



LEBANON THIS WEEK

In This Issue

Economic Indicators.....1
Capital Markets.....1
Lebanon in the News.....2

FDI in Lebanon at \$97m in first half of 2012, second lowest in Arab world

Economic activity contracts in August

Lebanon has 19th highest level of gold reserves globally, 7th highest among non-OECD countries

Lebanon's CDS spreads widen by 6% in third quarter of 2012

Lebanon has second least competitive cellular market in the Arab world

Nearly two-thirds of Lebanese have a negative opinion about the government's performance

Value of cleared checks down 1%, returned checks up 10% in first eight months of 2012

Cabinet approves wide-ranging taxes and fees to finance new spending

Public-sector salaries and benefits up 2% in first five months of 2012

Number of tourists down 15% in first nine months of 2012

Treasury transfers to Electricité du Liban up 44% in first half of 2012

Subsidized interest loans at \$286m in first quarter of 2012

Overdrafts account for 32% of bank credits, share of trade & services at 34% of utilized credits at end-March 2012

Construction permits down 14% in first eight months of 2012

Tobacco sector revenues to rise 30% in 2012

Commercial activity retreats in first quarter of 2012

Corporate Highlights8

Car sales up 7% in first nine months of 2012

CreditBank increases stake in Armenian bank

Auto distributor raises funds through securitization deal

CMA CGM signs agreement with French sovereign wealth fund

Ratings on Société Générale affirmed

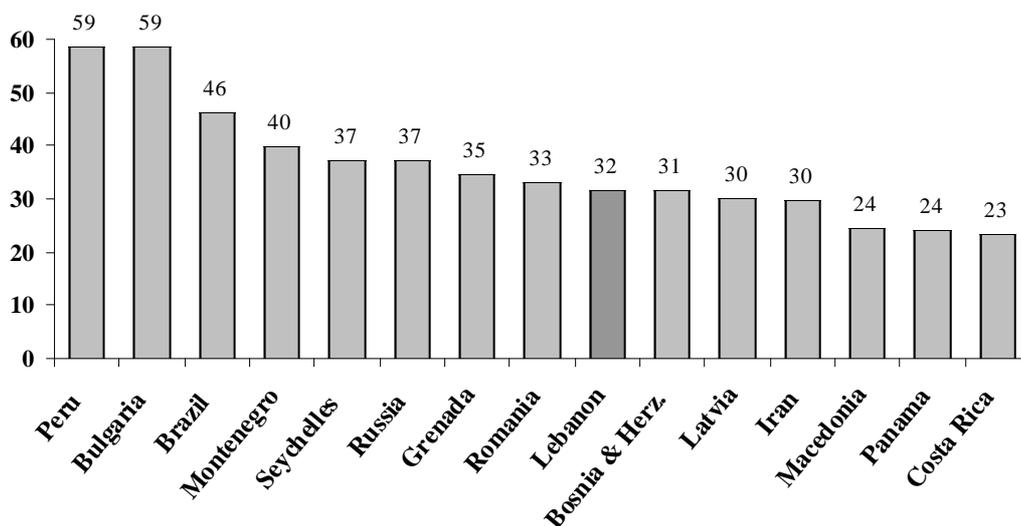
Ratio Highlights.....9

Risk Outlook.....9

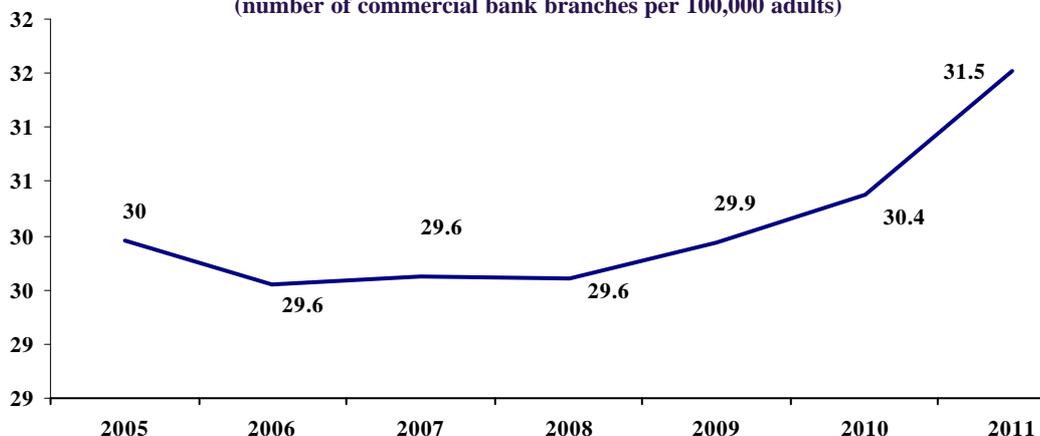
Ratings & Outlook.....9

Charts of the Week

Branch Penetration Rate in Select Upper-Middle Income Countries in 2011
(number of commercial bank branches per 100,000 adults)



Branch Penetration Rate in Lebanon
(number of commercial bank branches per 100,000 adults)



Source: International Monetary Fund, Byblos Bank

Quote to Note

"The Lebanese economy will be in recession in 2012."

The Institute of International Finance, on the impact of tense security and political conditions, and of spillovers from Syria, on economic activity in the country

Number of the Week

135: Lebanon's rank out of 144 countries on the business costs of terrorism, according to the World Economic Forum's Global Competitiveness Index for 2012-13

Economic Indicators

\$m (unless otherwise mentioned)	2010	Jul 11	2011	May 12	Jun 12	Jul 12	% Change*
Exports	4,256	415	4,276	355	345	317	(23.61)
Imports	17,956	1,679	20,170	1,645	1,713	1,739	3.57
Trade Balance	(13,700)	(1,264)	(15,894)	(1,290)	(1,368)	(1,422)	12.50
Balance of Payments	3,326	(307)	(1,996)	(82)	(23)	(322)	4.89
Checks Cleared in LBP	13,519	1,218	14,251	1,196	1,283	1,311	7.64
Checks Cleared in FC	53,925	5,939	57,852	4,746	4,766	5,150	(13.29)
Total Checks Cleared	67,444	7,157	72,103	5,942	6,049	6,461	(9.72)
Budget Deficit/Surplus	(2,894)	67.1	(2,342)	(50)	8.1	(36.01)	(153.67)
Primary Balance	1,231	314	1,662	300	281	158.69	(49.53)
Airport Passengers	5,512,435	702,265	5,596,034	438,570	545,379	640,615	(8.78)

\$bn (unless otherwise mentioned)	Dec 2010	Jul 11	Mar 12	May 12	Jun 12	Jul 12	% Change*
BdL FX Reserves	28.60	28.91	30.99	29.57	29.26	29.64	2.54
<i>In months of Imports</i>	<i>19.46</i>	<i>17.22</i>	<i>17.99</i>	<i>17.98</i>	<i>17.08</i>	<i>17.05</i>	<i>(1.00)</i>
Public Debt	52.59	52.80	54.08	55.12	55.25	55.44	5.01
Net Public Debt	45.01	45.50	46.91	47.17	47.10	47.28	3.91
Bank Assets	128.93	136.88	144.73	144.86	145.90	145.51	6.30
Bank Deposits (Private Sector)	107.20	112.14	118.22	118.90	119.94	119.75	6.79
Bank Loans to Private Sector	34.93	38.34	41.00	41.89	41.70	41.49	8.21
Money Supply M2	39.40	36.84	40.04	41.74	41.00	41.19	11.81
Money Supply M3	92.15	94.65	98.94	99.96	100.36	100.50	6.18
LBP Lending Rate (%)	7.91	7.33	7.16	7.34	7.44	7.24	(9b.p.)
LBP Deposit Rate (%)	5.68	5.59	5.46	5.49	5.45	5.45	(14b.p.)
USD Lending Rate (%)	6.74	7.03	7.06	7.12	7.15	7.19	16b.p
USD Deposit Rate (%)	2.80	2.86	2.83	2.83	2.78	2.84	(2b.p.)
%* Change in CPI**	6.19	6.28	4.40	6.36	4.72	4.72	(156b.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"	12.38	(0.96)	143,949	12.36%
Solidere "B"	12.41	(0.72)	21,061	8.05%
Byblos Common	1.51	2.03	95,633	5.42%
Byblos Pref. 08	102.40	0.10	4,950	2.04%
Byblos Pref. 09	103.60	0.39	1,393	2.07%
BLOM GDR	7.80	0.00	46,500	5.75%
BLOM Listed	7.35	(0.68)	34,873	15.77%
Audi GDR	5.90	0.00	15,200	5.98%
Audi Listed	5.52	0.36	3,350	19.25%
HOLCIM	15.51	0.00	0	3.02%

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

Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
June 2013	8.625	104.00	2.43
Apr. 2014	7.375	107.25	2.34
Jan. 2015	5.875	104.50	3.75
Apr. 2015	10.00	114.50	3.87
Jan. 2016	8.500	112.50	4.32
Mar. 2017	9.000	116.75	4.74
Nov. 2018	5.150	100.38	5.08
Apr. 2021	8.250	116.75	5.73
Nov. 2026	6.600	102.50	6.33

Source: Byblos Bank Capital Markets

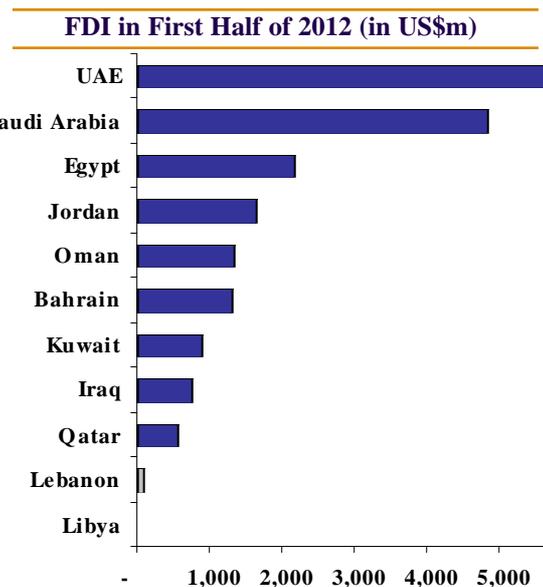
	Oct 15-19	Oct 8-12	% Change	Sep 2012	Sep 2011	% Change
Total Shares Traded	730,833	1,214,097	(39.80)	2,108,718	3,302,725	(36.15)
Total Value Traded	\$5,056,022	\$8,758,326	(42.27)	\$16,363,982	\$28,432,176	(42.45)
Market Capitalization	\$10.02bn	\$10.03bn	(0.15)	\$10.02bn	\$10.65bn	(5.92)

Source: Beirut Stock Exchange (BSE)



FDI in Lebanon at \$97m in first half of 2012, second lowest in Arab world

Ernst & Young's FDI attractiveness survey indicated that foreign direct investment (FDI) in Lebanon reached \$96.5m in the first half of the year and accounted for 0.5% of total FDI in Arab countries in the covered period. Lebanon was the second smallest recipient of FDI in nominal terms among 11 Arab countries in the first six months of the year, ahead of only Libya that received \$38.6m and represented 0.2% of total FDI in Arab countries. Further, Lebanon attracted 10 FDI projects in the first half of 2012, accounting for 2.4% of total FDI-related projects in the region. It attracted the second smallest number of FDI projects among Arab countries, ahead of only Libya that had five FDI-related projects or 1.2% of the total. Also, the survey indicated that FDI in Lebanon contributed to the creation of 530 new jobs in the first half of the year, equivalent to 1.3% of the total number of jobs created through FDI in Arab countries. The number of FDI-created jobs in Lebanon was the second lowest in the region, ahead of just Libya where FDI created 244 jobs or 0.6% of the region's total. FDI in the Arab world reached \$19.3bn in the first half of 2012, with the UAE leading the region with \$5.7bn or 29.7% of the total during the covered period. The UAE attracted 140 projects that led to the creation of 11,734 jobs, accounting for 34.1% and 28.8% of the totals, respectively.



Source: Ernst & Young, Byblos Research

In parallel, Lebanon attracted \$609m in FDI in 2011, equivalent to 1% of total FDI in the region. Lebanon was the third smallest recipient of FDI in nominal terms in the region, and came ahead of Kuwait with \$491m (0.8%) and Libya with \$49m (0.1%). FDI inflows to Lebanon fell by 62.7% last year, constituting the second steepest decline among Arab countries, better only than Libya where the number of projects dropped by 97.4% year-on-year. Further, Lebanon attracted 27 projects last year, or 2.9% of total FDI-related projects in the region. It attracted the second smallest number of FDI projects among Arab countries, better than only Libya that had five FDI-related projects or 0.5% of the region's total. Projects in Lebanon were in the retail, consumer products, transportation, and logistics sectors. The UAE and Kuwait had 14 FDI projects in Lebanon last year. The number of projects in Lebanon contracted by 12.9% in 2011, constituting the fifth steepest decrease among Arab countries, compared to Egypt where the number of FDI projects contracted by 32.9%, Iraq (-33.3%), Jordan (-34%) and Libya with (-70.6%). Also, FDI in Lebanon contributed to the creation of 2,447 new jobs in Lebanon last year, equivalent to 2.6% of total job created through FDI in Arab countries. The number of new FDI-related jobs was the second lowest in the region last year, ahead of only Libya where FDI created 207 jobs. Further, FDI flows to Lebanon were equivalent to 1.6% of GDP in 2011, the third lowest ratio among Arab countries compared to Kuwait with 0.3% of GDP and Libya with 0.1% of GDP.

Ernst & Young indicated that its FDI estimates cover cross-border Greenfield projects that lead to the direct creation of jobs. It included joint ventures in its estimates when these transactions led to a new physical Greenfield operation. It pointed out that mergers and acquisitions and other equity investments are not included. It sourced its figures from fDi Markets, a database that tracks cross-border Greenfield investments across the world.

Economic activity contracts in August

The Central Bank's Coincident Indicator, an index of economic activity in Lebanon, reached 230 points in August 2012 compared to 247.8 in July and to 236.7 in August 2011. The Coincident Indicator, an average of 8 weighted economic indicators, decreased by 7.2% month-on-month and regressed by 2.8% year-on-year. The indicator averaged 257.5 in the 12 months ending August 2012 compared to 258 in the 12 months ending July 2012 and to 252.8 in the 12 months ending August 2011. As a result, the average coincident indicator regressed by 0.1% month-on-month and increased by 1.8% year-on-year, which reflects economic contraction in real terms. The indicator posted its fourth consecutive monthly decline since May and its fifth decline in 2012 after it dropped by 5.9% in January, 3.1% in May, 1.6% in June and 5.1% in July. In parallel, the indicator improved 10 times and regressed 10 times in the month of August since 1993. The August 2012 decline constitutes the third steepest drop for the covered month in 20 years, excluding August 2006. The indicator reached an all-time high of 273.7 points in April 2012 after peaking at 269.9 in April 2011. The indicator averaged 255.7 in 2011, 249.5 in 2010 and 225.9 in 2009.

Lebanon has 19th highest level of gold reserves globally, 7th highest among non-OECD countries

Figures released by the World Gold Council ranked Lebanon in 19th place among 100 countries and multilateral organizations worldwide in terms of gold holdings. Also, Lebanon ranked in seventh place among 66 non-OECD countries when excluding the International Monetary Fund and the European Central Bank, while it came in second place among 14 Arab countries included in the survey. Lebanon held 286.8 tons in gold reserves at the end of August 2012. Globally, Lebanon had more gold reserves than Spain with 281.6 tons, Austria (280 tons) and Belgium (227.5 tons); while it held lower reserves than Saudi Arabia (322.9 tons), the United Kingdom (310.3 tons) and Turkey (295.5 tons). It ranked immediately ahead of the Philippines and behind Saudi Arabia among non-OECD countries.

The value of Lebanon's gold reserves was equivalent to \$15.1bn, as calculated by the World Gold Council based on the end-August price of \$1,648.5 per troy ounce published by the London Bullion Market Association. Lebanon's gold holdings accounted for 25% of the Arab region's aggregate reserves, of 5% of the holdings of non-OECD countries and of 0.9% of the world's total gold reserves. The United States was the top holder of gold in the world with 8,133.5 tons, while Honduras came in last place with 0.7 tons in gold holdings.

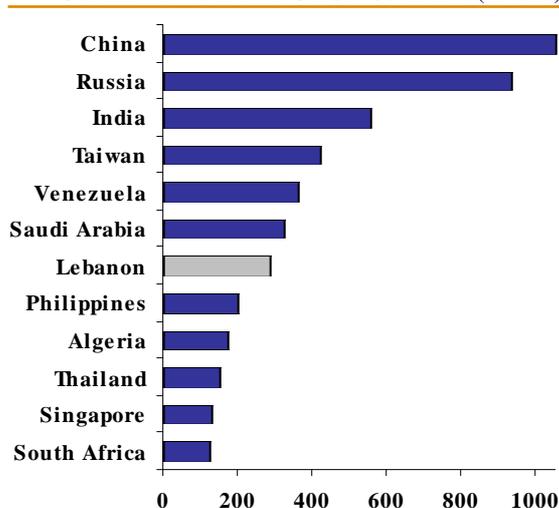
Further, Lebanon's gold holdings were equivalent to 29.4% of the country's total foreign exchange reserves at the end of August 2012. As such, Lebanon ranked in 19th place among 100 countries and multilateral organizations worldwide on this category. Also, Lebanon ranked in seventh place among 66 non-OECD countries, while it came in first place among 14 Arab countries included in the survey. Globally, Lebanon's share of gold holdings out of its foreign exchange reserves was higher than that of Aruba's 25.4% share, Egypt (24.8%) and Pakistan (22.7%); while it had a smaller share than that of Ecuador 33%, Belarus (30.1%) and Spain (29.5%). Also, Lebanon ranked ahead of Aruba and behind Belarus among non-OECD countries. Portugal's gold reserves were equivalent to 90.3% of its total foreign exchange reserves, highest in the world; while Canada's reserves accounted for 0.3% of its total foreign exchange reserves, the lowest in the world.

Lebanon's CDS spreads widen by 6% in third 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 third quarter of 2012 at 449 tightening by 29 basis points from 478bps at the end of the second quarter, but widening by 2.7bps from 446.3bps at the end of the first quarter of 2012. The firm noted that Lebanon's 5-year CDS spreads were the ninth widest among 69 countries during the third quarter. They were wider than Egypt with 438.2bps, Slovenia with 387.4bps and Spain with 384bps, and tighter than Iraq's spreads of 487.5bps, Portugal with 499.9bps and Ukraine with 702.5bps. It said that Lebanon's CDS spreads tightened by just 6.1%, compared to the worst performers during the quarter such as Turkey with a widening of 16.5% and Slovenia and Costa Rica with a tightening of 3.1% and 6.2%, respectively.

Further, CMA Datavision indicated that Lebanon ended the third quarter of 2012 with a five-year cumulative probability of default (CPD) of 27.9% decreasing from 29.4% at the end of the second quarter, but slightly increasing from 27.5% at the end of the first quarter of 2012. 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-September shows that Lebanese debt was the ninth most risky globally, but it was less risky than the debt of Spain (29.5%), Portugal (36.5%), Ukraine (39.8%), Venezuela (42.9%), Pakistan (43.9%), Argentina (50.5%), Cyprus (57.3%) and Greece (90%-99%). Norway, Sweden and the United States had the lowest CPDs among the 69 sovereigns covered in the survey, with rates of 2.1%, 2.8% and 2.9%, respectively.

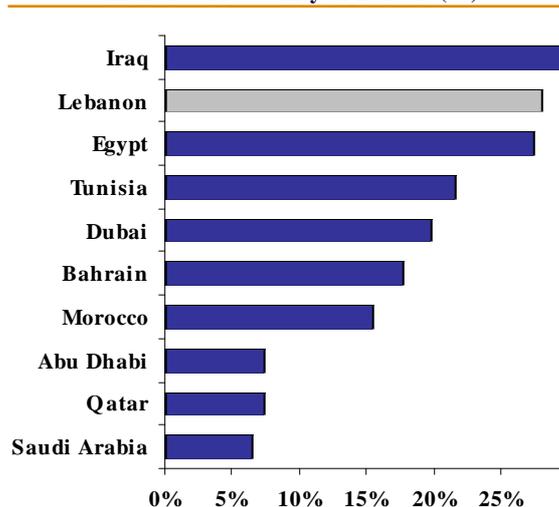
Gold Reserves in Non-OECD Countries (in tons)*



*As of August 2012

Source: World Gold Council, Byblos Research

Cumulative Probability of Default (%)



Source: CMA Datavision, Byblos Research

Lebanon has second least competitive cellular market in the Arab world

The Cellular Competition Intensity Index for 2012 ranked Lebanon in 18th place among 19 countries in the Arab world, up from 19th place in 2011 and 2010, but down from 15th place in 2007 and 11th place in 2006. The index rates the intensity level of competition in the region's cellular markets by comparing the state of every market relative to the other markets. The index, designed by the Arab Advisors Group, takes into account nine categories, with each category assigned a weight based on its importance as an indicator of competitive behavior. The categories include the number of licensed and expected operators in 2012, the number of working operators, the market share of the largest operator, the number of pre-paid plans, the number of post-paid plans, the availability of smart phone plans, the availability of corporate offers, the availability of 3G services, and the availability of international long distance competition.

Lebanon received a score of 38.84%, up from 33.8% in 2011 but significantly below the regional average of 57.14%. Lebanon's score increased by 5.04 percentage points and posted the largest increase regionally compared to a drop of one percentage point in the Arab average. The rankings of Egypt, Sudan, the UAE and Lebanon improved from 2011; those of Saudi Arabia, Jordan, Palestine, Morocco, Iraq, Tunisia, Bahrain, Algeria, Mauritania, Kuwait and Syria were unchanged; while the rankings of Oman, Yemen, Qatar and Libya regressed year-on-year. The Arab Advisors Group considered Saudi Arabia to have the most competitive cellular market in the region, while it viewed Libya as having the least competitive market regionally.

Cellular Competition Intensity Index 2012		
	Score (%)	Rank
Saudi Arabia	74.56	1
Jordan	70.67	2
Palestine	70.43	3
Egypt	67.86	4
Oman	67.01	5
Morocco	64.20	6
Iraq	62.45	7
Tunisia	61.13	8
Bahrain	61.01	9
Algeria	58.91	10
Sudan	56.72	11
Mauritania	55.63	12
Yemen	55.19	13
Kuwait	52.58	14
UAE	49.01	15
Qatar	47.14	16
Syria	39.75	17
Lebanon	38.84	18
Libya	32.68	19

Source: Arab Advisors Group

Nearly two-thirds of Lebanese have a negative opinion about the government's performance

A survey conducted in September 2012 by market research company SOFRES-Liban indicated that 30.8% of respondents in Lebanon consider that the performance of the current government is "very bad" and 30.6% of participants label it as "bad", while 32.4% evaluate it as "somehow good" and 5.4% of Lebanese view it as "very good". As such, 61.4% of survey participants said that the government's performance is "bad" or "very bad", while 37.8% noted that it is "somehow good" or "very good". The survey covered a representative sample of 1,200 Lebanese respondents across the country.

Further, the survey revealed that 75.8% of Sunni respondents view the government's performance as "bad" or "very bad", followed by 74.5% of Druze participants, 55.2% of Christian respondents, and 47.5% of surveyed Shiites who shared the same view. In comparison, 51.2% of Shiite respondents considered that the government's performance is "somehow good" or "very good", followed by 44% of Christians, 25.4% of Druzes, and 23% of Sunnis who had the same opinion.

In parallel, the survey said that 40.5% of respondents considered that the current government "did not offer anything so far", 9.6% stressed that there is "no state and no security", 7% indicated that there is "no improvement in social and economic conditions", and 5.4% pointed out that the current government is corrupt. Further, 3.4% of respondents consider that the Cabinet is implementing change and reforms, 3.3% believe that the government is "working for the country's benefit", and 2.1% think that "the government is not allowed to implement its agenda".

Finally, 30.9% of respondents called for a national unity government, 29.9% asked for a neutral government in order to supervise the upcoming parliamentary elections, 20.8% want a Cabinet of technocrats, while 13.9% favor the presence of a one-sided government.

Value of cleared checks down 1%, returned checks up 10% in first eight months of 2012

The value of cleared checks reached \$45.9bn in the first eight months of 2012, constituting a decrease of 0.8% from the same period last year and a rise of 0.4% from the first eight months of 2010. The value of cleared checks in Lebanese pounds rose by 3.3% annually to the equivalent of \$9.8bn in the first eight months of 2012, while the value of cleared checks in US dollars decreased by 1.5% to \$37.4bn. The dollarization rate of cleared checks increased to 81.4% from 79.3% in the same period last year. Also, the value of returned checks in domestic and foreign currency amounted to \$1bn in the first eight months of 2012, increasing by 9.8% from the same period of 2011 and by 6.9% from the first eight months of 2010. In parallel, the number of cleared checks totaled 8.6 million checks in the first eight months of 2012, up by 0.9% from the same period of 2011. Also, the number of returned checks totaled 189,000 checks and rose by 11.2% in the covered period.

Cabinet approves wide-ranging taxes and fees to finance new spending

The Cabinet announced that it has approved a list of taxes and fees that would finance 90% of the recent adjustment to the salary scale of public sector employees. The government increased fees on construction permits, which expected to generate \$398m in additional revenues; raised taxes on bank interest deposits from 5% to 7% (\$172.5m in additional receipts) and imposed fines on illegally-built seaside properties (\$115.4m in additional income). It also increased stamp fees on bills, commercial receipts and other business documents issued by institutions from LBP100 to LBP500, which would secure \$80m in revenues; and raised the value-added tax on cars from 10% to 15%, which would result in \$76.3m in additional revenues. Further, it called for the settlement of construction violations (\$66.4m in additional revenues), and increased stamp fees on landline and mobile phone bills to LBP1,500 from LBP1,000 that would generate an additional \$53.1m in revenues.

The government also increased by five-times fees on alcoholic beverages (\$35.2m in additional revenues), raised the reduced rate granted for some tax payers on dividend payouts (\$29.9m in additional receipts), doubled the fees collected by notaries on behalf of the Treasury (\$19.9m in additional revenues); raised taxes on lottery winnings from 10% to 15% (\$16.6m in additional income) and imposed a LBP5,000 departure fees through land routes (\$16.6m in additional receipts). It also imposed fees on permits related to groundwater usage and on illegal groundwater usage (\$6.6m in additional revenues, each), and increased stamp fees on judicial records to LBP4,000 from LBP2,000 (\$0.7m in additional revenues).

The government said that it is currently studying other taxes and fees that include imposing a tax on capital gains from real estate transactions; raising the dividend tax on companies listed on the Beirut Stock Exchange to 7.5% from 5% currently, imposing a 7.5% tax on capital gains from the sale of stocks, and amending the departure taxes on business and first-class airline tickets.

Public-sector salaries and benefits up 2% in first five months of 2012

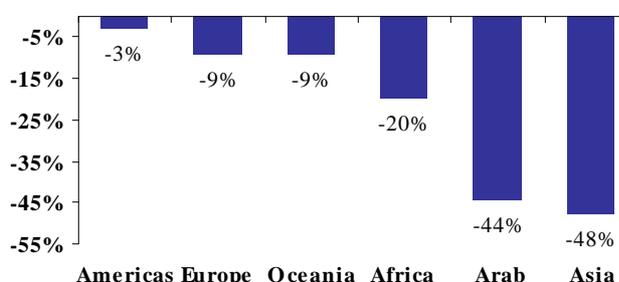
Figures issued by the Ministry of Finance show that salaries, wages and related benefits paid to public-sector employees totaled \$1.1bn in the first five months of 2012, constituting an increase of 1.7% from the same period last year. They represented the largest component of total primary spending and accounted for 20% of such expenditures in the first five months 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 \$645.4m and accounted for 60.8% of the total, followed by educational personnel with \$203m or 19.1% of the total, civil staff with \$197m (18.6%), and customs employees with \$15.9m (1.5%). Also, the Lebanese Army's salaries totaled \$402.7m in the first five months of 2012 and represented 62.4% of military personnel salaries and benefits. It was followed by salaries of the Internal Security Forces with \$177.8m (27.5%), State Security Forces with \$33.2m (5.1%), and General Security Forces with \$31.2m (4.8%). The ministry attributed the rise to an 8.4% increase in allowances while basic salaries fell by 5% and indemnities decreased by 1.2%. It said basic salaries decreased by \$38.5m to \$738.3m due to a drop of \$75.6m in payments to military personnel, which was partly offset by an increase of \$26.5m in payments to civilian personnel and a \$10.6m rise in payments to educational personnel. It added that allowances increased by \$13.9m due to higher payments to the Army, the Internal Security Forces and the State Security Forces. 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.

Number of tourists down 15% in first nine months of 2012

The number of incoming tourists to Lebanon totaled 1,086,319 in the first nine months of 2012, constituting a decrease of 14.9% from 1,276,110 tourists in the same period last year and a decline of 36% from 1,694,622 tourists during the first nine months of 2010. Also, the number of incoming tourists reached 371,770 in the third quarter of 2012, constituting a drop of 7.2% from 400,695 tourists in the previous quarter and a contraction of 26% from 501,896 tourists in the same quarter last year. Arab tourists accounted for 33.7% of total visitors in the first nine months of the year, and were followed by visitors from Europe with 32.5%, the Americas with 16.5%, Asia with 9.2%, Africa with 4.2%, and Oceania with 3.8%. Also, tourists from France and Iraq accounted for 8.8% each of total visitors during the first nine months of 2012, followed by the United States with 8.3%, Jordan with 6.5%, Saudi Arabia with 5.8% and Canada with 5.6%.

The number of African tourists increased annually by 3.1% in the covered period, followed by tourists from the Americas with a 1.7% rise. In parallel, the number of tourists from Asia declined by 51.4% annually, Arab tourists dropped by 15%, those from Europe decreased by 5.8%, and tourists from Oceania regressed by 3.5%. Further, the number of tourists from Jordan declined by 29% annually, followed by Saudi Arabia with a 25.6% decrease; Germany (-7.9%); France (-3.9%); Canada (-3.7%); and Iraq (-0.3%). In parallel, incoming tourists totaled 1.66 million in 2011, down 23.7% year-on-year.

Number of Tourist Arrivals in Third Quarter of 2012*



*year-on-year percentage change

Source: Ministry of Tourism, Byblos Research

Treasury transfers to Electricité du Liban up 44% in first half of 2012

Figures released by the Finance Ministry show that Treasury transfers to Electricité du Liban totaled \$981.1m in the first half of 2012, constituting an increase of 43.5% from \$683.9m 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 \$951.5m, or 97% of transfers year-to-June; while EdL's debt servicing represented the remaining 3%. It attributed the increase to a rise of \$331.7m, or 54%, in payments to KPC and Sonatrach during the covered period, and to a rise in debt servicing by \$1.3m or 6% year-on-year. It added that the increase was partly offset by a \$36.5m decrease in natural gas purchases from Egyptian Natural Gas Holding Company. It noted 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 said that the rise in payments to KPC and Sonatrach reflects 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 36% higher than the corresponding average price in 2011. It added that EdL contributed just 2.2% of repayments to the two oil suppliers during the covered period compared to 7.8% in same period last year. EdL transfers accounted for 22.8% of primary expenditures in the first half of 2012, constituting the highest share of primary spending in the last three years, and compared to 18.8% in the same period of 2011. EdL transfers constitute the third largest expenditures item after debt servicing and salaries & wages in overall fiscal spending.

Subsidized interest loans at \$286m in first quarter of 2012

Figures released by the Central Bank show that the amount of subsidized interest loans to productive sectors in Lebanon reached \$285.6m in the first quarter of 2012. The industrial sector accounted for \$147m, or (51.5%) of the total, followed by tourism with \$119.8m (42%) and agriculture with \$18.7m (6.6%). Subsidized interest loans extended in 2011 totaled \$940.8m relative to \$758.3m in 2010 and \$516.6m in 2009. The cumulative amount of subsidized interest loans to productive sectors in Lebanon reached \$4.7bn between 1997 and March 2012.

Subsidized medium & long-term loans reached \$254.2m in the first quarter of 2012, equivalent to 89% of the total. Industry accounted for 51.3% of total subsidized medium & long-term loans, followed by tourism with 44.6% and agriculture with 4.1%. The program was established in the first quarter of 1997 and consists of a 5% to 7% subsidy on the interest for loans extended in foreign currencies to productive sectors. Also, subsidized interest loans guaranteed by the Kafalat Corporation totaled \$29.4m, or 10.3% of the total. Industry accounted for 49.7% of Kafalat-backed subsidies, followed by agriculture with 28% and tourism with 22.3%. Kafalat provides financial guarantees for loans of up to \$400,000 for small and medium-sized enterprises in productive sectors.

Further, subsidized interest loans granted by leasing companies totaled \$1.5m in the first quarter of 2012, or 0.5% of the total. In addition, subsidized interest loans granted by the International Finance Corporation totaled \$0.5m, or 0.2% of the total. The latter two subsidized interest loans were extended in total to the industry sector.

Overdrafts account for 32% of bank credits, share of trade & services at 34% of utilized credits at end-March 2012

Figures issued by the Central Bank about the distribution of bank credits by type show that overdrafts accounted for \$13.9bn, or 31.7% of total private sector credits at the end of March 2012. They were followed by advances against real estate with \$13bn (29.7%), advances against personal guarantees \$8.2bn (18.6%), advances against cash collateral or bank guarantees \$5.8bn (13.3%), advances against other real guarantees \$2.9bn (6.7%), and advances against financial values \$1.9bn (4.3%). In parallel, utilized credits by the private sector totaled \$45.8bn at end-March 2012, with the trade & services sector accounting for \$15.7bn, or 34.4% of such credits. It was followed by personal credits with \$11.6bn (25.3), construction with \$8.2bn (17.8%), industry with \$5.1bn (11.1%), financial intermediaries with \$3.4bn (7.5%) and agriculture with \$426m (0.9%), while other sectors accounted for the remaining \$1.4bn (3%). Also, wholesale trade represented 41.1% of trade & services credits, followed by real estate services with 20.9%, retail with 16.2%, transport & storage with 10.2%, hotels & restaurants with 8.3% and educational services with 3.3%.

Personal credits accounted for 76.4% of loan beneficiaries, followed by trade & services with 13.3% of beneficiaries, industry with 3.4%, construction with 1.6%, agriculture with 0.9%, financial intermediaries with 0.7%, while other sectors accounted for 3.7%. Further, the aggregate number of loan beneficiaries grew by 10.9% year-on-year to 406,642, while 80.7% of beneficiaries had loans ranging from LBP5m to LBP100m by end March-2012. Beirut and its suburbs accounted for 80% of bank credits and for 55.8% of beneficiaries. It was followed by Mount Lebanon with 9.1% of credits and 15.9% of beneficiaries; South Lebanon with 4.2% of credits and 8.7% of beneficiaries; North Lebanon with 3.8% of credits and 13.1% of beneficiaries; and the Bekaa with 2.9% of credits and 6.4% of beneficiaries.

Construction permits down 14% in first eight months of 2012

Figures released by the Association of Engineers of Beirut & Tripoli show that construction permits issued in the first eight months of 2012 reached 9.6 million square meters, constituting a decrease of 13.8% from 11.2 million square meters in the same period last year. Construction permits totaled 920 thousands square meters in August 2012, down 22.6% year-on-year from 1.2 million square meters in August 2011. In parallel, cement deliveries reached 3.4 million tons in the first eight months of 2012, down 7.9% from the same period last year. Cement deliveries reached 331,000 tons in August 2012, down 26.6% from 451,000 tons in August 2011.

Tobacco sector revenues to rise 30% in 2012

The state's tobacco monopoly, Régie Libanaise des Tabacs et Tombacs, expected the sector's revenues to rise by 30.1% year-on-year to \$627m in 2012 and anticipated significant investments in tobacco manufacturing this year. It attributed the increase in revenues to the taxation policies implemented by the Ministry of Finance. Also, the Régie stated that it is determined to raise its standards to those of international tobacco companies. It plans to establish a \$2.4m tobacco-rolling line and will launch in the coming weeks a tender for a new tobacco sorting factory to be located in Bikfaya. It added that Japan Tobacco International will contribute to part of the financing of the new projects. The Régie is in charge of importing and exporting all tobacco products to and from Lebanon, and is responsible for a long-established tobacco subsidy program for farmers.

Commercial activity retreats in first quarter of 2012

The Central Bank's quarterly business survey of opinions indicated that the volume of commercial sales decreased during the first quarter of 2012 with the balance of opinion standing at -12 compared to -5 during the preceding quarter and -27 during the same quarter of 2011. The balance of opinions was the worst in the Bekaa at -51, followed by the South (-41) the North (+8) and Beirut & Mount Lebanon (+1). The business survey reflects the opinions of enterprise managers about their business activity in order to depict the evolution of a number of key economic variables. The survey shows declines in the sale of food, non-food goods in the first quarter of the year. The balance of opinion for the sales volume of food items regressed to 15 in the first quarter of the year from 26 in the preceding quarter; while it declined to -22 for non-food products relative to -8 in the first quarter of 2011. The balance of opinions for the sales of inter-industrial goods was -20 in the first quarter but slightly improved from -32 in the preceding period. The balance of opinion for inventory levels in all commercial sub-sectors was 3 in the first quarter of 2012 compared to -2 in the fourth quarter of 2011 and -4 in the first quarter of last year. Opinion about the level of inventories was highest in the Bekaa where it reached 11, followed by Beirut & Mount Lebanon (+2), and the North and the South (-2 each). The balance of opinion is the difference between the proportion of surveyed managers who consider that there was an improvement in a particular indicator and the proportion of those who reported a decline in the same indicator.

Commercial Activity: year-on-year evolution of opinions				
Aggregate results	Q1-09	Q1-10	Q1-11	Q1-12
Sales volume	18	22	-27	-12
Number of employees	9	12	1	1
Inventories of finished goods	12	8	-4	3
Q1-12 Regional results	Beirut / Mount Lebanon	North	South	Bekaa
Sales volume	1	8	-41	-51
Inventories of finished goods	2	-2	-2	11

Source: Central Bank Business Survey in first quarter 2012

Car sales up 7% in first nine months of 2012

Figures released by the Association of Automobile Importers in Lebanon (AIA) indicate that a total of 26,142 new passenger cars were sold in the first nine months of 2012, constituting an increase of 7.4% from the 24,348 cars sold in the same period last year and a rise of 2.2% from the 25,569 cars sold in the first nine months of 2010. Korean cars accounted for 44.8% of total sales, followed by Japanese cars with a 27.3% share, European automobiles with 20.5%, American vehicles with 6.3%, and Chinese cars with 1.2%. Chinese cars posted the highest growth in sales with a 72.1% rise year-on-year, followed by Korean cars with a 14.6% rise, American cars with a 7.8% increase and European cars with a 3.5% rise. In parallel, the number of Japanese cars sold posted a drop of 1.7% year-on-year. Kia is the leading brand in the Lebanese market with 7,027 cars sold in the first nine months of 2012, followed by Hyundai with 4,685, Nissan with 4,333 cars sold, Toyota (1,342), Chevrolet (1,126), Renault (942), and Volkswagen (567). In parallel, a total of 1,690 new commercial vehicles were sold in the first nine months of 2012, up 8.6% from the 1,556 vehicles sold in the same period last year, but down 20.3% from the 2,121 vehicles sold in the first nine months of 2010.

The AIA indicated that more than 90% of cars sold are small automobiles that cost about \$11,000 each. It noted that the trend towards buying smaller cars is due to the high prices of gasoline, the lack of proper public transportation, and fierce competition among car dealers. It added that this translates into lower sales figures and, consequently, a decline in the dealers' income.

CreditBank increases stake in Armenian bank

CreditBank sal increased its stake in the Yerevan-based Anelik Bank from 69.5% to 89.95% by purchasing the entire stakes of 12.25% and 6% from two shareholders, and a partial stake of 2.2% from another investor. CreditBank currently owns 194,585 of Anelik Bank's total ordinary shares, while the remaining shares of 21,741 are owned by a single shareholder. The bank stated that it aims to increase the geographic expansion of its money transfer system to reach the Arab world. The bank has 12 branches in Armenia, as well as a money transfer subsidiary in Moscow. CreditBank bought a 51% stake in Anelik Bank for 9bn Armenian drams, or about \$24m, in 2009. It increased its stake in the bank to 69.5% in 2011.

Auto distributor raises funds through securitization deal

Vehicles distributor T. Gargour & Fils (TGF) raised \$5.9m through a revolving securitization transaction of a portfolio of auto loans. The transaction provides the firm with a revolving financing facility to accommodate its business growth. TGF said that the transaction aims to enhance the structure of its clients' portfolio, as well as to create an off-balance sheet financing platform to better manage its portfolio of credit sales. The structure involved the set-up of a securitization fund that purchased a portfolio of auto loans and trade receivables originated by TGF. The purchase was funded through the issuance of a six-month rolling asset-backed paper. Investors are paid a fixed coupon rate that is re-set every six months, while they are offered the option to either renew or exit the investment at each maturity date. The structure includes a subordinated tranche issued by the fund and held by the originator, and a cash reserve that provides for any liquidity shortfall. Also, the fund may buy additional auto loans subject to certain preset criteria and conditions precedent to purchase, in order to maintain the quality and composition of the portfolio. The deal represents the first time that TGF taps the securitization market. T. Gargour & Fils is the exclusive distributor in the Levant region of Mercedes-Benz, Smart, Chrysler, Dodge and Jeep brands. The deal was structured, arranged and led by BSEC, the securitization subsidiary of Banque BEMO sal.

CMA CGM signs agreement with French sovereign wealth fund

The Lebanese-owned and France-based container shipping group CMA CGM signed a Memorandum of Agreement with the French Fonds Stratégique d'Investissement (FSI), France's sovereign wealth fund. The MoU stipulates that FSI will subscribe to convertible bonds worth \$150m, which will give the fund a 6% stake in the firm upon conversion. The MoA aims to support CMA CGM's future development by strengthening the group's balance sheet and accelerating the preparation of an initial public offering in coming years. In parallel, CMA CGM announced that the Turkish Yildirim Group will subscribe to convertible bonds worth \$100m that will give it a 4% stake in CMA CGM upon conversion. The FSI was established in 2008 to enhance equity and to help stabilize French firms. The Caisse des Dépôts et Consignations has a 51% stake in the fund and the French government holds the balance of 49%. CMA CGM group is the third largest container shipping company in the world with a turnover of €15bn in 2011. It operates a fleet of 394 vessels and serves more than 400 ports around the world.

Ratings on Société Générale affirmed

Fitch Ratings affirmed Société Générale's (SocGen) long-term Issuer Default Rating (IDR) at 'A+' and maintained the short-term IDR at 'F1+'. It also affirmed the bank's Viability Rating (VR) at 'a-'. It said that SocGen's long-term IDR has a 'negative' outlook, reflecting the outlook on France's long-term IDR. The agency indicated that SocGen's ratings are sensitive to a decrease in France's ability and willingness to provide support to the bank in case of need. It noted that an upgrade of the bank's ratings is unlikely, given expectations of diminishing sovereign support for banks in Europe and globally. Further, it said that the bank's Viability Rating reflects its franchise in retail banking and corporate and investment banking, and its focus on strengthening its balance sheet in terms of both liquidity and capital. But it noted that the bank's VR take into account its volatile and currently low profitability, as well as its dependence on capital markets activity. It added that the VR is negatively affected by exposure through commercial bank subsidiaries in Central & Eastern Europe and in Russia, which are posting poor results. It said that further negative VR drivers include a high gross impaired loans ratio, low capitalization given the business mix, and a lower quality liquidity buffer compared to peers. Société Générale has a 19% stake in Société Générale de Banque au Liban sal.

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	Feb 2011	Jan 2012	Feb 2012	Change*	Risk Level
Political Risk Rating	56.5	55.5	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	62.2	62.2	▲	Moderate

Regional Average	Feb 2011	Jan 2012	Feb 2012	Change*	Risk Level
Political Risk Rating	62.6	60.5	60.4	▼	Moderate
Financial Risk Rating	42.2	42.3	42.2	↔	Very Low
Economic Risk Rating	38.0	37.1	37.3	▼	Low
Composite Risk Rating	71.4	69.9	70.0	▼	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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