

THE LEBANON BRIEF

ISSUE 790

Week of 24 – 29 September, 2012



ECONOMIC RESEARCH DEPARTMENT
Rashid Karamé Street, Verdun Area
P.O.Box 11-1540 Beirut, Lebanon
T (01) 991784/7 F (+961) 1 991732
research@blominvestbank.com
www.blom.com.lb

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FINANCIAL MARKETS

Equity Market Stock Market

	28/09/12	21/09/12	% Change
BLOM Stock Index*	1115.56	1121.81	-0.56%
Average Traded Volume	207,298	82,102	152.49%
Average Traded Value	1,358,281	531,932	155.35%

*22 January 1996 = 1000



Banking Sector

	Mkt	28/09/12	21/09/12	% Change
BLOM (GDR)	BSE	\$7.80	\$7.70	1.30%
BLOM Listed	BSE	\$7.40	\$7.40	0.00%
BLOM (GDR)	LSE	\$7.95	\$7.75	2.58%
Audi (GDR)	BSE	\$5.52	\$5.73	-3.66%
Audi Listed	BSE	\$5.50	\$5.55	-0.90%
Audi (GDR)	LSE	\$5.90	\$5.54	6.50%
Byblos (C)	BSE	\$1.50	\$1.49	0.67%
Byblos (GDR)	LSE	\$79.00	\$79.00	0.00%
Bank of Beirut (C)	BSE	\$19.00	\$19.00	0.00%
BLC (C)	BSE	\$1.90	\$1.90	0.00%
Fransabank (B)	OTC	\$28.00	\$28.00	0.00%
BEMO (C)	BSE	\$1.99	\$1.99	0.00%

	Mkt	28/09/12	21/09/12	% Change
Banks' Preferred Shares Index *		\$105.32	\$105.66	-0.32%
BEMO Preferred 2006	BSE	\$100.00	\$100.00	0.00%
Audi Pref. D	BSE	\$10.00	\$10.00	0.00%
Audi Pref. E	BSE	\$100.00	\$100.00	0.00%
Audi Pref. F	BSE	\$100.00	\$100.00	0.00%
Byblos Preferred 08	BSE	\$102.30	\$102.30	0.00%
Byblos Preferred 09	BSE	\$103.10	\$103.10	0.00%
Bank of Beirut Pref. D	BSE	\$26.00	\$26.00	0.00%
Bank of Beirut Pref. E	BSE	\$25.80	\$25.80	0.00%
BLOM Preferred 2011	BSE	\$10.17	\$10.17	0.00%
Bank of Beirut Pref. H	BSE	\$25.70	\$26.10	-1.53%

* 25 August 2006 = 100

The BLOM Stock Index (BSI), Lebanon's leading index, retreated by 0.56% this week to reach 1,115.56 points, resulting in a 5.20% loss since year start. Market capitalization shrunk by \$49M to \$8.82B while the average daily traded volume was 207,298 shares worth \$1,358,281 higher than last week's 82,102 shares valued at \$531,932.

The Lebanese benchmark failed to beat the Morgan Stanley (MCSI) Emerging Index which added a slight 0.01% reaching 998.36 points. It also lagged behind the S&P AFE40 Index which declined by 0.31% to 54.22 points, however, it beat the S&P Pan Arab Composite LargeMidCap index that dropped 1.01% settling at 110.54 points. Saudi Arabia and Dubai's stock exchanges were the worst performers having lost 2.53% and 2.21% over the week while Kuwait's bourse was the best performer rising by 1.88%.

The banking sector dominated the market accounting for 68% of total value traded while the real estate sector captured the remaining share. BLOM GDR rose by 1.30% to reach \$7.80 while Audi GDR fell by 3.66% to settle at \$5.52. Moreover, Audi Listed stock declined by 0.90% to close at \$5.50 while Byblos Bank ended the week in green with a 0.67% increase to \$1.50. On the other hand, the preferred shares index declined by 0.32% to 105.32 points driven by the 1.53% decrease of Bank of Beirut Preferred H shares closing at \$25.70. In London, BLOM and Audi GDRs rose 2.58% and 6.5% to \$7.95 and \$5.9 respectively.

As for the real estate sector, Solidere class A shares declined by 1.64% at \$12.61 as its class B shares also retreated by 1.03% to \$12.54.

In the industrial sector, Holcim Liban rose by 0.98% to stand at \$15.51.

Real Estate

	Mkt	28/09/12	21/09/12	% Change
Solidere (A)	BSE	\$12.61	\$12.82	-1.64%
Solidere (B)	BSE	\$12.54	\$12.67	-1.03%
Solidere (GDR)	LSE	\$12.65	\$12.50	1.20%

Finally, it seems that investors' preference shifted to the Eurobond market as it seemed undervalued following its decline during the past few months. In addition, the weak economic activity is weighing on the performance of the stock market. However, stocks may regain investors' confidence in the coming weeks as the security situation has drastically improved and economic activity is expected to pick up in the fourth quarter of the year.

Manufacturing Sector

	Mkt	28/09/12	21/09/12	% Change
HOLCIM Liban	BSE	\$15.51	\$15.36	0.98%
Ciments Blancs (B)	BSE	\$3.50	\$3.50	0.00%
Ciments Blancs (N)	BSE	\$3.05	\$3.05	0.00%

Funds

	Mkt	28/09/12	21/09/12	% Change
Beirut Preferred Fund	BSE	\$102.80	\$102.80	0.00%
BLOM Cedars Balanced Fund Tranche "A"	-----	\$6,694.67	\$6,682.86	0.18%
BLOM Cedars Balanced Fund Tranche "B"	-----	\$5,074.11	\$5,065.00	0.18%
BLOM Cedars Balanced Fund Tranche "C"	-----	\$5,084.65	\$5,075.68	0.18%
BLOM Bond Fund	-----	\$9,788.90	\$9,788.90	0.00%

Retail Sector

	Mkt	28/09/12	21/09/12	% Change
RYMCO	BSE	\$2.20	\$2.20	0.00%
ABC (New)	OTC	\$16.50	\$16.50	0.00%

Tourism Sector

	Mkt	28/09/12	21/09/12	% Change
Casino Du Liban	OTC	\$565.00	\$565.00	0.00%
SGHL	OTC	\$4.50	\$4.50	0.00%

Foreign Exchange Market

Lebanese Forex Market

	28/09/12	21/09/12	%Change
Dollar / LP	1502.00	1502.50	-0.03%
Euro / LP	1951.76	1966.23	-0.74%
Swiss Franc / LP	1613.33	1622.71	-0.58%
Yen / LP	19.43	19.27	0.83%
Sterling / LP	2445.92	2457.98	-0.49%
NEER Index**	103.34	102.88	0.45%

*Close of GMT 09:00+2

**Nominal Effective Exchange Rate; Base Year Jan 2006=100

**The unadjusted weighted average value of a country's currency relative to all major currencies being traded within a pool of currencies. The NEER represents the approximate relative price a consumer will pay for an imported good.

Nominal Effective Exchange Rate (NEER)



The exchange rate between the Lebanese Pound and the US dollar slightly narrowed on the local exchange market this week to \$/LP 1,500.5 - \$/LP 1,503.5 with a mid-price of \$/LP 1,502, from \$/LP 1502.5 last week. Foreign assets (excluding gold) at the Central Bank had increased by a monthly 0.6% to \$35.27 billion by the end of August 2012, while the dollarization rate of private sector deposits diminished to 64.7% by the end of July 2012, down from 65% in the previous month and 66% in December 2011.

In international markets, tensions heightened again in the Eurozone as the possibility for a Spanish bailout seemed more remote and the Spanish capital saw heavy anti-austerity protests. However, the currency regained some of its losses after the Spanish government seemed impervious to domestic pressure and passed large spending cuts in its crisis budget for 2013. On the other hand, the US dollar, slightly weakened ahead of expected discouraging reports on personal income and business activity. By Friday September 28, 2012, 12.30 pm Beirut time, the euro had diminished by 0.74% from the previous week to €/ \$ 1.2947 causing the dollar-pegged Lebanese Pound to appreciate to €/LP 1951.76, from €/LP 1966.23. The Nominal effective exchange rate (NEER) thus climbed 0.45% to 103.34 points.

Money & Treasury Bills Markets

Money Market Rates

	28/09/12	21/09/12	Change bps
Overnight interbank	2.75	2.75%	0
BDL 45-day C	3.57%	3.57%	0
BDL 60-day CD	3.85%	3.85%	0

Treasury Yields

	28/09/12	21/09/12	Change bps
3-M TB yield	4.39%	4.39%	0
6-M TB yield	4.87%	4.87%	0
12-M TB yield	5.08%	5.08%	0
24-M TB coupon	5.84%	5.84%	0
36-M TB coupon	6.50%	6.50%	0
60-M TB coupon	6.74%	6.74%	0

Broad money M3 increased by LP279B (\$185.07M) during the week ending September 13 to reach LP154,654B (\$102.59B). Accordingly, M3 increased by 7.55% y-o-y and 5.51% from end of December 2011. M1 fell during the week by LP240B (\$159.2M) as demand deposits went down by LP108B (\$71.64M), and money in circulation declined by LP132B (\$87.56M). Total deposits (excluding demand deposits) climbed by \$344.13M due to a \$41.13M and \$303M rise in term and saving deposits in LP and deposits denominated in foreign currencies respectively. As for the dollarization rate of broad money, it increased by 19 basis points on a weekly basis to 58.39%. The overnight interbank rate stood at 2.75% during the month of July, according to the Association of Lebanese Banks.

In the TBs auction held on September 20, the Ministry of Finance raised LP1,374.64B (\$911.86M) through the issuance of Treasury Bills. Demand was mainly observed on the first 10-year TB paper issued by the Lebanese government which captured 83.76% of total subscription. The 36M paper accounted for 15.76% of total demand, while the 24M and 12M papers captured less than 1%. During the auction, the average discount rate for the 12M paper and the average coupon rate for the 10Y, 24M, and 36M papers stood at 5.08%, 8.24%, 5.84% and 6.5% respectively. To note that the MoF continues to undertake all accepted bids.

Eurobond Market

Eurobonds Index and Yield

	28/09/12	21/09/12	Change	Year to Date
BLOM Bond Index (BBI)*	109.140	108.570	0.53%	-1.62%
Weighted Yield**	5.06%	5.22%	-16	28
Weighted Spread***	447	456	-9	41

*Base Year 2000 = 100; includes US\$ sovereign bonds traded on the OTC market

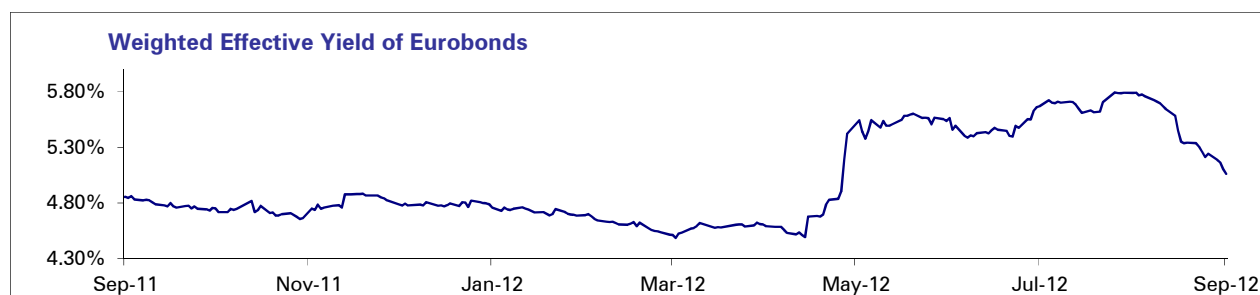
** The change is in basis points

***Against US Treasuries (in basis points)

Lebanese Government Eurobonds

Maturity - Coupon	28/09/12 Price*	21/09/12 Price*	Weekly Change%	28/09/12 Yield	21/09/12 Yield	Weekly Change bps
2013, Mar - 9.125%	103.00	102.75	0.24%	2.26%	3.08%	-82
2013, Jun - 8.625%	103.25	103.75	-0.48%	3.97%	3.40%	57
2014, Apr - 7.375%	106.25	105.25	0.95%	3.16%	3.85%	-69
2014, May - 9.000%	108.88	107.75	1.04%	3.20%	3.95%	-76
2015, Jan - 5.875%	104.50	104.13	0.36%	3.80%	3.98%	-18
2015, Aug - 8.500%	112.25	112.25	0.00%	3.90%	3.93%	-3
2016, Jan - 8.500%	112.75	112.25	0.45%	4.30%	4.48%	-17
2016, May - 11.625%	122.50	122.00	0.41%	4.76%	4.92%	-16
2017, Mar - 9.000%	117.00	115.25	1.52%	4.73%	5.15%	-42
2018, Nov - 5.150%	100.00	99.44	0.57%	5.15%	5.26%	-11
2020, Mar - 6.375%	104.50	103.75	0.72%	5.63%	5.75%	-12
2021, Apr - 8.250%	116.50	114.75	1.53%	5.77%	6.02%	-24
2022, Oct - 6.100%	102.50	101.75	0.74%	5.77%	5.87%	-10
2024, Dec - 7.000%	106.50	106.13	0.35%	6.23%	6.27%	-4
2026, Nov - 6.600%	102.50	101.63	0.86%	6.33%	6.42%	-9

• Mid Prices ; BLOMINVEST bank

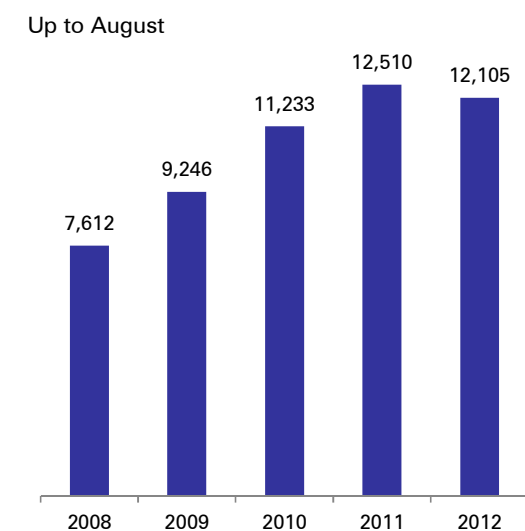


Demand for Eurobonds remained strong this week, after a successful local currency 10-year issuance recaptured investment confidence in Lebanese papers. Eurobonds also gained in line with a global boost in demand for dollar denominated papers that caused a 14 basis point (bps) decline in the yield of the 10 year Treasury note. Demand for US Treasuries had soared earlier this month after the Federal Reserve hinted that interest rates will be kept low until 2015. The BLOM Bond Index (BBI) climbed 0.53% after having increased by 0.24% last week closing at a four-month high of 109.14 points. The portfolio's average weighted yield thus dropped 16 basis points (bps) to 5.06%, while the spread against the US benchmark yield narrowed 9 bps to 447 bps. In comparison, the JP Morgan emerging markets' bond index added 0.5% from last week.

Lebanon's credit default swap for 5 years (CDS) was last quoted between 447-477 bps. In regional economies, Dubai and Saudi Arabia 5-year CDS quotes ended the week at 292-302 bps and 89-97 bps respectively. In emerging Turkey and Brazil, 5-year CDS quotes closed at 160-163 bps and 110-112 bps respectively.

ECONOMIC AND FINANCIAL NEWS

Number of Issued Construction Permits



Source: Order of Engineers Beirut and North

Area Authorized for Construction in August 2012 Lowest Since January 2009

The number of construction permits issued in the first eight months of 2012 slid by 3.2% year-on-year to 12,105, but was still 7.7% above the number of permits issued during the same period in 2010, data from the Order of Engineers in Beirut and the North showed this week. Construction area authorized by permits dropped at a much faster annual rate of 13.66% to 9.59 million square meters (sqm). Average area authorized for construction in the first eight months of 2012 was thus 792 sqm per permit, compared to 887 sqm per permit a year earlier. In August alone, the number of issued permits jumped by 9.1% y-o-y to 1,418 whereas area authorized by permits dropped 19% y-o-y to 920,325 sqm, the smallest monthly authorized area since January 2011. The continued decline in area per permit again indicates that developers have shifted their supply to small and medium projects. Average area authorized per permit was thus 649 sqm in August 2012, down from 878 sqm / permit in August 2011 and the lowest since January 2009. Mount Lebanon accounted for 634 or 45% of permits issued in August and 48% of authorized area. South Lebanon followed with 222 issued permits or 15.7% of the total, while Nabatieh and North of Lebanon followed with 180 and 158 permits respectively.

Major World Bank Projects in Lebanon

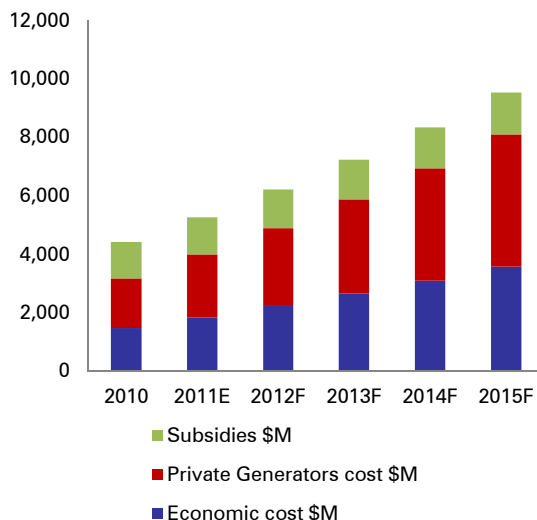
Project	Cost (\$M)
LB-Cultural Heritage Add. Financing	57.19
LB- GREATER BEIRUT WATER SUPPLY	370
Second Education Development Project	42.6
Lebanon Emergency Fiscal Management Reform Implementation Grant	4
LB - Urban Transport Development - Additional Financing	69.7
Cultural Heritage and Urban Development Project	61.89
URBAN TRANSPORT DEVELOPMENT PROJECT	115.17
LB - Baalbeck Water and Wastewater Project	49.63
POWER SECTOR RESTR.	100
LB Innovation and SME Growth	30
LB: Mobile Internet Ecosystem Project (MIEP)	10
Social Promotion And Protection Project	40

Source: World Bank

World Bank will Continue to Provide Lebanon with Financial and Technical Assistance

The vice president of the World Bank for the Middle East and North Africa, Inger Andersen, wrapped up her two day official visit to Beirut on Thursday by expressing the World Bank's support to Lebanon in terms of financial and technical assistance. This support aims to help the country withstand the weight placed by the volatile economic situation caused by the regional turmoil. Ferid Belhaj, the Country Director for Lebanon, Syria, Jordan, Iran and Iraq who took over the post earlier this week was also part of the delegation as was Belhaj's predecessor, Hedi Larbi. The team met Speaker Nabih Berri, Prime Minister Najib Mikati, Finance Minister Mohammad Safadi and Energy Minister Gebran Bassil. The discussions held centered around the challenges private sector actors and civil society representatives are facing due to the poor economic infrastructure services. However, the team also discussed with government officials the opportunities which can be exploited to spur growth and create inclusive job opportunities as well as structural and fiscal reforms that are needed to restore fiscal stability and increase potential output.

Financial Burden of the Existing Energy Sector

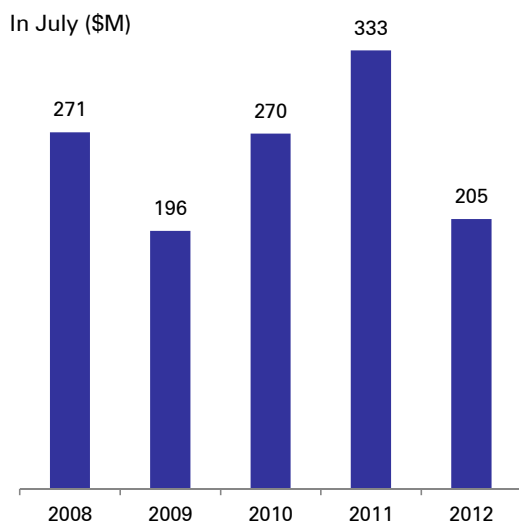


Source: Ministry of Energy and Water

Spectrum Estimate 25 Trillion Cubic Feet of Gas South-West Lebanon's Shore

The southwest corner of Lebanon's Exclusive Economic Zone (EEZ) could contain more than 25 trillion cubic feet of gas, according to Spectrum Geo Ltd. director, David Rowlands. Spectrum Geo, which was commissioned by the Lebanese government to assess Lebanon's maritime gas reserves, has nearly finished the 3-D seismic survey of the 22,000 Km area off the Lebanese coast, and will deliver its results by January 2013. Spectrum chief added that the 25 trillion cf. is only an initial estimate of one area, and that there could be much more gas, near the Lebanese coast. Another survey of the area south of the current acquisition zone is scheduled between October and November. The World Energy Council (WEC) estimates that Lebanon's oil and gas reserves could end up considerably larger than initial estimates and Lebanon could produce up to 90,000 barrels of fuel per day for 20 years to come, according to WEC secretary-general Roudi Baroudi, who added that the market value of this output will be \$100 billion. Minister Bassil had announced earlier during the week that one of the gas wells discovered in the area surveyed by Spectrum contains 12 trillion cubic feet of gas, and could supply Lebanon's Electricity needs for 99 years.

Industrial Exports



Source: Ministry of Industry

Precious Metals and Base Metals Dominate July's 38% Decline in Industrial Exports

Lebanon's Industrial exports diminished by 9.5% year-on-year to \$1.74 billion during the first seven months of 2012, data released by the Ministry of Industry showed. In the month of July, industrial exports amounted to \$205.3 million, less than two thirds of their value in the same month last year as the value of precious stone and metal exports saw a substantial drop to \$11.2 million from \$76.5 million in July 2011, and the export value of base metals fell to \$30.5 million from \$57.4 million. Precious stone and metal exports dropped due to both a decline in export volumes and an annual slide in the international price of gold from \$1626 per ounce to \$1580 per ounce. Electric appliances and equipment accounted for 17.2% of total exports in July or \$35.3 million. Metal exports and Foodstuff exports followed with 14.8% and 14.5% respectively. In terms of export destinations, Arab states imported over 58.8% of local exports in July while non-Arab African countries imported 12.9%, and Asian countries took around 12%.

This week, Lebanon's economic committee agreed on slashing taxes on industrial export profits by 50%, in order to encourage the local industrial sector. For it to be put into effect, the decree now awaits a positive vote in the General Assembly.

CORPORATE DEVELOPMENTS

SGBL total assets grow by 64% in H1 2012

SGBL Financial Highlights

In million USD	H1 2012	H1 2011	% ch
Cash and balances with the Central Bank	1,939.6	740.2	162%
Financial assets at amortized cost	4,022.1	2,037.4	97%
Loans and advances to customers	2,830.1	1,527.2	85%
Total Assets	10,097.4	6,150.4	64%
Customers' deposits	8,148.7	5,004.8	63%
Net Profit	59	45	31%

Source: SGBL

Following the acquisition of Lebanese Canadian Bank in the second half of 2011, SGBL's total assets reached \$10.1 billion in June 2012, up by 64% from the same period last year. This rise is characterized by the 162% yearly surge in cash and balances with the Central Bank reaching \$1.9 billion while financial assets at amortized cost increased by 97% to \$4.0 billion. Loans and advances to customers also added 85% to stand at \$2.8 billion. On the liability side, customer deposits, equating to 80.7% of total, increased by 63% to \$8.5 billion. Finally, net profit rose by a yearly 31% to record \$59 million.

FOCUS IN BRIEF

Public Finance Annual Review for 2011, Ministry of Finance, Overview

Summary of Fiscal Performance

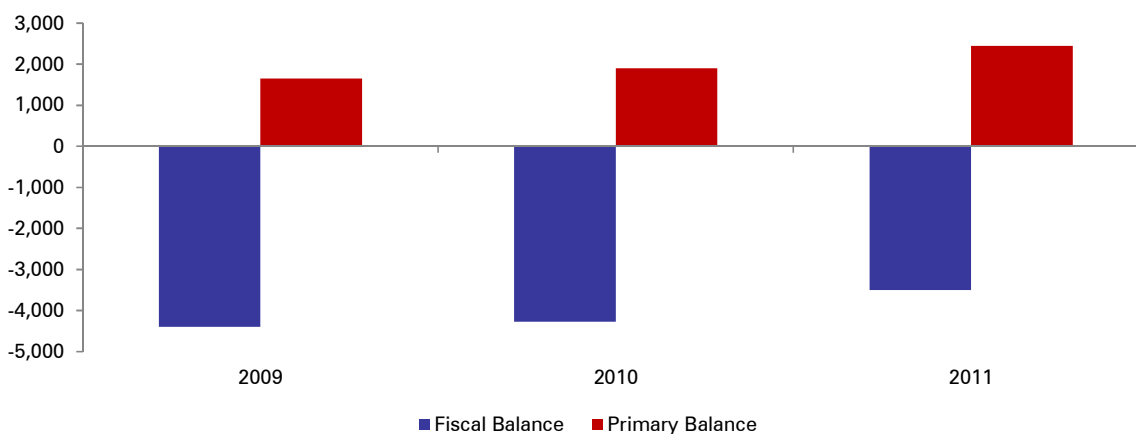
(LL billion)	2010	2011	% change
Total Budget and Treasury Receipts of	12,684	14,070	10.9%
Tax Revenues	9,976	9,885	-0.9%
Non Tax Revenues	2,043	3,468	69.8%
Treasury Receipts	666	718	7.8%
Total Budget and Treasury Payments of	17,047	17,600	
Interest Payments	5,893	5,655	
Concessional Loans Principal Payments ⁽¹⁾	324	379	
Primary Expenditures ⁽²⁾	10,829	11,566	
Total Deficit/Surplus	-4,363	-3,530	
Primary Deficit/Surplus	1,855	2,505	

Source: Ministry of Finance (MOF), Directorate General of Finance (DGF)

⁽¹⁾ Includes only principal repayments of concessional loans earmarked for project financing.

⁽²⁾ Primary expenditures exclude debt related payments (Interest payments and Concessional loans principal repayment).

Fiscal and Primary Balance (2009 – 2011)



Source: Ministry of Finance

The Lebanese Ministry of Finance published in June 2012 its Public Finance Annual Review for 2011. Below is an overview of the compilation.

The fiscal developments showed improvements over 2011 when compared to a year earlier. The fiscal deficit shrank by 19% in 2011 to 3,530 billion L.L., and fell by 2 percentage points in terms of GDP to 5.9%. In parallel, the primary surplus rose by 35% in 2011 to L.L. 2,505 billion, the equivalent of 4.2% of GDP. The enhancement was the result of an 11% rise in total receipts that more than offset the 3.2% increase in total payments.

Revenues

Tax Revenues

Total revenues rose to L.L. 14,070 billion in 2011, the equivalent of 23.5% of GDP¹, boosted mainly by a rise in non-tax revenues that overshadowed the small decline in tax revenues². Tax revenues have registered their first contraction since 2005, dropping by 1% after having risen by 11% in 2010. The key cause for the decline in tax revenues relates to the decision adopted by the Higher Council of Customs on February of last year to reduce excise on gasoline by L.L. 498 billion in 2011. Also, the slowdown in the Lebanese economy with real GDP growth falling sharply to 3%, per Blominvest estimates and 5% per official estimate, compared to an average rate of 8.2% over the previous three years, in light of internal political bickering and regional woes, contributed further to the decline. For instance, the real estate sector slowed leading to a decline in Built property tax and real estate registration fees. Slower economic activity has also led to a deceleration in the growth rate of private sector deposits which have also impacted tax revenues.

The breakdown of tax revenues shows that VAT continues to account for the main source of contribution, making up 33% in 2011³. Next in line are taxes on income, profits and capital gains with a 25% share of total tax revenues⁴; followed by excise taxes at a 14%⁵ share; and last in line are taxes on properties capturing a 12% share⁶.

Revenues from domestic taxes on goods and services were up 3% in 2011 to L.L. 3,685 billion, mostly driven by the growth in the collection of VAT⁷ that rose by 3% as well to L.L. 3,300 billion. The latter increase is led by a rise in internal activity and VAT collected at import. The VAT collection at the level of domestic business activity were up by 9% y-o-y in 2011, whereas VAT collected at imports rose by 1% y-o-y over the year. The latter however, partly reflects the 12% rise in the nominal value of imports as a result of the increase in fuel prices.

Taxes on income, profits and capital gains have risen by 28% from 2010 to L.L. 1,032 billion. The rise is explained by the high economic growth rate of 7% registered in 2010, as the collections of the income tax in a given year relates to the profits realized during the previous year. Also, withheld tax on wages and salaries was up by 20% in 2011⁸, mostly due to the higher salaries offered by institutions in 2011 in anticipation of the official salary raise that was being discussed. This contributes further to the increase in taxes on income, profits and capital gains. Also, the 5% tax in interest income brought in revenues of L.L. 652 billion in 2011, registering a 3.8% rise from a year earlier⁹.

Taxes on property were up by 5% in 2011, yet decelerate from a 34% rise that occurred in 2010, due to the slowdown in real estate activities that followed the phase of political instability. In parallel, collection of real estate registration fees fell by 1% in 2011 to LL 844 billion. While this reflects a slowdown in the overall real estate market, it might also suggests a change in the nature of the demand for real estate, where either demand is shifting towards smaller properties, or consumers are looking up for properties outside the city centers.

Taxes collected from international trade were down 22% in 2011 to L.L. 2,179 billion, due to the decrease in excises. Customs revenues were down 4% over the year to L.L. 777 billion due to the rise of fuel imports as a share of total imports knowing that fuel imports are subject to low or zero tariff as opposed to higher custom duties for non-fuel imports. Excise collected at imports have also fallen by 30% in 2011 to L.L. 1,402 billion on a sharp decline in the collection of excises on gasoline and cars - as the government, through the Higher Council of Customs, reduced the excise on gasoline by L.L. 5,000 per 20 liters in February 2011 - which more than counteracted the tiny increase in the proceeds of excises on tobacco.

Non-Tax Revenues

Non-tax revenues rose to 70% in 2011 to L.L. 3,468 billion, the equivalent of 5.8% of GDP. Most of the rise was driven by higher income from public institutions and government properties that rose by a sharp 94% to L.L. 2,679 billion, the equivalent of 4.5% of GDP in 2011 when compared to a year earlier. The increase was driven by the significant 136% increase in transfers from the telecom surplus, which reached L.L. 2,261 billion in 2011. The substantial rise in transfers

¹ Up from 22.7% of GDP in 2010

² Treasury Receipts also contributed to the rise, increasing by 8% to L.L. 719 billion in 2011 when compared to a year earlier

³ Up from 32% in 2010

⁴ Up from 21% in 2010.

⁵ Down from 20% in 2010

⁶ Up from 11% in 2010

⁷ Which offset the decline in the other taxes on goods and services

⁸ To L.L. 455 billion

⁹ While this growth is positive, it compares low to the previous years collections

followed the transfer of a litter amount from the telecom surplus in 2010, amounting to only L.L. 957 billion, as a result of inter-ministerial political gridlock in the previous government.

Expenditure

Total expenditure rose by 3% to L.L. 17,600 billion in 2011, the equivalent of 29.4% of GDP¹⁰, when compared to a year earlier. The rise was triggered by a 7% increase in total primary expenditure, partly counteracted by a 4% drop in interest payments.

Current Expenditure

Current expenditure rose by 7.5% to L.L. 15,841 and current primary expenditure increased by 15% to L.L. 8,916 billion in 2011 compared to 2010. The main drivers of increase were personnel cost, that registered a 9% y-o-y rise to L.L. 5,533 billion driven upward by a 14% y-o-y rise in wages, salaries, and related benefits; materials and supplies purchases that rose by 19% y-o-y in 2011, up to L.L. 329 billion; and external services¹¹ that went up by 13% y-o-y to L.L. 135 billion in 2011. The latter increase was mainly the result of an increase in rental payments.

Interest Payments

Interest payments in 2011 dropped by about 4% y-o-y in 2011 to L.L. 5,655 billion, the equivalent of 9.6% of GDP. The country benefits from a low international interest rate environment ever since it stood at the shadow of the global financial crisis and the European debt crisis. This pressured down the cost of government borrowing and eventually enhanced the fiscal stance of Lebanon. In 2011, total domestic currency debt services payments fell by 6% y-o-y to L.L. 3,552 billion, and total foreign currency debt services payments fell by nearly 1% y-o-y to L.L. 2,102 billion.

Capital Expenditures

Capital expenditure fell by 4% y-o-y in 2011 to L.L. 676 billion, the equivalent of 1.1% of GDP. The fall was mostly driven by a 14% decline in construction in progress spending and a 76% drop in expenditure on other expenditure related to fixed capital mainly due to L.L. 43 billion lower transfers to the Investment Development Authority of Lebanon (IDAL) to cover for its Export Plus Program, that more than counteracted the 30 % rise in equipment spending and the 44% increase in maintenance payments.

Treasury Expenditure

Treasury expenditure was down by 36% y-o-y in 2011, totaling L.L. 867 billion. The fall was mostly due to a 50% lower payment to municipalities and a 49% decline in Value Added Tax Refund payments.

Debt

Debt-to-GDP ratio continued its downward trend, following from 142% in 2010 to 135.1% in 2011. However, in level term, gross public debt increased by 2% y-o-y in 2011 to L.L. 80,887 billion, mostly driven by a L.L. 1,085 billion rise in local currency debt and a smaller increase of L.L. 504 billion in foreign currency debt. Net public debt inched up by 2.98% y-o-y in 2011 to L.L. 69,903 billion. Consequently, the weighted average cost of total foreign debt fell by 29 basis points (bps) to 6.75% at the end of 2011; while the weighted average cost of outstanding domestic debt declined by 84 bps to 6.93%.

The average time to maturity of domestic currency treasury bills and bonds rose to 2.64 years by the end of 2011, against 1.7 year as of end of 2010. This change came in as banks showed a preference for longer term bonds due to their higher yields during weekly auctions, in addition to the three special 7YR Treasury bond transactions in 2011, outside of the auction process. Also, L.L. 40.6 billion worth of 5-year contractor bonds were issued in November 2011 at a rate of 6%.

In terms of breakdown of domestic currency debt, the composition was similar to that in 2010 with the Central Bank ranking first and accounting for 50% of total subscriptions; commercial banks followed with 31% of subscriptions¹²; and last in line were public institutions capturing a 17% share.

The average time to maturity of foreign currency debt rose to 5.69 years as of end of 2011, up from an average of 4.84 years a year earlier. This related to the roll-over of maturing Eurobonds and an increase in the outstanding stock of Eurobonds by L.L. 752 billion on three occasions in 2011. Both the roll-over and increase had an average maturity of more than 6 years.

¹⁰ Compared to 30.5% of GDP in 2010

¹¹ Including rent, postal, insurance, advertisement and public relations

¹² The stock of public debt in Lebanese pounds held by commercial banks fell from 35% in 2010 and conversely, the Central bank rose its share from 44% in 2010 to make up for the gap

**Research Department:**

Maya Mantach
Michel Oueiss
Malak Hawa
Walid Sayegh
Gaelle Khoury
Marwan Mikhael

maya.mantach@blominvestbank.com
michel.oueiss@blominvestbank.com
malak.hawa@blominvestbank.com
valid.sayegh@blominvestbank.com
gaelle.khoury@blominvestbank.com
marwan.mikhael@blominvestbank.com



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