



LEBANON THIS WEEK

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Hotel occupancy rate at 35% in November 2012

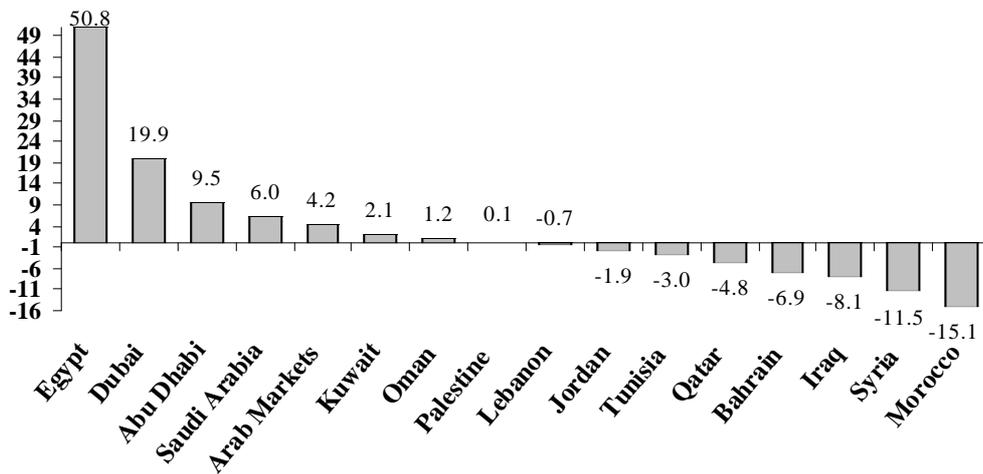
Bank of Beirut to issue preferred shares

BBAC's net profits rise 23% to \$34m in first nine months of 2012

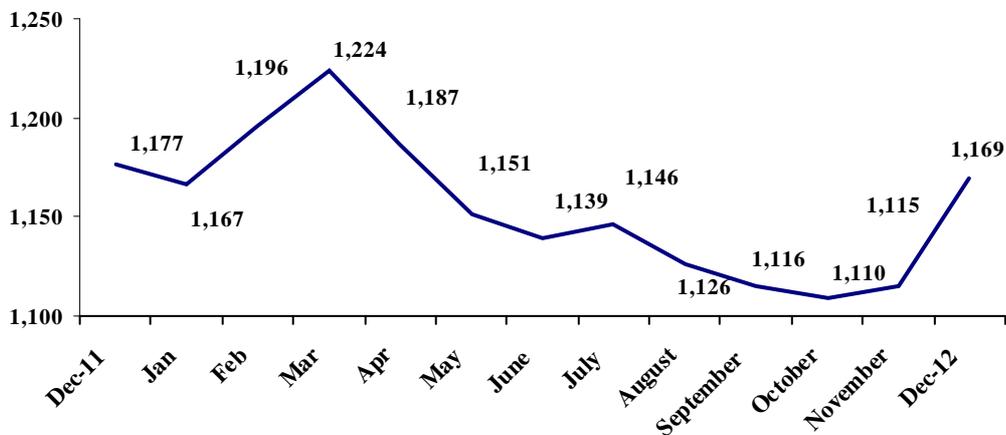
First National Bank's profits up 24% to \$13m in nine months of 2012

Charts of the Week

Performance of Arab Stock Markets in 2012 (% change)



Performance of the Beirut Stock Exchange



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

Quote to Note

"The establishment of the rule of law and improvement in the domestic security situation would support economic activity in 2013."

The Institute of International Finance, on the basic requirements for economic growth in Lebanon

Number of the Week

LBP 25m: Monthly basic salary of each member of the recently-appointed Petroleum Administration Board, even though the fiscal deficit widened by 48% and reached 22% of expenditures in the first 9 months of 2012

Economic Indicators

\$m (unless otherwise mentioned)	2010	Aug 11	2011	Jun 12	Jul 12	Aug 12	% Change*
Exports	4,256	373	4,276	345	317	339	(9.12)
Imports	17,956	1,719	20,170	1,713	1,739	1,782	3.66
Trade Balance	(13,700)	(1,346)	(15,894)	(1,368)	(1,422)	(1,443)	7.21
Balance of Payments	3,326	(2,143)	(1,996)	(23)	(322)	(497)	(76.81)
Checks Cleared in LBP	13,519	1,101	14,251	1,283	1,311	1,233	11.99
Checks Cleared in FC	53,925	5,017	57,852	4,766	5,150	4,657	(7.18)
Total Checks Cleared	67,444	6,118	72,103	6,049	6,461	5,890	(3.73)
Budget Deficit/Surplus	(2,894)	(178)	(2,342)	8.1	(36.01)	(320.35)	79.97
Primary Balance	1,231	75	1,662	281	158.69	(143.82)	(291.76)
Airport Passengers	5,512,435	574,924	5,596,034	545,379	640,615	624,525	8.63

\$bn (unless otherwise mentioned)	Dec 2010	Aug 11	May 12	Jun 12	Jul 12	Aug 12	% Change*
BdL FX Reserves	28.60	30.64	29.57	29.26	29.64	29.54	(3.59)
<i>In months of Imports</i>	<i>19.46</i>	<i>17.82</i>	<i>17.98</i>	<i>17.08</i>	<i>17.05</i>	<i>16.57</i>	<i>(6.99)</i>
Public Debt	52.59	53.40	55.12	55.25	55.44	55.69	4.29
Net Public Debt	45.01	45.71	47.17	47.10	47.28	47.82	4.61
Bank Assets	128.93	138.06	144.86	145.90	145.51	147.05	6.51
Bank Deposits (Private Sector)	107.20	112.95	118.90	119.94	119.75	121.16	7.27
Bank Loans to Private Sector	34.93	38.92	41.89	41.70	41.49	41.72	7.20
Money Supply M2	39.40	37.35	41.74	41.00	41.19	41.63	11.46
Money Supply M3	92.15	95.21	99.96	100.36	100.50	101.08	6.17
LBP Lending Rate (%)	7.91	7.53	7.34	7.44	7.24	7.27	(26b.p.)
LBP Deposit Rate (%)	5.68	5.53	5.49	5.45	5.45	5.51	(2b.p.)
USD Lending Rate (%)	6.74	7.16	7.12	7.15	7.19	7.26	10b.p.
USD Deposit Rate (%)	2.80	2.80	2.83	2.78	2.84	2.84	4b.p.
%* Change in CPI**	6.19	6.49	6.36	4.72	4.72	5.85	(64b.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"	12.84	(1.23)	47,216	12.29%
Solidere "B"	12.85	(0.62)	35,493	7.99%
Byblos Common	1.60	0.63	33,250	5.50%
Byblos Pref. 08	102.10	0.39	150	1.95%
Byblos Pref. 09	102.10	0.00	0	1.95%
BLOM GDR	8.00	0.63	9,000	5.66%
BLOM Listed	7.90	0.64	5,900	16.25%
Audi GDR	6.16	(2.07)	13,200	6.01%
Audi Listed	6.21	1.97	4,573	20.79%
HOLCIM	15.75	0.00	0	2.94%

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

Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
June 2013	8.625	103.69	1.25
Apr. 2014	7.375	107.31	1.74
Jan. 2015	5.875	104.50	3.60
Apr. 2015	10.00	114.25	3.62
Jan. 2016	8.500	112.00	4.30
Mar. 2017	9.000	116.50	4.67
Nov. 2018	5.150	100.50	5.05
Apr. 2021	8.250	115.70	5.84
Nov. 2026	6.600	101.50	6.44

Source: Byblos Bank Capital Markets

	Jan 2-4	Dec 24-28	% Change	Dec 2012	Dec 2011	% Change
Total Shares Traded	188,782	2,201,852	(91.43)	6,388,172	9,690,284	(34.08)
Total Value Traded	\$1,466,653	\$9,072,698	(83.83)	\$32,380,726	\$34,336,260	(5.70)
Market Capitalization	\$10.45bn	\$10.42bn	0.27	\$10.42bn	\$10.29bn	1.32

Source: Beirut Stock Exchange (BSE)



Illicit financial outflows from Lebanon at \$2.1bn annually, 30th highest worldwide

Global Financial Integrity, a Washington-based non-profit, research and advocacy organization, estimated the cumulative illicit financial flows (IFFs) from Lebanon at \$21bn between 2001 and 2010, which is equivalent to an average of \$2.1bn per year during the covered period. Global Financial Integrity defines IFFs as funds that are illegally earned, transferred, or utilized. It includes all unrecorded private financial outflows that drive the accumulation of foreign assets by residents in infringement of applicable laws and regulatory frameworks. It calculates IFFs as the sum of two components that are Gross Excluding Reversals (GER) and Hot Money Narrow (HMN). It noted that GER is a method of calculating gross illicit outflows, defined as the under-invoicing of exports and the over-invoicing of imports; while HMN derives illicit financial flows from leakages in the balance of payments.

The organization's estimates show that IFFs from Lebanon were the 30th highest among 143 countries globally on a cumulative and annual basis, the 12th highest among 43 upper-middle income countries (UMICs) and the ninth largest among 18 Arab countries. Globally, IFFs from Lebanon were higher than those from Kazakhstan, Trinidad & Tobago and Vietnam, and were lower than those from Aruba, Chile and Kuwait. Also, IFFs from Lebanon exceeded those from Kazakhstan, the Dominican Republic and Argentina; and were lower than those from Chile, Turkey and Brazil among UMICs. They were higher than those from Algeria, Morocco and Bahrain and lower than those from Sudan and Egypt among Arab countries. It noted that the annual average IFFs from Lebanon during the 2001-10 period were lower than the global annual average of \$4.1bn, the Arab yearly average of \$3.7bn and the UMICs' annual average of \$3.5bn during the covered period. Further, Lebanon accounted for 3.3% of cumulative IFFs from Arab countries, for 1.4% of IFFs from UMICs and for 0.4% of global cumulative IFFs during the 10-year period.

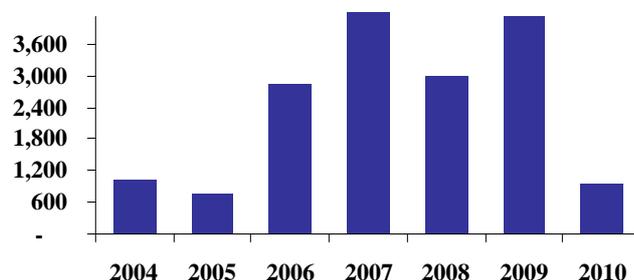
In parallel, it said that illicit outflows from Lebanon on an HMN basis, or those that were channeled through balance-of-payments leakages, totaled \$15bn between 2002 and 2010, and averaged \$1.7bn per year during the covered period. It noted that Lebanon's average and cumulative IFFs from balance-of-payments leakages were the 16th highest worldwide, and the sixth highest among UMICs and Arab countries. Globally, HMN outflows from Lebanon were higher than those from Algeria, Indonesia and Hungary, and less than those from Kazakhstan and Vietnam. Also, Lebanon posted more HMN outflows annually than Algeria, Bulgaria and Brazil, and less than those from Kazakhstan, Venezuela and Mexico among UMICs; while it had more HMN outflows than Algeria, Egypt and Libya among Arab countries. It noted that the annual average HMN outflows from Lebanon during the 2002-10 period were higher than the annual average HMN outflows of \$2.5bn from Arab countries, as well as higher than the global annual average outflows of \$859m and the UMICs' average outflows of \$806m during the covered period. Lebanon accounted for 4.4% of total HMN outflows from UMICs, for 3.5% of such outflows from Arab countries and for 1.3% of global HMN outflows during the covered period.

The organization added that illicit outflows from Lebanon on a GER basis, or those transferred through the deliberate misinvoicing of external trade, totaled \$6.1bn between 2001 and 2010 and averaged \$611m per year during the covered period. As such, GER outflows from Lebanon were the 49th highest worldwide, the 18th highest among UMICs and the ninth highest among Arab countries. Globally, GER outflows from Lebanon were higher than those from Côte d'Ivoire, Latvia and Uganda, but lower than those from Cameroon, El Salvador and Lithuania. Also, GER outflows from Lebanon were higher than those from Venezuela, Botswana and Bulgaria, and less than similar outflows from Lithuania, Bosnia & Herzegovina and Peru among UMICs. It noted that the average GER outflows from Lebanon during the 2001-10 period were lower than the global annual average of \$3.7bn, the UMICs' annual average of \$3.2bn and the Arab annual average of \$1.6bn. Further, Lebanon accounted for 2.1% of cumulative GER outflows from Arab countries, for 0.5% of such outflows from UMICs, and for 0.1% of global GER outflows during the covered period.

Economic activity contracts in October 2012

The Central Bank's Coincident Indicator, an index of economic activity in Lebanon, reached 255.6 points in October 2012 compared to 243.5 in September 2012 and to 259.5 in October 2011. The Coincident Indicator, an average of 8 weighted economic indicators, increased by 5% month-on-month and regressed by 1.5% year-on-year. The indicator averaged 256.8 in the 12 months ending October 2012 compared to 257.1 in the 12 months ending September 2012 and to 255.4 in the 12 months ending October 2011. As a result, the average coincident indicator regressed by 0.1% month-on-month and increased by 0.6% year-on-year, which reflects economic contraction in real terms. The indicator posted its fifth increase this year in October after it grew by 5.6% in February, 0.3% in March, 3.4% in April and 5.9% in September. It also regressed five times so far this year, including a 5.9% fall in January and four consecutive monthly declines with decreases of 3.1% in May, 1.6% in June, 5.1% in July and 7.2% in August. In parallel, the indicator improved 17 times, regressed two times and remained unchanged once in the month of October since 1993. 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.

Illicit Financial Outflows (US\$m)



Source: Global Financial Integrity

Standard & Poor's maintains assessment of Lebanese banking sector

Standard & Poor's maintained Lebanon's Banking Industry Country Assessment (BICRA) at Group '8', its economic risk score at '9' and industry risk score at '6', following the agency's affirmation last month of Lebanon's sovereign ratings at 'B'. The BICRA framework evaluates and compares global banking systems, and covers a country's rated and unrated financial institutions. It assigns scores to banking systems on a scale from one to 10, with 'Group 1' including the least risky banking sectors and 'Group 10' the riskiest ones. Other countries in BICRA 'Group 8' include Argentina, Kazakhstan, Latvia, Nigeria, Tunisia and Uruguay.

S&P indicated that Lebanon's economic risk score reflects the downgrade of its economic resilience to "extremely high risk" from "very high risk", maintaining its assessment of economic imbalances at "high risk" and the revision of its credit risk in the economy to "very high risk" from "extremely high risk". It said that changes in the factors that form Lebanon's economic risk score reflect a downward revision of the country's medium-term growth assumptions through 2015. It expected Lebanon's real GDP growth to recover only gradually from an estimated 1.5% in 2011 to 5% in 2014, relative to an 8.2% average growth during the 2007-10 period. It said that the growing instability in Syria and the uncertainty associated with Lebanon's extended political transition during the first half of 2011 are weighing negatively on investments and main business sectors such as tourism and financial services. It noted that Lebanon's growth is unlikely to reach over the medium term its pre-2011 growth rates, as they mainly resulted from a combination of several key factors that included political and macroeconomic stability and the global low interest rate environment, which drove capital inflows to Lebanon.

It also warned from potential imbalances originating from Lebanon's fast-paced lending growth in previous years, mainly as credit to the construction and housing sectors have consistently outpaced GDP growth. It considered that Lebanon's current account deficit constitutes a weakness for the banking system, where financing relies on continued investor confidence.

In parallel, the agency said that Lebanon's industry score indicates that the country faces "high risks" in its institutional framework and competitive dynamics, and "intermediate risks" in system-wide funding. It said that Lebanon has an adequate track record of regulation and supervision, which supports the banks' ability to attract steady flows of deposits and support the government's financing needs. It considered that the Central Bank and the Banking Control Commission are largely independent from Lebanon's government, and that the latter is not willing to risk a destabilization of the banking system. But it noted that transparency and governance issues among the smallest banks are a weakness, mainly as depositor confidence constitutes a key factor in preserving Lebanon's stock of deposits. Further, it pointed out that the sector's competitive landscape is crowded, but is largely concentrated around a dozen players. It considered that the domestic economic slowdown, along with regional unrest, may increase the cost of risk substantially in the next few years and temporarily stall banks' asset diversification away from sovereign risk.

Further, it considered that the banking sector's funding constitutes a factor of strength, as retail deposits are the main funding sources and have been resilient in past crises. It said that the sector's excess funds are largely channeled toward the government's debt that dominates both the domestic capital markets and banks' balance sheets. S&P classified the Lebanese authorities as "supportive" of the banking sector, but it noted that extraordinary support to banks in times of stress would be constrained by the government's limited financial flexibility.

Central Bank announces economic stimulus package

Central Bank Governor Riad Salamé announced a financial package aimed to stimulate lending and support domestic demand in 2013. He said the Central Bank will extend LBP2,000bn, or \$1.3bn, in loans to commercial banks at an interest rate of 1%. In turn, the banks will lend the money to their clients at an interest rate ceiling of up to 6%, contingent on the loan's amount and maturity. He noted that LBP1,300bn, or 65% of the aggregate stimulus, will target the housing sector; LBP300bn, or 15% of the funds, will be extended for research & development and alternative energy projects; while the remaining LBP400bn will be allocated to productive sectors. Governor Salamé indicated that the Central Bank will allocate the funds to banks on a first come first served basis, and has set an LBP800m, or \$530,680, limit to be lent to a single customer. He expected the proposed economic stimulus plan to generate growth of 2% to 3% in 2013 if the full amount is utilized. In parallel, Governor Salamé indicated that banks will be subject to a fine equivalent to 15% of the loan's total amount if they charge in excess of the set interest rate ceiling of 6%. The stimulus plan intends to support various productive sectors of the economy, the housing market, projects subsidized by the Kafalat corporation, renewable energy projects, and research & development ventures.

Discounts of up to 50% for 50 days to stimulate tourism

The Ministry of Tourism announced a new initiative that aims to revive the tourism sector in Lebanon following multiple negative shocks and months of economic stagnation that weighed on the industry. It said that the initiative involves discounts on airline tickets, hotels, car rentals, restaurants and at retail outlets for a period of 50 days starting on January 8th and ending on February 18, 2013. The ministry expected discounts during that period to reach up to 50%. Also, the ministry urged politicians to reduce the tone of their discourse during the 50-day period to ensure the success of the initiative.

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

Figures issued by Merrill Lynch indicate that Lebanon's external debt posted returns of 4.52% in the first 11 months of 2012, constituting the second lowest return among 32 markets in the Eastern Europe, the Middle East & Africa (EMEA) region as well as the sixth lowest return among the 57 emerging markets included in Merrill Lynch's Sovereign Plus Debt Index. Lebanon underperformed the EMEA region's returns of 19.61% as well as the overall emerging markets returns of 17.16%, during the covered period. Also, Lebanon's external debt underperformed the 20.29% returns posted by similarly-rated sovereigns.

Further, Lebanon's external debt posted the second lowest return among 17 countries in the Middle East & Africa region in the first 11 months of 2012, outperforming Zambia (-0.1%) only. It was outperformed by Jordan (7.9%), Tunisia (9%), Angola (9.18%), Morocco (11.81%), South Africa (11.95%), Ghana (12.11%), Gabon (12.83%), the Ivory Coast (13.93%), Namibia (13.94%), Bahrain (15.58%), Nigeria (18.54%), Iraq (21.74%), Turkey (23.2%), Senegal (28.05%) and Egypt (28.49%). In US dollar terms, Lebanon's external debt posted returns of 4.45% in the first 11 months of 2012, second lowest in the EMEA region and sixth lowest among emerging markets.

In parallel, Lebanon's external debt posted returns of 1.01% in November 2012, constituting the 15th highest return in the EMEA region and the 24th highest in emerging markets during the covered month. Lebanon underperformed the EMEA returns of 1.75% and the emerging markets returns of 1.42% as well as the 1.73% returns of similarly-rated sovereigns for the same month. Regionally, it outperformed Morocco (0.51%), Jordan (0.28%), Gabon (0.25%), Bahrain (0.08%), Angola (-0.15%), Ghana (-0.25%), Namibia (-0.47%), Zambia (-0.79%) and Senegal (-1.42%); and underperformed Egypt (1.24%), Iraq (1.57%), Nigeria (1.76%), Tunisia (2.19%), South Africa (2.44%), Turkey (3.95%) and the Ivory Coast (4.38%).

Merrill Lynch said the spread on Lebanese Eurobonds ended November 2012 at 424 basis points, constituting the 10th widest spread in the EMEA region and the 19th widest among emerging markets. It was wider than the EMEA spread of 275 basis points as well as the emerging markets overall spread of 283 basis points at end-November 2012. Lebanon has a weight of 3.53% in Merrill Lynch's Sovereign Plus Debt Index, fourth highest in the EMEA universe, and ninth highest among emerging markets. Lebanon accounted for 7.4% of the allocations in the EMEA region.

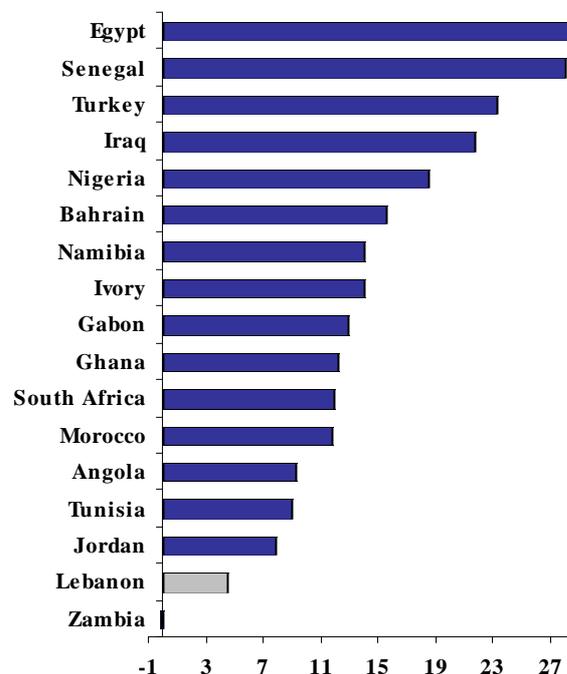
Date set for offshore oil and gas exploration tenders

The government indicated that it will launch the pre-qualification round for companies that are interested in participating in Lebanon's first tender for offshore oil and gas exploration on February 1, 2013. It added that it will publish the list of qualified firms on March 21st and start receiving their formal applications on May 2nd. The Cabinet had appointed the board of directors of the Petroleum Sector Authority for a six-year term in November 2012. The Energy Ministry claims that recent seismic surveys of half of Lebanon's Exclusive Economic Zone, excluding areas that are subject of territorial dispute between Lebanon and Israel, suggest the presence of up to 12 trillion cubic feet of gas. In parallel, the United States Geological Survey (USGS) estimates that the Levant Basin Province has a mean of 1.7 billion barrels of recoverable oil and a mean of 122 trillion cubic feet of recoverable gas. The Levant Basin Province encompasses approximately 83,000 square kilometers of the eastern Mediterranean area off the coasts of Lebanon, Syria, Cyprus and Israel. The USGS stressed that the estimates represent technically-recoverable oil and gas resources, and are not estimates of economically-recoverable resources.

Airport passengers up 5% in first 11 months of 2012

Figures released by the Hariri International Airport (HIA) show that the number of airport passengers (arrivals, departures, transit) totaled 5,464,654 in the first 11 months of 2012, constituting an increase of 4.9% from the same period last year. The total number of flights reached 58,125 in the first 11 months of 2012, down 0.8% year-on-year. Also, the HIA processed 76,936 metric tons of cargo in the first 11 months of 2012, of which 76,239 tons of freight and 697 tons of mail.

External Debt Performance in Middle East & Africa in First 11 Months of 2012 (%)



Source: Merrill Lynch, Byblos Research

Central Bank foreign assets up 11% to \$36bn in 2012

The Central Bank's interim balance sheet reached \$76.7bn at the end of 2012 compared to \$77.4bn at the end of September 2012 and \$70.3bn at the end of 2011. Assets in foreign currencies totaled \$35.7bn at the end of 2012, increasing by 10.9% from \$32.2bn at the end of 2011 and by 1.8% from \$35.1bn at end-September 2012. The growth of assets in foreign currencies accelerated year-on-year, as they grew by 5.3% in 2011. Assets in foreign currencies increased by \$56.6m in October, \$526.2m in November, \$62.5m in December, \$202.6m in August, \$2.29bn in June, \$615.5m in April, \$141.5m in March and by \$118.8m in February; while they declined by \$174.6m in September, \$144.7m in July, \$122.75m in May and by \$72.6m in January 2012. This resulted in an aggregate increase of nearly \$3.5bn in 2012, with increases of \$187.6m in the first quarter, \$2.79bn in the second quarter and \$645.3m in the fourth quarter of 2012, and a decline of \$116.6m in the third quarter of the year. The rise of foreign assets in June was due to the issuance by the Finance Ministry on June 12, 2012 of three new Eurobonds totaling \$2bn that were used for early redemption and cancellation of Lebanese pound-denominated Treasury bills held by the Central Bank.

The value of the Central Bank's gold reserves increased by 6.3% year-on-year but dropped by 6.8% in the fourth quarter to \$15.3bn, compared to the peak of \$16.7bn reached at end-August 2011. Its securities portfolio dropped by 6.7% year-on-year and by 5.6% in the last quarter of the year to \$10.8bn. Further, deposits of the financial sector rose by \$5.4bn, or 11%, annually to \$54.4bn and included a rise of 1.6% or \$857m in the fourth quarter; while deposits of the public sector increased by 11.6% to \$5.91bn and included a marginal decrease of 0.3% or \$16m in the fourth quarter. Assets in foreign currencies increased by \$1.6bn in 2011, \$2.3bn in 2010, \$8.3bn in 2009, and \$7.3bn in 2008.

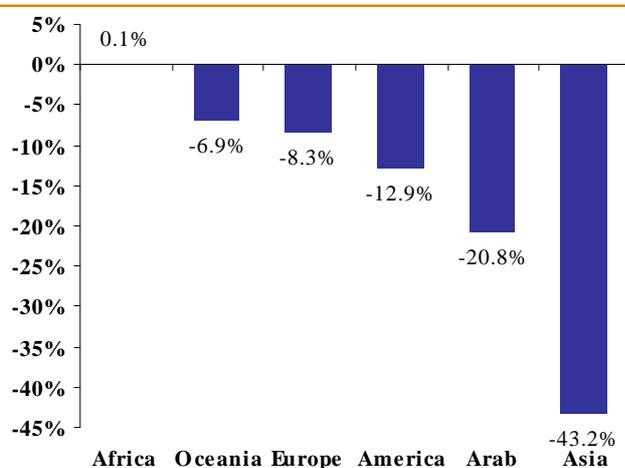
Trade deficit up 5% to \$15.3bn in first 11 months of 2012

Total imports reached \$19.4bn in first 11 months of 2012, constituting an increase of 4.9% from the same period of the previous year; while aggregate exports rose by 4.4% to \$4.1bn, leading to a trade deficit of \$15.3bn, up 5.1% year-on-year. The deficit was the highest in five years in both value and volume terms, and was caused by a rise of \$915m in imports and an increase of just \$174.1m in exports year-on-year. In volume terms, imports reached 14.2 million tons in the first 11 months of 2012, constituting an increase of 1.6% from the same period in 2011; while exports posted a 5.4% drop to 2.38 million tons in the covered period, leading to a trade deficit of 11.82 million tons, up 3.1% year-on-year. The trade deficit was \$1.2bn in November 2012, up 0.6% from the same month of the previous year. Imports and exports averaged \$1.8bn and \$373m, respectively, on a monthly basis year-to-November 2012, resulting in an average monthly trade deficit of \$1.4bn during the covered period. The coverage ratio reached 21.1% in the first 11 months of 2012 compared to 21.2% in the same period in 2011, while it reached 22.7% in November 2012 relative to 21.9% in November of the previous year. The United States was the main source of imports with \$2.3bn or 12% of the total in the first 11 months of 2012, followed by Italy and China with \$1.6bn (8% each), France with \$1.4bn (7%), and Germany with \$1.1bn (6%). Imports from the U.S. surged by 20.6% year-on-year, those from China increased by 8.4%, those from Germany rose by 6% and those from France grew by 2.7%; while imports from Italy dropped by 4.1%. South Africa was the main export destination with \$856m or 21% of the total, followed by Switzerland with \$467m (11%), the UAE with \$329m and Saudi Arabia with \$328m (8% each), Syria with \$251m (6%), Iraq with \$190m (5%) and Turkey with \$149m (4%). Exports to South Africa rose by 35.1%, those to Syria grew by 32.8%, those to Saudi Arabia increased by 16.9% and those to the UAE rose by 11.7%; while exports to Turkey dropped by 42.2%, those to Iraq regressed by 2.7% and those to Switzerland declined by 0.4%.

Number of tourists down 18% in first 11 months of 2012

The number of incoming tourists to Lebanon totaled 1,255,091 in the first 11 months of 2012, constituting a decrease of 17.7% from 1,525,038 tourists in the same period of the previous year and a decline of 37.7% from 2,015,755 tourists during the first 11 months of 2010. Arab tourists accounted for 33.6% of total visitors in the first 11 months of the year, and were followed by visitors from Europe with 32.6%, the Americas with 16.2%, Asia with 9.2%, Africa with 4.4%, and Oceania with 3.8%. Also, tourists from Iraq accounted for 9.2% of visitors during the first 11 months of 2012, followed by France with 8.8%, the United States with 8.1%, Jordan with 6.5%, and Saudi Arabia and Canada with 5.5%, each. The number of African tourists was unchanged in the covered period; while the number of tourists from Asia declined by 43.2% annually, Arab tourists dropped by 20.8%, those from the Americas dropped by 13%, visitors from Europe fell by 8.3% and tourists from Oceania decreased by 7%. Further, the number of tourists from the UAE declined by 39.5% annually, followed by Saudi Arabia with a 33.8% decrease, Kuwait (-33.7%), Jordan (-32%) and Turkey (-20%). In parallel, the number of tourists from Venezuela rose by 25% annually, followed by visitors from Egypt and the US with increases of 4.8% and 0.1%, respectively. Incoming tourists totaled 1.66 million in 2011, down 23.7% year-on-year.

Number of Tourist Arrivals in First 11 Months of 2012*



*year-on-year percentage change

Source: Ministry of Tourism, Byblos Research

Fiscal deficit up 48% to \$2.1bn in first nine months of 2012 when assuming \$1.1bn in telecom revenues

Figures released by the Finance Ministry show that the fiscal deficit reached \$2.1bn in the first nine months of 2012, up 47.6% from \$1.4bn in the same period last year. The deficit was equivalent to 22.3% of total budget and Treasury expenditures compared to 16.7% of overall spending in the same period last year. Overall government expenditures reached \$9.3bn, up 10.8% year-on-year, while total revenues increased by 3.4% to \$7.2bn. Budgetary expenditures regressed by 4.8% to \$7.5bn and included \$1.7bn in transfers to Electricité du Liban and \$353.1m in outlays from previous years, while budget revenues rose by 4% to \$6.9bn. Tax revenues rose by 5.6% year-on-year to \$5.2bn, of which 31.3%, or \$1.6bn, were in VAT receipts that grew by 2.2% from the same period of 2011.

Tax revenues accounted for 76.5% of budgetary revenues and for 73% of total Treasury and budget receipts. The Finance Ministry is basing its monthly fiscal results on the Telecommunications Ministry's estimate of telecom receipts which reached \$1.1bn in the first nine months of the year, rather than on the Treasury actually receiving the funds from the Telecom Ministry. On a cash basis for the two compared periods, public revenues increased by 4.3% year-on-year; while the fiscal deficit rose by 26.1% to \$3.1bn, equivalent to 33.8% of expenditures. In addition, the ministry decided to include telecom revenues in the fiscal results for the first nine months of 2011, even though it has excluded them in the comparative results of each of the first five months of the year.

The distribution of other tax revenues shows that receipts from taxes on income, profits & capital gains tax increased by 5.4% to \$1.4bn; customs revenues grew by 2.8% year-on-year to \$1.1bn; revenues from property taxes expanded by 8.8% to \$581m; other tax receipts, mainly stamp fees, grew by 6.4% to \$236m, and revenues from taxes on goods & services rose by 46% to \$242.4m. Further, the distribution of income tax revenues shows that the tax on profits accounted for 45.2% of total income tax receipts, followed by the tax on interest deposits with 22.6%, taxes on wages & salaries with 18%, and the capital gains tax with 12.5%. Income from capital gains tax grew by 26.8%, revenues from taxes on wages & salaries improved by 16%, and tax receipts on profits increased by 0.1%, while income from the tax on interest regressed by 1.7%.

Also, the distribution of property taxes shows that revenues from real estate registration fees increased by 4% to \$408.7m, receipts from built property taxes grew by 32.1% to \$95.5m, and revenues from inheritance tax rose by 11.9% to \$76.8m. In parallel, non-tax budgetary revenues regressed by 0.7% to \$1.6bn, with revenues from government properties dropping by 3.1% to \$1.3bn and administrative fees & charges growing by 10% to \$278m. Based on the ministry's assumption, receipts from telecommunications services accounted for 84.3% of income from government properties and for 66% of non-tax revenues.

Debt servicing decreased by 7.7% year-on-year to \$2.6bn during the covered period. It accounted for 27.7% of total expenditures and for 34.4% of budgetary spending, and absorbed 35.7% of overall revenues and 37.4% of budgetary receipts. Interest payment on domestic debt declined by 5.8% to \$1.6bn, while interest disbursement on foreign debt regressed by 10.9% to \$926.9m. Repayment of principal on foreign debt fell by 13.3% to \$142.5m. Excluding debt servicing, the primary budget balance posted a surplus of \$2.1bn, or 44.5% of budget expenditures compared to a surplus of \$1.7bn, or 35% of budget spending in the same period last year.

Fiscal Results in First Nine Months of 2012		
	Including Assumed Telecom Receipts	Excluding Assumed Telecom Receipts*
	US\$m	US\$m
Budget revenues	6,859	5,793
Tax revenues	5,244	5,244
Non-tax revenues	1,615	549
<i>of which Telecom revenues</i>	<i>1,066</i>	<i>-</i>
Budget expenditures	7,454	7,454
Budget Deficit	(595)	(1,661)
<i>In % of budget expenditures</i>	<i>(8%)</i>	<i>(22.3%)</i>
Budget Primary Surplus	2,113	1,047
<i>In % of budget expenditures</i>	<i>28.4%</i>	<i>14%</i>
Treasury receipts	328	328
Treasury expenditures	1,792	1,792
Total Revenues	7,187	6,121
Total Expenditures	9,246	9,246
Total Deficit	(2,059)	(3,125)
<i>In % of total expenditures</i>	<i>(22.3%)</i>	<i>(33.8%)</i>
Total Primary Surplus	649	(417)
<i>In % of total expenditures</i>	<i>7%</i>	<i>(4.5%)</i>

* Cash basis

Source: Ministry of Finance, Byblos Research



Public sector wages and salaries to rise to 54% of public expenditures and 15% of GDP with the implementation of salary scale adjustment

A study conducted by the Economic Associations shows that public sector wages and salaries in Lebanon represent 36.1% of total public expenditures compared to an average of 20% in Europe. Also, public sector wages and salaries in Lebanon are equivalent to 10.3% of GDP, which is a similar figure to the European average. It pointed out that public-sector employees represent 18.1% of the total workforce in Lebanon, while they range between 12% and 13% in most economies of the European Union. The study estimated that if the across-the-board adjustment to the salary scale of public-sector employees is implemented as proposed, the public sector wages and salaries in Lebanon would account for 54.2% of total public expenditures and would rise to the equivalent of 15.5% of GDP. Further, the study indicated that the labor force in Lebanon represents 45% of the working-age population, compared to the EU average of 65% of the of the working-age population. As such, the share of the public sector's staff relative to the working age population in Lebanon is much higher than that in EU economies. It recommended an increase in the productivity of the public sector through the reduction in the number of public-sector employees by 33%, which would help raise the competitiveness of the Lebanese economy.

Consumer Price Index up 10% annually in November 2012

The Central Administration of Statistics' Consumer Price Index indicates that inflation increased by 10.3% in November 2012 from November 2011. Prices of housing increased by 44.1%, followed by education (+14.5%), alcoholic beverages & tobacco (+8.7%), recreation & entertainment (+7.1%), water, electricity, gas & other fuels (+6.5%), food & non-alcoholic beverages (+5.3%), clothing & footwear (+4.5%), restaurants & hotels (+4.1%), miscellaneous goods & services (+3.6%), transportation (1.5%), furnishings & household equipment (1.2%), while communication prices remained unchanged year-on-year. Further, health care costs decreased by 0.2% annually in November. The increase in annual inflation is mainly attributed to a 44% one-off upward adjustment in the cost of housing, which remained unchanged in the CPI for the past three years. The CAS included the correction in housing prices in July 2012.

The Consumer Price Index contracted by 0.3% in November 2012 from October 2012. Prices of alcoholic beverages & tobacco increased by 0.5%, followed by clothing & footwear (+0.4%), food & non-alcoholic beverages and miscellaneous goods & services (+0.2% each); while prices of transportation decreased by 3.2% month-on-month and those of water, electricity, gas & other fuels by 0.3%. Further, the cost of housing, communication, furnishings & household equipment, healthcare, recreation & entertainment, education and restaurants & hotels remained unchanged month-on-month. The Consumer Price Index grew by 11.1% year-on-year in October 2012, 10.3% in September 2012, by 9.3% annually in August 2012 and by 8.9% year-on-year in July 2012.

Construction permits down 13% in first 10 months of 2012

Figures released by the Association of Engineers of Beirut & Tripoli show that construction permits issued in the first 10 months of 2012 reached 11.9 million square meters, constituting a decrease of 13% from 13.6 million square meters in the same period last year. Construction permits totaled 1.1 million square meters in October 2012, down 10% year-on-year from 1.3 million square meters in October 2011. In parallel, cement deliveries reached 4.5 million tons in the first 10 months of 2012, down 6.5% from the same period last year. Cement deliveries reached 551,000 tons in October 2012, down 11% from 619,000 tons in October 2011.

Value of cleared checks down 2%, returned checks up 6% in first 10 months of 2012

The value of cleared checks reached \$57.8bn in the first 10 months of 2012, constituting a decrease of 2% from the same period last year and a rise of 2% from the first 10 months of 2010. The value of cleared checks in Lebanese pounds rose by 4.3% annually to the equivalent of \$12.4bn in the first 10 months of 2012, while the value of cleared checks in US dollars decreased by 3.2% to \$46.7bn. The dollarization rate of cleared checks decreased to 80.8% from 81.8% in the same period last year. Also, the value of returned checks in domestic and foreign currency amounted to \$1.3bn in the first 10 months of 2012, increasing by 5.6% from the same period of 2011 and by 7% from the first 10 months of 2010. In parallel, the number of cleared checks totaled 10.8 million checks in the first 10 months of 2012, unchanged from the same period of 2011. Also, the number of returned checks totaled 234,000 checks and rose by 7.3% in the covered period.

IDAL processes 13 projects in 2012

The Investment Development Authority of Lebanon (IDAL) indicated that it has processed 13 projects in Lebanon in 2012, constituting an increase of 30% from 2011. It said that the Council of Ministers approved five projects from the processed ones. It also noted that it has received 60 inquiries for potential investment projects in 2012, which constitutes the highest number of inquiries in one year. According to IDAL, the 13 projects have an aggregate value of \$480m in and are estimated to generate 1,500 jobs. IDAL said that tourism accounted for 46% of the number of new projects, followed by industry with 38%, and agriculture and technology with 8% each. Also, it noted that Mount Lebanon and Beirut attracted 46% of projects, each, followed by Bekaa with 8% of projects during the covered period. Further, it claimed that tourism projects would generate 1,131 direct and 2,360 indirect jobs; industrial projects would contribute to the creation of 297 and 861 direct and indirect jobs, respectively; projects in agriculture would lead to 50 direct and 47 indirect work opportunities; and technology projects would help create 30 and 60 direct and indirect jobs, respectively.



Stock market activity down 20% to \$414m in 2012

Figures released by the Beirut Stock Exchange indicate that total trading volume reached 56 million shares in 2012, constituting a decrease of 28% from the same period last year; while aggregate turnover amounted to \$414.3m, down 19.6% from a turnover of \$515.3m in 2011. Market capitalization increased by 1.3% from end-2011 to \$10.4bn, of which 75.6% was in banking stocks, 20.5% in real estate stocks, 3.2% in industrial stocks, and 0.3% in each of fund stocks and trading stocks. The market liquidity ratio was 4%, down from 4.1% in 2011. Bank stocks accounted for 74.1% of aggregate trading volume in 2012, followed by real estate stocks with 18%, trading stocks with 7.6%, and industrial stocks with 0.2%. In terms of value of shares traded, banking stocks accounted for 64.9% of aggregate value, followed by real estate stocks with 32.2%, trading stocks with 2.4% and industrial stocks with 0.3%. The average daily traded volume in 2012 was 226,502 shares for an average daily value of \$1.7m. The figures reflect decreases of 29.3% in volume and 21.2% in value year-on-year.

Downtown Beirut has 393 real estate projects totaling three million square meters

Solidere sal, the Lebanese Company for the Development and Reconstruction of the Beirut Central District, indicated that a total of 393 development projects representing about 3.1 million square meters of built-up area were at various stages of development in the Beirut Central District. It said that 271 projects have been completed, 47 are under construction, 25 are awaiting permits, 24 are under study, 13 awaiting submission, seven are inactive and six are under restoration. Also, projects completed represented 1.4 million square meters of built-up area and accounted for 44.6% of the total. It was followed by projects under construction with a total of 527,561 sqm (17.2%), projects awaiting submission at 395,834 sqm (12.9%), projects awaiting permits reached 387,417 sqm (12.6%), projects under study covered 355,175 sqm (11.6%), while inactive projects represented 16,632 sqm (0.5%) and projects being restored consisted of 12,543 sqm (0.4%).

Solidere announced consolidated net profits of \$162.6m in 2011, constituting a decline of 17.3% from \$196.5m in 2010. Revenues from land and real estate sales declined by 28.3% to \$241.7m in 2011, while revenues from rental properties increased by 20.9% year-on-year to \$49.9m. Further, income from services decreased 42.6% annually to \$4.8m in 2011. Also, the firm recorded total net operating revenues of \$230.6m, down 15.3% year-on-year. Solidere stated that its consolidated assets totaled \$2.7bn and increased by 6.3% from end-2010, as inventory of land and projects in progress totaled \$1.13bn at end-2011, slightly up from \$1.1bn a year earlier. Bank overdrafts and short term facilities reached \$504.8m compared to \$470.3m at the end of 2010. Solidere's earnings per share declined to \$0.98 in 2011 compared to \$1.19 in the previous year.

Construction of power plant in Deir Ammar suspended

The Ministry of Energy and Water suspended the construction of a power plant in Deir Ammar, as the Spanish-Lebanese consortium Abener-BUTEK that initially won the bid accepted to reduce its price by \$97m rather than by the \$160m requested by the ministry. The ministry claims that the \$160m reduction would have matched the \$502m allocated by the government for the project. It said that it asked the consortium to introduce changes in order to lower costs, such as the elimination of unnecessary structures around the plant, the reduction of production capacity, and the redesign of the plant. The ministry indicated that it will launch another tender within two months and allow the four short-listed companies to make their bids. In parallel, BUTEK intends to file a lawsuit against the Energy Ministry for the violation of an earlier agreement to allow Abener to build the power plant. But the ministry stated that BUTEK is not legally entitled to seek international arbitration in this case, as it did not sign any contract with the Lebanese government.

Movenpick hotel changes ownership

Lebanese investment firm Ashour Holding reportedly acquired the shares of Saudi Prince al-Waleed bin-Talal in the Movenpick Hotel & Resort-Beirut for \$134m. Inaugurated in July 2002 in the Raouché area of Beirut, the Movenpick is a self-contained multi purpose 5-star luxury hotel facility and beach resort with 293 rooms, 72 chalets, 1,010 cabins, 6 restaurants, convention and banqueting halls, retail space for 35 shops, and a health spa. It also has 4 swimming pools and a marina that can host and service 140 boats. The \$143m project was financed through \$97m in equity and \$46m in debt. Prince al-Waleed bin Talal, who has a 30% stake in Movenpick Hotels & Resorts worldwide, owns 100% of the Movenpick in Beirut. Ashour Holding has interests in construction, leisure, entertainment, education, consumption, and business services.

Mortar producer Sodamco Holding acquired by French partner

French-based Saint-Gobain Weber, a worldwide leader in industrial mortars, announced that it has fully acquired the Lebanese-owned mortar producer Sodamco Holding and its subsidiaries for an undisclosed amount. The company said the acquisition falls within its strategy of expanding in developing countries. Saint-Gobain Weber entered into a joint-venture agreement with the Sodamco group in 2009. Sodamco-Weber's manufacturing facilities have a current production capacity exceeding 420,000 tons of mortars and 120 million liters of admixtures that are located in eight different manufacturing, blending and distribution locations in the Near East and the Gulf region. Sodamco Holding was established in Lebanon in 1985.

Hotel occupancy rate at 35% in November 2012

Figures released by STR Global show that the occupancy rate at Beirut hotels reached 35.1% in November 2012, the average daily rate (ADR) stood at \$154.18 and the revenue per available room (RevPAR) amounted to \$54.13. STR said the RevPAR at Beirut hotels regressed by 64.4% annually, the occupancy rates dropped by 47.2% year-on-year, and the ADR fell by 32.6% from the same month last year. It noted that Lebanon posted the steepest year-on-year contraction on all three indicators in the Middle East. It added that Beirut posted the lowest monthly hotel occupancy rate since May 2008 due to the ongoing conflict in Syria, the deterioration of domestic security conditions and the issuance of travel warnings to Lebanon.

The occupancy rate at hotels in the Middle East was 67.6% during the covered month relative to 69.4% in October 2011, the ADR was \$228.66 down 7.3% from \$246.69 in November 2011 and the RevPAR was \$154.67 down 9.6% from \$171.15 in the same month last year. Also, the occupancy rate at hotels in North Africa was 60.2% in November 2012 relative to 54.3% in the same month last year, the ADR was \$86.03, down 5.4% from \$90.95 in the same month last year and the RevPAR was \$51.83, up 5% from \$49.35 in November 2011.

Bank of Beirut to issue preferred shares

Bank of Beirut sal, one of Lebanon's listed banks, announced that it is increasing its capital by issuing 5 million preferred shares for a total issuance of \$125m. The preferred shares Series I are non-cumulative, perpetual, redeemable, and subject to a call option by the bank within five years from the issuance date. The issue price is \$25 per share of which LBP1,260 (\$0.84) is par value and the remaining \$24.16 constitute the issue premium. The shares will be listed on the Beirut Stock Exchange. Holders of the preferred shares will receive an annual dividend of 6.75%, or \$1.69 per share, subject to a 5% withholding tax. The bank currently has 2.4 million Preferred Series E shares, 3 million Preferred Series F shares, 3.57 million Preferred Series G shares and 5.4 million preferred Series H shares outstanding. Bank of Beirut posted net profits of \$79m in the first nine months of 2012 and had total assets of \$10.2bn at end-September 2012.

BBAC's net profits rise 23% to \$34m in first nine months of 2012

Bank of Beirut and the Arab Countries (BBAC) sal, one of Lebanon's top 10 banks, announced unaudited consolidated net profits of \$34.1m in the first nine months of 2012, up 22.7% from the same period of the previous year. Net operating income rose by 15% year-on-year to \$86.9m, with net interest income increasing by 26% to \$61.6m and net fees & commissions receipts rising by 5.5% to \$12.6m. Non-interest income accounted for 26.8% of total income, down from 29.5% in the first nine months of 2011, with net fees & commissions representing 56% of non-interest earnings. Further, the bank's interest margin was 1.88% in the first nine months of 2012 relative to 1.6% in the same period of the previous year; while its net spread increased to 1.81% from 1.54% in the first nine months of 2011. Total operating expenditures increased by 11% to \$47.1m, with staff expenses growing by 14.9% to \$24.8m. Also, the bank's return on average assets reached 1% in September 2012 on an annualized basis, relative to 0.88% a year earlier; while its return on average equity was 12.92% relative to 11.83% in September 2011. The cost-to-income ratio regressed to 56% in the first nine months relative to 61.1% in the same period of 2011. In parallel, total assets reached \$4.7bn at end-September 2012, constituting an 8.8% rise from end-2011 and from a year earlier; while loans & advances to customers increased by 9.5% from end-2011 and by 14.1% year-on-year to \$1.2bn. Also, customer deposits totaled \$4.1bn at end-September, growing by 9.7% from end-2011 and by 11.3% from a year earlier. The loans-to-deposits ratio increased to 28.3% at end-September 2012 from 27.5% a year earlier.

First National Bank's profits up 24% to \$13m in nine months of 2012

First National Bank sal, one of Lebanon's top 12 banks, announced unaudited consolidated net profits of \$13.3m in the first nine months of 2012, up 23.7% from the same period of the previous year. Net operating income grew by 15.2% year-on-year to \$47m, with net interest income increasing by 22% to \$41.1m and net fees & commissions receipts increasing marginally by 0.8% to \$3.9m year-on-year. Non-interest income accounted for 19.2% of total income, up from 18% in the first nine months of 2011; with net fees & commissions accounting for 39.7% of non-interest earnings. Further, the bank's interest margin was 1.87% in the first nine months of 2012 relative to 1.79% in the same period of 2011; while its net spread rose to 1.82% from 1.75% in the same period of the previous year. Total operating expenditures increased by 14.4% to \$31.3m, with staff expenses increasing by 8.8% to \$16.6m. Also, the bank's return on average assets reached 0.58% in September 2012 on an annualized basis, relative to 0.54% a year earlier; while its return on average equity was 9.19% on an annualized basis relative to 7.73% in September 2011. The cost-to-income ratio decreased to 60.8% in the first nine months relative to 64.7% in the same period of 2011. In parallel, total assets reached \$3.3bn at end-September 2012, constituting a 15.9% rise from end-2011 and an 18.6% increase from a year earlier, while loans & advances to customers grew by 8.6% from end-2011 and by 13.6% year-on-year to \$822.2m. Also, customer deposits totaled \$2.5bn at end-September 2012, constituting an increase of 10.7% from end-2011 and a rise of 13.9% from the same period last year. The loans-to-deposits ratio regressed to 33.1% at end-September 2012 from 33.4% a year earlier.

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	Apr 2011	Mar 2012	Apr 2012	Change*	Risk Level
Political Risk Rating	55.5	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	58.2	62.2	62.2	▲	Moderate

Regional Average	Apr 2011	Mar 2012	Apr 2012	Change*	Risk Level
Political Risk Rating	60.5	60.5	60.3	▼	Moderate
Financial Risk Rating	41.8	42.1	42.1	▲	Very Low
Economic Risk Rating	37.5	37.3	37.2	▼	Low
Composite Risk Rating	69.9	69.9	69.8	▼	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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