterrent to investment, while 14% label this factor as a strong deterrent to investment. Lebanon ranked in 58th place globally and in third place among Arab countries in terms of the uncertainty regarding the administration, interpretation, and enforcement of existing regulations and concerns about the frequency of changes to regulations. Further, the survey said that 22% of respondents identify regulatory duplication and inconsistencies in Lebanon as a mild deterrent to investment in the oil sector, while another 22% of respondents acknowledge that they would not invest in Lebanon's oil sector due to this factor. Lebanon ranked in 90th place globally and in 10th place among Arab countries in terms of regulatory duplication.

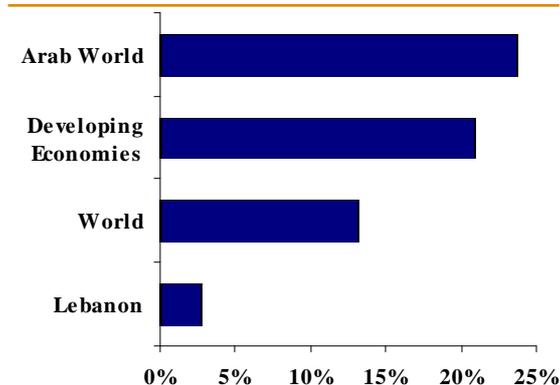
In parallel, Lebanon was the 43rd riskiest jurisdiction globally and the 12th riskiest among Arab countries on the Geopolitical Risk Sub-Index. The category focuses on political risks, security of personnel, and physical assets. The survey said that 30% of respondents identify the level of political stability in Lebanon as a strong deterrent to investment in the country's oil sector, 20% label it as a mild deterrent and 10% said that they would not invest in the country's oil sector due to this factor. Lebanon is the 45th most politically unstable jurisdiction globally and the 11th most unstable Arab country. Also, the survey pointed out that 33% of respondents said that the security situation in Lebanon constitutes a strong deterrent to investment in the oil industry, while 11% of participants identify it as a mild deterrent. Lebanon had the 52nd worst security situation worldwide and the 12th worst among Arab countries.



Growth of broadband penetration trails Arab and developing economies

Figures released by the International Telecommunication Union (ITU) indicate that Lebanon ranked in 92nd place among 187 countries at the end of 2011 in terms of fixed broadband penetration, which is the number of subscriptions to the service per 100 inhabitants. Lebanon's rank is unchanged from 2010 based on the same number of countries year-on-year, as the ITU did not include data for 33 countries in the 2011 survey. Lebanon also came in fifth place among 17 Arab countries and ranked in 26th place among 42 upper middle income countries (UMICs) included in the survey. Lebanon's rank was unchanged in the Arab world and among UMICs from the previous year. Lebanon had 5.17 fixed broadband subscriptions per 100 inhabitants in 2011, constituting an increase from 4.73 subscriptions in 2010. Lebanon's fixed broadband penetration rate was lower than the global average of 8.5 subscriptions per 100 inhabitants but above the Arab world average of 2.1 subscriptions per 100 inhabitants and the average of 4.9 subscriptions per 100 inhabitants in developing economies. On a global basis, Lebanon ranked ahead of Tunisia, Montserrat and Armenia, and came behind the Saudi Arabia, Brunei Darussalam and Thailand. Also, Lebanon ranked ahead of Suriname, Albania and the Dominican Republic and came behind Malaysia, Colombia and Antigua & Barbuda among UMICs; while it ranked ahead of Tunisia, Jordan, and Algeria, and came behind the UAE, Qatar and Saudi Arabia among Arab countries. Fixed broadband penetration in Lebanon grew by a compound annual growth rate (CAGR) of 2.7% during the 2007-2011 period compared to a CAGR of 13.1% globally, 20.8% in developing economies, and 23.6% in Arab countries.

CAGR of Broadband Penetration in 2007-2011



Source: ITU, Byblos Research

In parallel, Lebanon ranked in 66th place among 197 countries at the end of 2011 in terms of Internet penetration, which represents the number of Internet users per 100 inhabitants. Lebanon's rank regressed by four spots from its global rank in 2010 based on the same number of countries year-on-year, as the ITU did not include data for 22 countries in the 2011 survey. Lebanon also ranked in seventh place among 20 Arab countries and in seventh position among 43 UMICs. Lebanon had 52 Internet users per 100 inhabitants in 2011, constituting an increase from 43.68 Internet users per 100 inhabitants in 2010. Lebanon's Internet penetration rate came above the global average of 32.5 users, the Arab average of 29.1 users, and the developing economies' average of 24.4 users. On a global basis, Lebanon ranked ahead of Uruguay, Dominica and Bulgaria, and came behind Palestine, Chile and Greece. Also, Lebanon ranked ahead of Morocco, Saudi Arabia and Tunisia, and came behind the UAE, Oman and Palestine among Arab countries, while it came ahead of Uruguay, Dominica and Bulgaria, and behind Bosnia & Herzegovina, Macedonia and Chile among UMICs. Internet users in Lebanon grew by a CAGR of 29.1% during the 2007-2011 period compared to a CAGR of 12.2% globally, 19.7% for developing economies and 21.4% for Arab countries.

Consumer Price Index up 2% annually in June

The Central Administration of Statistics' Consumer Price Index indicates that inflation increased by 2.1% in June 2012 from June 2011. Prices of alcoholic beverages & tobacco increased by 11.1%, followed by education (+7.5%), food & non-alcoholic beverages (+5.7%), recreation & entertainment (+5.5%), restaurants & hotels (+4.5%), miscellaneous goods & services (+4.0%), clothing & footwear equipment (+2.5%), furnishings & household (+1.8); while prices of water, electricity, gas & other fuels decreased by 3.8%, followed by transportation with a 1% decline and health care prices with 0.9% decrease year-on-year. 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 1.3% in June 2012 from May 2012. Prices of recreation & entertainment increased by 0.9%, followed by restaurants & hotels (+0.2%), miscellaneous goods & services (+0.1%); while transportation prices declined by 4.6%, followed by water, electricity, gas & other fuels (-3.6%), food & non-alcoholic beverages (-1.6%), health care (-1.4%), and clothing & footwear (-0.3%). 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% year-on-year in May 2012 and by 3.5% year-on-year in April 2012.

Economic activity continues to stagnate in May

The Central Bank's Coincident Indicator, an index of economic activity in Lebanon, reached 265.3 points in May 2012 compared to 273.7 in April 2012 and 258.5 in May 2011. The Coincident Indicator, an average of 8 weighted economic indicators, decreased by 3.1% month-on-month in April and increased by 2.6% year-on-year. The indicator averaged 258.9 in the 12-months ending May 2012 compared to 258.3 in the 12-months ending April 2012 and to 250.7 in the 12-months ending May 2011. As a result, the average coincident indicator was unchanged month-on-month and increased by 3.2% year-on-year, which reflects continued economic stagnation in real terms. The indicator posted its second decline in 2012 after it dropped by 5.9% in January. The indicator reached an all-time high of 273.7 points in April 2012 after peaking at 269.9 in April 2011. In parallel, the indicator improved seven times and regressed 13 times in the month of May since 1993. The indicator averaged 255.7 in 2011, 249.5 in 2010 and 225.9 in 2009.

Lebanon's external debt posts fourth lowest returns in emerging markets, lowest in the Middle East & Africa

Figures issued by Merrill Lynch indicate that Lebanon's external debt posted returns of 1.42% in the first half of 2012, constituting the lowest return among 29 markets in the Eastern Europe, the Middle East & Africa (EMEA) region as well as the fourth lowest return among the 52 emerging markets included in Merrill Lynch's Sovereign Plus Debt Index. Lebanon underperformed the EMEA region's returns of 8.1%, as well the overall emerging markets returns of 7.08% during the covered period. Also, Lebanon's external debt underperformed the 7.89% returns posted by similarly-rated sovereigns.

Further, Lebanon's external debt posted the lowest returns among 13 countries in the Middle East & Africa region in the first half of 2012. It was outperformed by Tunisia (2.24%), Iraq (3.12%), Namibia (4.67%), Ghana (4.88%), Gabon (5.33%), Jordan (5.34%), Morocco (6.16%), South Africa (6.3%), Bahrain (6.69%), Nigeria (6.83%), Egypt (13.15%) and Senegal (15.44%). In US dollar terms, Lebanon's external debt posted returns of 1.37% in the first six months of 2012, lowest in the EMEA region and fourth lowest among emerging markets.

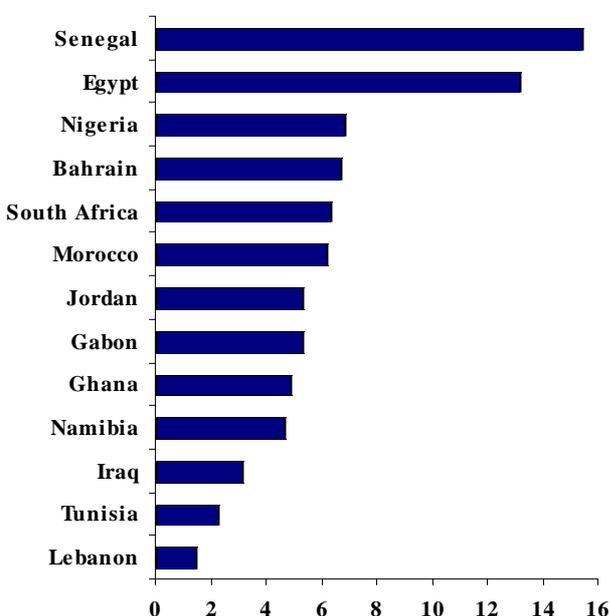
In parallel, Lebanon's external debt posted returns of 0.33% in June 2012, constituting the fifth lowest return in the EMEA region and in emerging markets during the covered month. Lebanon underperformed the EMEA returns of 3.14% and the emerging markets returns of 3.35%, as well as the 3.88% returns of similarly-rated sovereigns for the same month. Regionally, it outperformed Jordan (-1.1%) and Gabon (0.15%); and underperformed Tunisia and Morocco (0.38% each), Ghana (0.63%), Nigeria (1.2%), Namibia (1.9%), Senegal (1.93%), Bahrain (1.99%), Egypt (2.01%), South Africa (3.77%), and Iraq (4.32%).

Merrill Lynch said the spread on Lebanese Eurobonds ended June 2012 at 444 basis points, constituting the 14th narrowest spread in the EMEA region and the 28th narrowest among emerging markets. It was wider than the EMEA spread of 379 basis points as well as the emerging markets overall spread of 366 basis points at end-June 2012. Lebanon has a weight of 3.33% on Merrill Lynch's Sovereign Plus Debt Index, fourth highest in the EMEA universe behind Turkey (11.23%), Russia (9.51%) and Hungary (3.64%), and 10th highest among emerging markets. Lebanon accounted for 7.8% of the allocations in the EMEA region.

Public-sector salaries and benefits down 11% in first quarter of 2012

Figures issued by the Ministry of Finance show that salaries, wages and related benefits paid to public-sector employees totaled \$628.9m in the first quarter of 2012, constituting a decrease of 10.7% from the same quarter last year. They represented the largest component of total primary spending and accounted for 29% of such expenditures in the first quarter of 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 \$354.9m and accounted for 56.4% of the total, followed by salaries of civil staff with \$133.3m (21.2%), educational personnel with \$129.4m or 20.6% of the total, and customs employees with \$11.3m (1.8%). Also, the Lebanese Army's salaries totaled \$231.5m in the first quarter of 2012 and represented 65.2% of military personnel salaries and benefits. It was followed by salaries of the Internal Security Forces with \$80.9m (22.8%), State Security Forces with \$27.2m (7.7%), and General Security Forces with \$15.3m (4.3%). The ministry attributed the drop to a 7.3% decrease in basic salaries and a 55.7% drop in allowances, while indemnities rose by 2%. It said basic salaries decreased by \$36.5m to \$463m due to a drop of \$79.6m in payments to military personnel, which was partly offset by an increase of \$21.9m in payments to educational personnel and a \$21.2m rise in payments to civilian personnel. It added that allowances decreased by \$84.9m due to lower payments to the Army, the Internal Security Forces, and the General Security Forces; while indemnities increased by \$0.66m to \$34.5m. 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.

External Debt Performance in Middle East & Africa in First Half of 2012 (%)



Source: Merrill Lynch, Byblos Research

Issuance of preferred shares not appealing to large family-owned firms

A survey conducted by BSEC, the securitization subsidiary of Banque BEMO sal, on the potential appeal of preferred shares for non-financial firms in Lebanon indicated that 48% of surveyed firms are willing to open their capital to new investors and that they would be interest in using preferred shares as a financing instrument. In parallel, 33% of surveyed companies declared that they have no interest in preferred shares; while 19% of firms do not wish to open their capital, but would change their decision if they could issue preferred shares without voting rights. The survey covered a sample of 42 non-banking Lebanese joint stock companies.

The survey said that most of the companies willing to open their capital are small, as 40% of them have annual turnover of less than \$5m and 10% have turnover of between \$5m and \$15m. It added that 40% of firms that are willing to open their capital are at an early stage of development, as 25% of them are start ups, 10% are at the initial expansion stage, and 5% are at the seed capital stage. It added that more mature companies in this category are seeking to expand and have already a tight balance sheet. Further, it said that companies from the information technology, Internet and telecommunications sectors account for 25% of firms that are willing to open their capital to new investors; followed trading firms with 15% of the total, conglomerates with significant operations in industry (10%) and utilities (5%); while 20% of firms operate in capital intensive sectors. The survey also showed that most of firms are willing to open their capital to strategic or institutional investors, as their main concern is to maintain a balanced capital structure or to facilitate a merger or acquisition. The firms support preferred shares legislation that favor contractual freedom regarding their political and economic rights.

In parallel, the survey said that 79% of companies that are not interest in issuing preferred shares are family owned. It said that 50% of these companies generate annual sales exceeding \$50m and 35% of them have annual sales below \$15m. It added that firms from the trade sector represent 36% of companies that have no interest in issuing preferred shares, and companies in the services sector account for 43% of the total. The survey pointed out that large companies with no interest in preferred shares have easy access to capital through bank facilities, shareholders' loans and equity, which are sufficient to finance future projects. It added that smaller companies consider that preferred shares are not adapted to their business model.

The third category consists of firms that do not wish to open their capital, but would change their decision if they could issue preferred shares without voting rights. The survey pointed out that most the firms operate in sectors with limited financing needs, and 75% of them have sales turnover exceeding \$50m. It noted that 88% of companies are at a mature stage. Also, 50% of these companies are family owned, 38% are closely held and 13% are widely-held firms. The survey added that this category of firms believes that legislation about preferred shares should not be restrictive and should favor contractual freedom with respect to the shares' amount, maturity, dividend pay out and convertibility.

Number of tourists down 8% in first half of 2012

The number of incoming tourists to Lebanon totaled 713,919 in the first half of 2012, constituting a decrease of 7.8% from 774,214 tourists during the same period last year and a decline of 25.9% from 964,067 tourists during the first half of 2010. Arab tourists accounted for 37% of total visitors in the first half of the year, and were followed by visitors from Europe with 29.8%, the Americas with 15.3%, Asia with 9.9%, Africa with 4.4%, and Oceania with 3.5%. The number of African tourists increased by 14.6% annually in the first half of 2012, followed by Arab tourists with a 7% increase, and tourists from Oceania with a rise of 0.8%. In parallel, the number of tourists from Asia declined by 32.1% annually, those from America dropped by 27%, and tourists from Europe decreased by 3.6%. Also, tourists from the United States accounted for 13% of total visitors in June 2012, followed by Canada with 7.6%, Iraq with 7.2%, France with 6.6% and Germany with 5.7%. Incoming tourists totaled 1.66 million in 2011, down 24% year-on-year.

Tourism spending in Lebanon up 20% in first half of 2012

Figures issued by Global Blue, the VAT refund operator for international shoppers, show that total spending by tourists in Lebanon increased by 20% in the first half of 2012 from the same period last year, as visitors from Saudi Arabia spent the most and accounted for 20% of total tourist spending. They were followed by visitors from the UAE with 12%, Kuwait with 9%, Egypt with 7% and Syria with 6%. Spending by visitors from the UAE rose by 29%, followed by visitors from Qatar (+27%), Egypt (+24%), Kuwait (+21%), Saudi Arabia and Nigeria (+19% each), the United States (+15%), France (+11%) and Jordan (+7%); while spending by visitors from Syria contracted by 9%. Also, the number of refund transactions by visitors from Qatar rose by 24% year-on-year, followed by visitors from Kuwait (+23%), the UAE (+19%), Saudi Arabia (18%), Egypt (+15%), the United States (+7%) and Nigeria (+5%); while refund transactions by visitors from Jordan remained unchanged, and transactions by visitors from Syria contracted by 7%, followed by France (-2%).

Beirut attracted 86% of total spending in the first half of 2012, followed by the Metn area with 11%, the Keserwan region with 2%, and Baabda with 1%. Fashion & clothing accounted for 74% of total spending, followed by watches & Jewelry with 11%, home & garden products with 4%, department stores and souvenirs & gifts with 3% each, and consumer electronics & household appliances with 1%. Spending on watches & Jewelry increased by 30%, followed by fashion & clothing with a 22% growth, souvenirs & gifts (+19%), home & gardens and department stores (+7% each). Also, expenditures on consumer electronics & household appliances increased by 4% in the covered period.

Trade deficit up 23% to \$7.3bn in first five months of 2012

Total imports reached \$9.2bn in the first five months of 2012, constituting an increase of 19.8% from the same period last year; while aggregate exports rose by 7% to \$1.8bn, leading to a trade deficit of \$7.3bn, up 23.4% year-on-year. The deficit was the highest deficit in five years in both value and volume terms, and was caused by a rise of \$1.5bn in imports from the same period last year and an increase of \$120m in exports. Imports of oil and mineral fuels increased by 94% year-on-year to \$2.9bn, and non-hydrocarbon imports grew by 2.1% to \$6.3bn. In volume terms, imports reached 6,850 million tons in the first five months of 2012, constituting an increase of 22.4% from the same period in 2011; while exports posted a 25.6% drop to 929 million tons in the covered period, leading to a trade deficit of 5,921 million tons, up 36.1% year-on-year. Imports of oil and mineral fuel surged by 61.9% year-on-year to 3,199 million tons, while non-hydrocarbon imports rose by 0.8% annually to 3,651 million tons. The trade deficit was \$1.2bn in May 2012, up 7% from the same month of the previous year. Imports averaged \$1.8bn and exports averaged \$365m on a monthly basis year-to-May, resulting in an average monthly trade deficit of \$1.5bn during the covered period. The coverage ratio reached 19.9% in the first five months of 2012 compared to 22.3% in the same period in 2011, while it reached 21.6% in May 2012 relative to 23.9% in May 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 35% or \$196m and rising by 5% in volume terms in the first five months of the year. Excluding this item, exports dropped in value by 7%, or by \$75m, partly due to lower exports to Arab countries and as a result of the political instability in the region. Exports to Arab countries increased by 7%, largely due to a rise in exports to Saudi Arabia and Syria by 20% each. But the increase was offset with a 33% year-on-year drop in exports to Iraq, mainly due to political unrest in Syria which represents Lebanon's only overland trade route for exports.

The United States was the main source of imports with \$1.4bn or 16% of the total in the first five months of 2012, followed by Italy with \$708m (8%), China with \$685m (7.5%), and France with \$658m (7.2%), and Germany with \$479m (5%). Imports from the U.S. surged by 74% and those from France increased by 5% year-on-year, and those from China and Germany rose by 1% each; while imports from Italy dropped by 9%. Switzerland was the main export destination with \$227m or 12% of the total, followed by the UAE with \$156m (9%), Saudi Arabia with \$153m (8%), Syria with \$97m (5%), Turkey with \$72m (3.9%) and Iraq with \$69m (3.8%). Exports to Saudi Arabia rose by 19%, those to the UAE grew by 16%, exports to Syria increased by 8%, and those to Switzerland rose by 6%; while exports to Turkey dropped by 37% and those to Iraq regressed by 16%. Lebanon's main export was jewelry at \$755m or 41% of the total, followed by machinery & mechanical appliances with \$214m (12%), base metals with \$184m (10%), prepared foodstuff with \$164m (9%) and chemical products with \$142m (8%). Re-exports totaled \$139m in the first five months of 2012, compared to \$319m in the same period of the previous year.

Customs receipts up 2.5% to \$610m in first five months of 2012

Figures released by the Customs Directorate indicated that customs revenues reached \$624.7m in the first five months of 2012, constituting an increase of 2.5% from \$609.6m in the same period of 2011. The Port of Beirut continues to be the main point of customs receipts, as it accounted for 87.2% of the total in the first five months of 2012, and was followed by the Hariri International Airport with 7.5%, the Port of Tripoli with 2.2%, the Masnaa crossing point with 2.1%, the Port of Saida with 0.6%, the crossing point of Abboudieh by 0.3%, and the Port of Tyre with 0.2%. Customs receipts from the value-added tax totaled \$640.6m in the first five months of 2012, constituting an increase of 10.4% year-on-year. The Port of Beirut accounted for 78.3% of such receipts, and was followed by the Hariri International Airport with 9.1%, the Masnaa crossing point with 5.6%, the Port of Tripoli with 5.1%, and the Port of Saida with 1.6% of the total. As such, overall customs receipts reached \$1.3bn in the first five months of this year, with the Port of Beirut accounting for 82.7% of the total, followed by the Hariri International Airport with 8.3%, the Masnaa crossing point with 3.8% and the Port of Tripoli with 3.7%. In addition, other entry points represented the balance, with the port of Saida accounting for 1.1%, the crossing point of Abboudieh for 0.2%, and the port of Tyre with 0.1%.

Lebanon and Kazakhstan sign MoU to increase economic cooperation

The Beirut & Mount Lebanon Chamber of Commerce, Industry & Agriculture signed a Memorandum of Understanding (MoU) with its Kazakh counterpart to strengthen economic cooperation and increase trade exchange between the two countries. The MoU also aims to develop partnerships between Lebanese and Kazakh companies, to expand investment between Lebanon and Kazakhstan, as well as to establish a Council of Lebanese and Kazakh businessmen. Trade activity between the two countries remains very low, as the aggregate value of bilateral trade totaled \$5.2m in 2010, the latest available figures. Lebanese imports from Kazakhstan increased by 95.5% year-on-year to \$4.9m, while Lebanese exports to Kazakhstan rose by 57% to \$0.33m in 2010. As such, imports from Kazakhstan account for 0.03% of total Lebanese imports and exports represent 0.01% of aggregate exports.



Treasury transfers to Electricité du Liban up 43% in first four months of 2012

Figures released by the Finance Ministry show that Treasury transfers to Electricité du Liban totaled \$713.8m in the first four months of 2012, constituting an increase of 43% from \$498.8m in the same period last year. The ministry said that reimbursements to the Kuwait Petroleum Corporation (KPC) and to Algerian energy conglomerate Sonatrach accounted for \$685.2m, or 96% of transfers year-to-April; while EdL's debt servicing represented the remaining 4.2%. It attributed the increase to a rise of \$219.6m, or 47%, in payments to KPC and Sonatrach during the covered period, and to an increase in debt servicing by \$4m or 17% year-on-year. It added that the amount of the reimbursements to KPC and Sonatrach implies that any fluctuations in international oil prices are bound to have an impact on Treasury transfers to EdL. It attributed the rise in payments to KPC and Sonatrach to a significant increase in the average international oil price according to which the 2012 payments were made. It noted that the average oil price for the 2012 payments is 44% higher than the corresponding average price in 2011. It added that EdL contributed just 1.9% of repayments to the two oil suppliers during the covered period compared to 4.1% in same period last year. EdL transfers accounted for 24% of primary expenditures in the first four months of 2012, constituting the highest share of primary spending in the last three years, and compared to 19.8% in the same period of 2011. EdL transfers constitute the third largest expenditures item after debt servicing and salaries & wages in overall fiscal spending.

IDAL facilitates 8 projects worth \$93m in 2010 and 2011

The Investment Development Authority of Lebanon (IDAL) indicated that it has facilitated the implementation of eight projects in Lebanon that mobilized \$93m in investments and generated 466 direct jobs and 1,485 indirect jobs in 2010 and 2011. It said that each of technology and agro-industry accounted for 25% of the total number of projects, followed by tourism and media with 13% each, and ICT and industry with 12% each. It said 37.5% of these projects were Greenfield operations, 37.5% were initiated by foreign investors and 25% were expansion projects. In value terms, tourism accounted for \$32 or 34% of the total during the two-year period, followed by industry with \$21m (23%), technology with \$17.7m (19%), ICT with \$12 (13%), agro-industry with \$6m (7%), and media with \$4.1m (4%). Mount Lebanon attracted 37% of projects and 54% of investments, followed by Beirut with 37% of projects and 39% of total investments, North Lebanon with 13% of projects and 4% of investments, and South Lebanon with 13% of projects and 3% of investments during the covered period.

Further, IDAL indicated that agro-industry projects generated 701 indirect jobs, or 47.2% of total employment opportunities created during the 2010-11 period; followed by the industry with 305 opportunities (20.6%), technology with 186 jobs (12.5%), ICT with 125 jobs (8.4%), tourism with 105 (7.1%), and media with 63 (4.2%). IDAL said tourism projects consisted of a five-star hotel; while industrial projects were in electrical equipment. Also, technology projects covered the medical and pharmaceutical fields; and the ICT sector saw projects in the software and wireless segments.

Corporate Highlights

Car sales up 11% in first half of 2012

Figures released by the Association of Automobile Importers in Lebanon indicate that a total of 16,850 new passenger cars were sold in the first six months of 2012, constituting an increase of 10.8% from the 15,211 cars sold in the same period last year. Korean cars accounted for 45.7% of total sales, followed by Japanese cars with a 27.8% share, European automobiles with 19.5%, American vehicles with 6.1%, and Chinese cars with 0.9%. Chinese cars posted the highest growth in sales with a 42.1% rise year-on-year, followed by American cars with a 24.3% rise, Korean cars with a 18.5% increase, European cars with a 2.6% rise, and Japanese automobiles with a 2.4% growth. Kia is the leading brand in the Lebanese market with 4,810 cars sold in the first six months of 2012, followed by Nissan with 2,972, Hyundai with 2,895 cars sold, Toyota (860), Chevrolet (698), Renault (549), and Volkswagen (377). In parallel, a total of 1,160 new commercial vehicles were sold in the first half of 2012, up 6.6% from the 1,088 vehicles sold in the same period last year.

RYMCO announces dividends

The Ordinary General Assembly of automobile dealer Rasamny Younis Motor Co. sal (RYMCO) approved dividend distribution of \$0.1 per share before tax for the year 2011. The dividends will be paid starting July 30, 2012. RYMCO declared net profits of \$712,175 in the first quarter of 2012 compared to a net loss of \$1.1m in the same quarter last year. RYMCO's total assets and total equity amounted to \$130.6m and \$51.8m at the end of March 2012, respectively, compared to \$139m and \$51.9m a year earlier. RYMCO is the only car retailer listed on the Beirut bourse. Its share price closed at \$2.44 on July 20, down 2.4% year-to-date.

Solar water heaters market at \$18m in 2011

The Lebanese Center of Energy Conservation (LCEC) indicated that eight commercial banks extended 3,557 subsidized loans for a total value of \$5.3m for solar water heaters systems in 2011. It noted that the loans are a part of the national financing mechanism launched by the Central Bank of Lebanon and the Ministry of Energy & Water, and fall within the banks' Corporate Social Responsibility strategy. The LCEC said that the solar water heaters market reached \$18.1m in 2011 and that the project led to a reduction of 18,390 tons of CO2 equivalent so far. It pointed out that the number of companies working in the solar water heaters business increased from 25 in 2009 to more than 110 currently. The Central Bank launched the national initiative for energy efficiency and renewable energy (NEEREA) in 2010 to support the financing of energy efficiency and renewable energy projects across Lebanon through commercial banks. It said the initiative aims to have a positive impact on the purchasing power of Lebanese citizens and on the balance of payments, as Lebanon imports all of its energy needs.

Children's \$20m theme park to benefit from tax incentives

The Investment Development Authority of Lebanon (IDAL) indicated that KidzMania, a role playing theme park where children can experience real life jobs, will benefit from a 10 year tax-break and free land registration, among other incentives, under IDAL's Package Deal Contract. Located in the Beirut Waterfront area of the Beirut Central District, the \$20m park will include more than 40 categories of jobs for kids between two and 14 years old. The project, which is financed by two Lebanese investors, is forecasting revenues of \$13m per year based on sales of about 400,000 entrance tickets per year, with tickets prices fixed at \$25 for individuals and \$14 per person for groups or schools. The investors aim to franchise the concept in the Gulf countries, with Saudi Arabia and Qatar constituting the main destinations. Construction works are expected to be completed by the summer of 2013.

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	Jan 2011	Dec 2011	Jan 2012	Change*	Risk Level
Political Risk Rating	56.5	54.5	55.5	▼	High
Financial Risk Rating	28.5	35.0	35.0	▲	Low
Economic Risk Rating	32.5	34.0	34.0	▲	Moderate
Composite Risk Rating	58.7	61.7	62.2	▲	Moderate

Regional Average	Jan 2011	Dec 2011	Jan 2012	Change*	Risk Level
Political Risk Rating	63.6	60.6	60.5	▼	Moderate
Financial Risk Rating	42.3	42.2	42.3	↔	Very Low
Economic Risk Rating	38.1	36.6	37.1	▼	Low
Composite Risk Rating	72.0	69.7	69.9	▼	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



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

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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