

# THE LEBANON BRIEF

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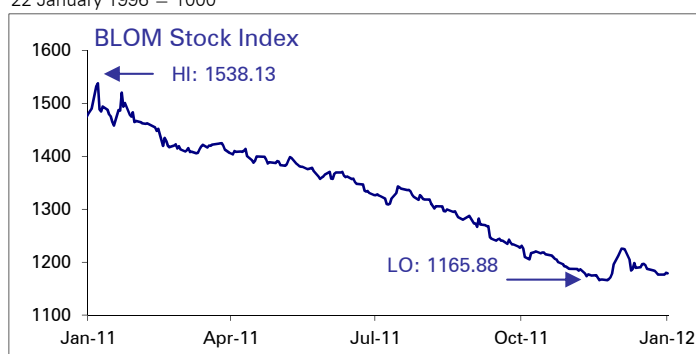
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# FINANCIAL MARKETS

## Equity Market Stock Market

	06/01/12	23/12/11	% Change
BLOM Stock Index*	1178.96	1187.42	-0.71%
Avg Traded Volume	112,612	153,381	-26.58%
Avg Traded Value	702,285	800,126	-12.23%

\*22 January 1996 = 1000



The performance of the Beirut Stock Exchange (BSE) witnessed a downtrend path in 2011, weighed by concerns over the local political environment and uncertainty surrounding the situation in the Middle East. Hence, the BLOM Stock Index (BSI), Lebanon's leading index, fell 20.25% from its December 2010 level to close the year at 1,177 points. Over the past two weeks, the decision to increase wages continued to capture the spotlights after the Shura Council rejected the Cabinet's third wage hike proposal. Investors showed negative sentiment towards the Lebanese stock market as the BSI declined by 0.71% from its previous close on December 23 to settle at 1,179 points on January 05. As for the average daily traded volume, it reached 112,612 shares worth \$702,285M during the past two weeks.

## Banking Sector

	Mkt	06/01/12	23/12/11	% Change
BLOM (GDR)	BSE	\$7.49	\$7.63	-1.83%
BLOM Listed	BSE	\$7.42	\$7.42	0.00%
BLOM (GDR)	LSE	\$7.25	\$7.30	-0.68%
Audi (GDR)	BSE	\$5.99	\$6.00	-0.17%
Audi Listed	BSE	\$5.70	\$5.80	-1.72%
Audi (GDR)	LSE	\$5.90	\$6.00	-1.67%
Byblos (C)	BSE	\$1.58	\$1.60	-1.25%
Byblos (GDR)	LSE	\$80.00	\$80.00	0.00%
Bank of Beirut (C)	BSE	\$19.40	\$19.40	0.00%
BLC (C)	BSE	\$1.90	\$1.81	4.97%
Fransabank (B)	OTC	\$28.00	\$28.00	0.00%
BEMO (C)	BSE	\$2.35	\$2.35	0.00%

	Mkt	06/01/12	23/12/11	% Change
Banks' Preferred Shares Index *		\$103.67	\$103.67	0.00%
BEMO Preferred 2006	BSE	\$100.00	\$100.00	0.00%
Audi Pref. D	BSE	\$10.30	\$10.30	0.00%
Audi Pref. E	BSE	\$100.50	\$100.50	0.00%
Byblos Preferred 08	BSE	\$101.00	\$101.00	0.00%
Byblos Preferred 09	BSE	\$101.00	\$101.00	0.00%
Bank of Beirut Pref. D	BSE	\$26.00	\$26.00	0.00%
Bank of Beirut Pref. E	BSE	\$26.00	\$26.00	0.00%
BLOM Preferred 2011	BSE	\$10.13	\$10.13	0.00%
Bank of Beirut Pref. H	BSE	\$25.00	\$25.00	0.00%

\* 25 August 2006 = 100

When comparing to regional and emerging markets, the Lebanese equity benchmark failed to beat the MSCI Emerging index that climbed on a two-week basis by 1.96% to 938 points. Moreover, the BSI underperformed the S&P Pan Arab Composite LargeMidCap index that rose 0.73% to 106 points, lifted by Oman and Tunisia bourses.

The real estate sector dominated trades in the past two weeks, corresponding to 53.02% of the total value traded. Solidere A fell 1.61% to a 2-week low of \$14.67, while Solidere B edged 0.61% down to \$14.55. In London, Solidere GDR dropped 2.83% to \$14.09.

In the banking sector, the BLOM Lebanese Banking Index (BMBI Lebanon) declined 1.29% to 2,692 points. BLOM GDR retreated 1.83% to \$7.49, while BLOM listed stock remained unchanged at \$7.42. Audi GDR declined 0.17% to \$5.99, while Audi listed stock dropped 1.72% to \$5.7. Byblos common stock lost 1.25% to \$1.58, whereas BLC Bank surged 4.97% to \$1.9. Worth highlighting that the Beirut Stock Exchange agreed to convert 500,000 of Bank Audi's common shares to GDRs. On the London Stock Exchange, BLOM GDR fell 0.68% to \$7.25, while Audi GDR retreated 1.67% to \$5.9.

## Real Estate

	Mkt	06/01/12	23/12/11	% Change
Solidere (A)	BSE	\$14.67	\$14.91	-1.61%
Solidere (B)	BSE	\$14.55	\$14.64	-0.61%
Solidere (GDR)	LSE	\$14.09	\$14.50	-2.83%

With respect to the manufacturing sector, cement producer Holcim Liban jumped 2.43% to close at \$16.89.

Looking ahead, the activity on the Beirut Stock exchange is expected to remain calm in the coming week ahead of the release of fourth-quarter financial results.

## Manufacturing Sector

	Mkt	06/01/12	23/12/11	% Change
HOLCIM Liban	BSE	\$16.89	\$16.49	2.43%
Ciments Blancs (B)	BSE	\$3.25	\$3.25	0.00%
Ciments Blancs (N)	BSE	\$2.41	\$2.41	0.00%

## Funds

	Mkt	06/01/12	23/12/11	% Change
Beirut Preferred Fund	BSE	\$103.80	\$103.67	0.13%
BLOM Cedars Balanced Fund Tranche "A"	-----	\$6,598.41	\$6,621.73	-0.35%
BLOM Cedars Balanced Fund Tranche "B"	-----	\$5,167.73	\$5,187.62	-0.38%
BLOM Cedars Balanced Fund Tranche "C"	-----	\$5,011.53	\$5,029.25	-0.35%
BLOM Bond Fund	-----	\$10,010.28	\$10,022.08	-0.12%

## Retail Sector

	Mkt	06/01/12	23/12/11	% Change
RYMCO	BSE	\$2.50	\$2.50	0.00%
ABC (New)	OTC	\$16.50	\$16.50	0.00%

## Tourism Sector

	Mkt	06/01/12	23/12/11	% Change
Casino Du Liban	OTC	\$525.00	\$520.00	0.96%
SGHL	OTC	\$4.50	\$4.50	0.00%

## Foreign Exchange Market

### Lebanese Forex Market

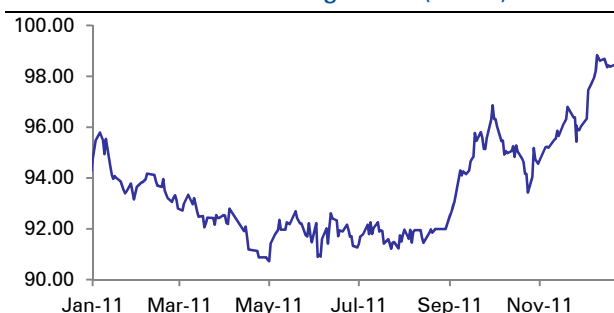
	06/01/12	23/12/11	%Change
Dollar / LP	1505.00	1506.00	-0.07%
Euro / LP	1935.48	1970.15	-1.76%
Swiss Franc / LP	1588.51	1610.75	-1.38%
Yen / LP	19.62	19.32	1.55%
Sterling / LP	2339.94	2361.95	-0.93%
NEER Index**	99.15	98.38	0.78%

\*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)



## Money & Treasury Bills Markets

### Money Market Rates

	06/01/12	23/12/11	Change bps
Overnight Interbank	2.75	2.75%	0
BDL 45-day CD	3.57%	3.57%	0
BDL 60-day CD	3.85%	3.85%	0

### Treasury Yields

	06/01/12	23/12/11	Change bps
3-M TB yield	3.89%	3.89%	0
6-M TB yield	4.40%	4.40%	0
12-M TB yield	4.59%	4.59%	0
24-M TB coupon	5.34%	5.34%	0
36-M TB coupon	5.94%	5.94%	0
60-M TB coupon	6.18%	6.18%	0

Currency trading between Lebanese banks set the value of the Lebanese Pound against the US dollar at \$/LP 1,503 - \$/LP 1,507 with a mid-price of \$/LP 1,505 by the end of this week compared to \$/LP 1,506 two weeks earlier. The central bank's (BdL) foreign assets (excluding gold) slid by a monthly 0.22% to \$32.24 by the end of December 2011, ending the year with a 5.34% gain. The dollarization rate of private sector deposits diminished to 65.76% in November from 66.26% in October marking an improved confidence in the Lebanese Pound.

In international market, Europe's deep rooted financial troubles resurfaced again over the past two weeks escalating after major Italian lender UniCredit sold its new shares at a 43% discount on the rights offer. The Eurozone's single currency thus slid by 1.76% against its US counterpart ending at \$/€1.2839 on Thursday, January 5 at 2:00 pm Beirut time. The euro's losses against the dollar were likewise supported by upward pressure on the latter currency following a stream of positive economic indicators from the world's leading economy. The dollar pegged Lebanese currency thus appreciated to LP/€1935.48 from LP/€1970.15 two weeks earlier. The Nominal Effective Exchange Rate sprung up by 0.78% rising 0.15% from the beginning of the year.

Broad money M3 grew by LP934.65B (\$620M) over the past two weeks extended between December 8 and 22 to reach LP147,514B (\$97.85B). Consequently, M3 augmented by 6.58% y-o-y and 6.1% from end of December 2010. M1 climbed during the aforementioned period by LP50B (\$33.17M) as demand deposits rose by LP155B (\$102.82M), while money in circulation declined by LP105B (\$69.65M). Total deposits (excluding demand deposits) added \$594.23M as deposits denominated in foreign currencies rose \$307M and term and saving deposits in LP jumped \$287.23M. As for the dollarization rate of broad money, it fell by 7 basis points to 59.57%. The overnight interbank rate stood at 2.75% during the month of October, according to the Association of Lebanese Banks.

During the past two auctions held on December 22 and 29, the Ministry of Finance (MoF) raised LP614.31B (\$407.5M) through the issuance of Treasury Bills. The amount collected was more than required to cover the maturing TBs worth LP572.44B (\$379.73M). On December 22 auction, the MoF issued Treasury Bills worth LP353.88B (\$234.75M), less than needed to cover the maturing TBs valued at LP387.7B (\$257.18M). The 60M paper captured 85.44% of total subscriptions, while the 3M and 6M papers took 10.37% and 4.19% respectively. The December 29 auction resulted in the MoF collecting LP260.43B (\$172.75M). The 36M paper took the bulk of subscriptions with a stake of 77.97%, whereas the 12M and 24M papers accounted for 11.75% and 10.28% respectively. Yields remained unchanged across the maturity curve and the MoF continues to undertake all accepted bids.



## Eurobond Market

## Eurobonds Index and Yield

	06/01/12	23/12/11	Change	Year to Date
BLOM Bond Index (BBI)*	110.980	110.800	0.16%	0.04%
Weighted Yield**	4.78%	4.83%	-5	0
Weighted Spread***	401	404	-3	-5

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

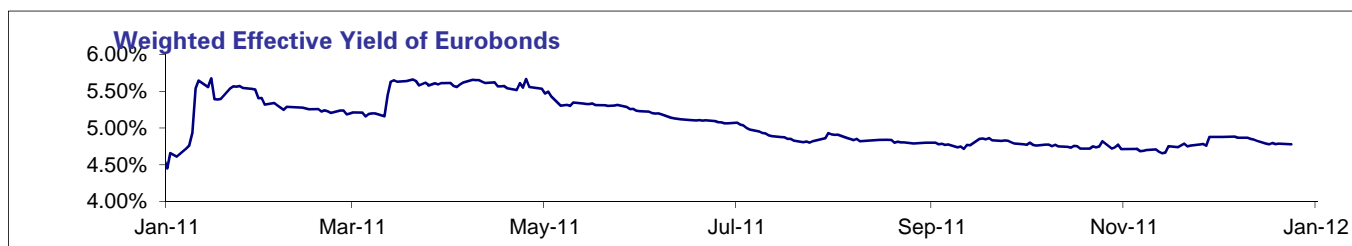
\*\* The change is in basis points

\*\*\*Against US Treasuries (in basis points)

## Lebanese Government Eurobonds

Maturity - Coupon	06/01/12 Price*	23/12/11 Price*	Weekly Change%	06/01/12 Yield	23/12/11 Yield	Weekly Change bps
2012, Mar - 7.500%	103.38	103.63	-0.24%	2.56%	2.45%	11
2012, Sep - 7.750%	107.19	107.00	0.18%	2.85%	3.17%	-32
2013, Mar - 9.125%	108.63	108.38	0.23%	2.53%	2.83%	-30
2013, Jun - 8.625%	108.13	108.10	0.03%	3.60%	3.66%	-6
2014, Apr - 7.375%	112.25	112.00	0.22%	3.44%	3.62%	-18
2014, May - 9.000%	105.25	105.13	0.11%	4.01%	4.07%	-6
2015, Jan - 5.875%	114.75	114.75	0.00%	4.03%	4.06%	-3
2015, Aug - 8.500%	115.25	115.10	0.13%	4.33%	4.40%	-7
2016, Jan - 8.500%	127.50	127.50	0.00%	4.56%	4.60%	-4
2016, May - 11.625%	119.50	118.75	0.63%	4.72%	4.89%	-17
2017, Mar - 9.000%	99.63	99.38	0.25%	5.22%	5.26%	-4
2018, Nov - 5.150%	105.90	105.38	0.49%	5.47%	5.55%	-8
2020, Mar - 6.375%	118.31	117.80	0.43%	5.68%	5.75%	-7
2021, Apr - 8.250%	101.63	101.50	0.13%	5.89%	5.91%	-2
2022, Oct - 6.100%	107.38	106.50	0.83%	6.16%	6.26%	-10
2026, Nov - 6.600%	101.38	100.50	0.88%	6.45%	6.55%	-10

• Mid Prices ; BLOMINVEST bank

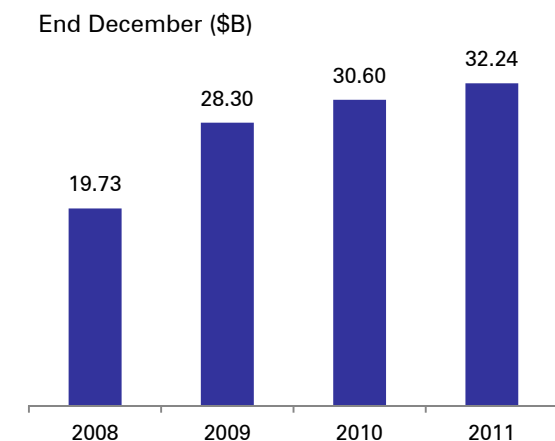


Lebanese Eurobonds advanced over the past two weeks on anticipation of further increases in bond prices after end of year coupons are reinvested into the market. The BBI thus added 0.16% to 110.98 points driving the portfolio's average weighted yield down by 5 basis points (bps) to 4.78%. The spread against the US benchmark yield narrowed 3 bps to 401 bps. The BBI had closed at 110.94 points on the last trading day of 2011, sliding by less than 1% from the beginning of the year, while the portfolio's average weighted yield was up by around 22 basis points (bps) at 4.78%. In contrast, the spread against the US benchmark yield had spiked to 406 bps from 289 bps as the US Fed continued to pursue monetary easing in 2011 driving its yields down to record lows. Lebanese Eurobonds thus fared well considering the effect of regional unrest on neighboring markets, as they maintained a solid position in portfolios of local lenders. However, the BBI's annual performance still lagged behind that of emerging economies whose debt markets lured in investors fleeing from equity markets and Europe's risky papers and drove the JP Morgan Emerging Markets' Bond Index up by 7.85%.

Lebanon's credit default swap for 5 years (CDS) was last trading between 450-486 bps, up from 440-466 bps two weeks earlier. In regional markets, 5 year CDS quotes eased by more than 20 bps in Dubai to 425-443 bps but were almost unchanged in Saudi Arabia at 125-133 bps. In emerging Brazil and Turkey, 5 year CDS quotes closed at 157-159 bps and 312-317 bps respectively.

## ECONOMIC STATISTICS & INDICATORS

### BdL Foreign Assets (excluding gold)

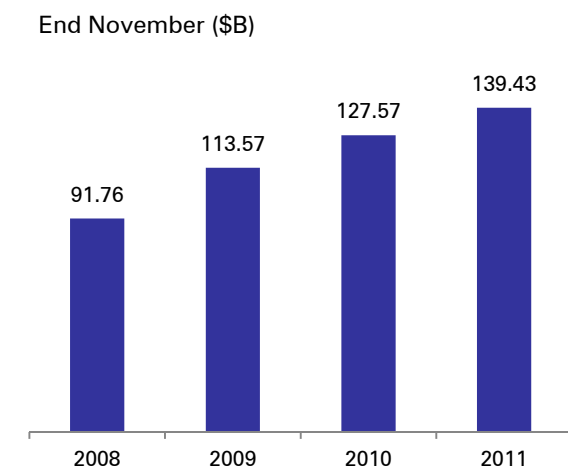


Source: BdL

### BdL Foreign Assets Reach \$32.24B by December 2011

The Central Bank's (BdL) total assets rose by 12.28% on yearly basis to hit \$70.3B by the end of December 2011, according to BdL's bi-weekly balance sheet. BdL's foreign assets (excluding gold) increased by 5.34% from a year earlier to reach \$32.24B. Securities portfolio climbed 20.54% to \$11.58B, while the value of gold reserves appreciated 10.69% to end the year at \$14.4B as the international price of gold surged this year on increasing worries over Europe's debt crisis and fears of a double-dip recession in the US. On the liabilities side, financial sector deposits, constituting 69.68% of liabilities, jumped 14.58% to \$48.98B compared to 2010. These comprise the outstanding certificates of deposits issued by BdL in the domestic currency that increased to \$16.13B by the end of October 2011, and BdL's certificates of deposits denominated in foreign currencies that reached \$7.2B. Public sector's deposits with 7.54% of total liabilities dropped 14.25% to \$5.3B.

### Commercial Banks Assets



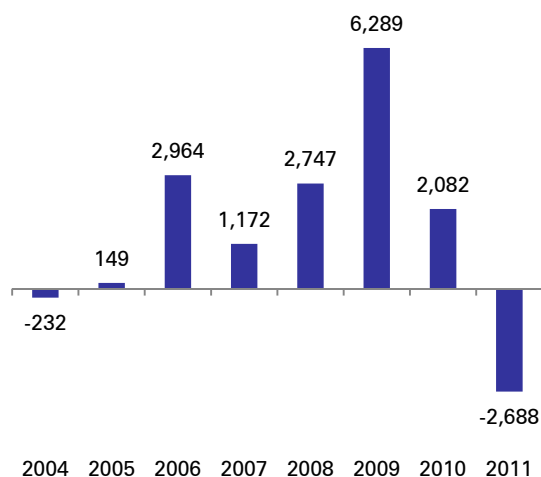
Source: BdL

### Commercial Banks' Assets Reach \$139.43B in November 2011

The consolidated balance sheet of commercial banks registered a 9.3% y-o-y increase to reach \$139.43B in November 2011, recording an 8.15% rise from a year earlier. Total claims on the private sector, which account for 28.4% of total assets, advanced 13.38% from December 2010 to \$39.6B, mostly due to a 22.21% climb in claims in Lebanese pounds, and an 11.21% jump in claims in foreign currencies. Claims on public sector edged 0.56% up since year start to \$29.48B as Treasury Bills in foreign currencies rose 8.86% to \$12.73B, while Treasury Bills in Lebanese pounds fell 5.06% to \$16.68B. On the liabilities side, total resident and nonresident private sector deposits added 6.47% from year start and 8.69% from November 2010 to reach \$114.15B. The dollarization rate of private sector deposits fell from 66.26% in October to 65.76% in November 2011.

## Balance of Payments

Up to November (\$M)



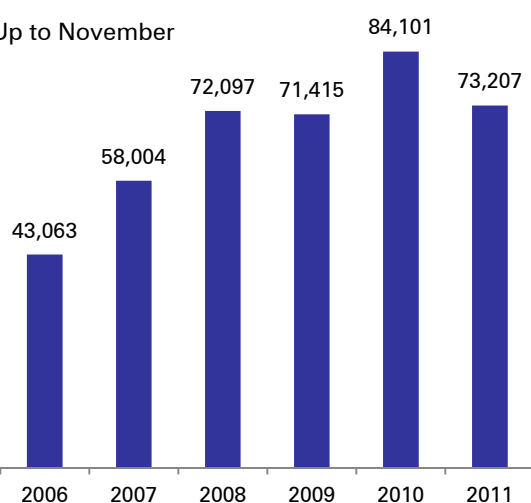
Source: BdL

## BoP Deficit Reached 2.69 billion Up Until November 2011

The Balance of Payment (BoP) registered a deficit of \$2.69 billion during the first 11 months of this year as the cost of imports to Lebanon surged against its narrowing lifeline for foreign capital amid regional political turmoil and tumbling international financial markets. Compared to previous year, 2011's deficit is the first since 2004, and follows surpluses of \$2.08 billion and \$6.29 billion in 2010 and 2009 respectively. Up until November 2011, net foreign assets (NFA) of commercial banks dropped by \$4.88 billion eclipsing the \$2.19 billion increase in NFA of the Central Bank (BdL), according to data from BdL. Foreign capital inflows in 2011 were considerably lower from previous years as the rise of regional unrest weakened Lebanon's touristic season, in addition to depleting investment appetite in its markets. In contrast, total outflows of NFA accelerated in 2011 as prices of imported commodities surged, while the volume of total imports remained relatively unaffected. In November alone, NFA of commercial banks fell by \$958 million while NFA of BdL climbed \$399.2 million, amounting to a BoP negative balance of \$559 million.

## Number of Real Estate Transactions

Up to November



Source: Directorate of Real Estate

## Real Estate Transactions Slide by 13% Up Until November

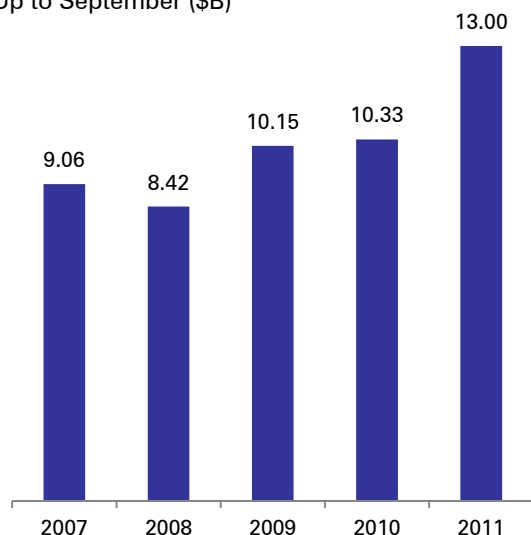
Real estate transactions continued to decline this year highlighting the overall slowdown in demand for properties and waning investment sentiment amid domestic and regional political uncertainties. Sales transactions in the first eleven months of 2011 dropped by almost 13% year-on-year to 73,207, with their total value reaching \$7.66 billion according to the Real Estate Directorate of the Ministry of Finance. As the aggregate value of property sales fell by only 7.6% from the previous year, the average value per transaction climbed to \$104,578 in 2011 from \$98,621 in 2010, and was mostly due to a rise in property prices in Mount Lebanon. In contrast, the average value per transaction inside the capital continued to diminish, sliding by a monthly 2.75% to \$462,703 in November alone. Of total sales transactions in 2011, foreigners accounted for 1.74% after having taken a share of 2.02% in 2010.



## ECONOMIC AND FINANCIAL NEWS

### BdL's Securities Portfolio

Up to September (\$B)

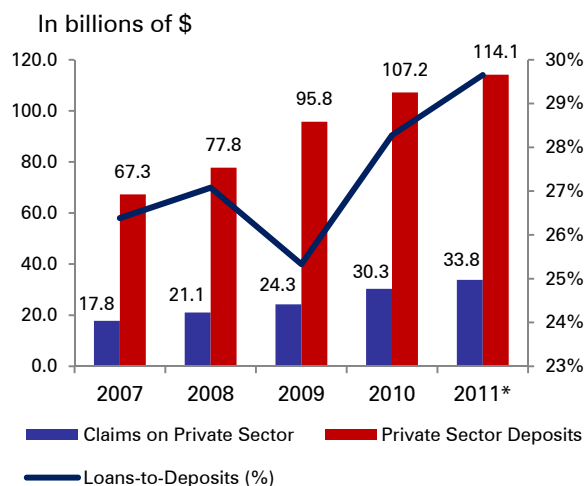


Source: BdL

### Central Bank Increases Position in Treasury Bills

The Central Bank's (BdL) share of total subscriptions in outstanding Treasury Bills (TBs) continued to advance in 2011, making up for slower demand from commercial banks according to the latest debt markets report from the Ministry of Finance. BdL's TB holdings thus stood at \$10.41 billion by the end of September 2011, up by a considerable 21.5% from December 2010. Public institutions' holdings increased by 3.6% to \$4.31 billion, while commercial banks' holdings diminished from \$18 billion to \$17.35 billion. In return, commercial banks have been increasing their private sector loans. Of the \$32.93 billion outstanding TBs by September 2011, commercial banks continued to hold the largest stake or 52.68%, followed by a 31.6% stake for BdL, and a 13.08% stake for public institutions. Managing a highly balanced maturity portfolio, 45.7% of BdL's TB holdings are concentrated in 36M papers. 22% and 15.9% of its TB holdings are in 5Y and 7Y papers respectively, while 8.7% and 6.42% of its holdings are in 24M and shorter term papers.

### Commercial Banks' Loans & Deposits



\*Up to November  
Source: BdL

### Salameh: Lebanese Banks Withstood Regional Setback; BdL to Continue Monitoring Inflation

Lebanese banks weathered a critical period of geopolitical and global economic turmoil in 2011. Customers' deposits grew by around 7% from the previous year and lending increased by 12%, while the sector's total balance sheet grew up to \$170 billion, according to Central Bank Governor Riad Salameh. In addition, Lebanon survived rumors of money laundering activity, which weighed down on confidence in the sector, and continues to update its regulations in tandem with international regulation. With regards to monetary policy, Mr. Salameh said that BdL has continued to monitor capital inflows and will continue to interfere and soak excess liquidity from the market in order to contain inflation. This task, according to the Governor, will be more difficult and costly to BdL in the coming year when minimum wages are increased; noting that inflation is expected to rise by 5% after the wage reform is implemented.

## Transfers to EdL

In Millions of \$	In September		Up until September	
	2011	2010	2011	2010
Transfers to EDL	240.1	82.2	1129.7	829.2
Debt Service	0	7.3	50.4	49.8
Reimbursement for purchase of gas and fuel	239	74.9	1079.9	778.8
KPC & SPC	239	74.9	1044.1	778.8
EGAS	-	-	36.5	-

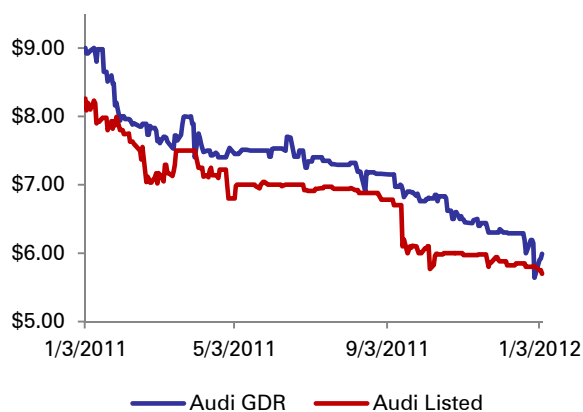
Source: Ministry of Finance

## Transfers to EdL Take Up 21% of Primary Government Expenditure Up Until September

Transfers to Electricite du Liban (EdL) jumped by an annualized 36.2% to LP 1,703 billion (\$1.13 billion) during the first three quarters of 2011, as increases in both oil prices and imported volumes boosted the cost of reimbursing fuel providers, and as outstanding receipts on gas imports were rendered, according to the latest released document from the Ministry of Finance. Reimbursements to Kuwait Petroleum Company and Algeria's Sonatrach amounted to LP 1,628 billion (\$1.08 billion), compared to LP 1,174 billion (\$779 million) during the same period in 2010, with the 39% annual increase representing the spike in the average price of oil to \$90/barrel from \$72/barrel during the corresponding period; noting that the January-September 2011 payments reflect fuel consumption over the period of June 2010 - April 2011, while the 2010 payments reflected consumption over the period May 2009 – February 2010. Between the two considered periods, the volume of oil and gas imports rose by 11% and 2% respectively. Moreover, payments amounting to LP 55 billion (\$36.4 million) were made to Egypt's EGAS for its supply of Liquefied Natural Gas (LNG). The growing bill for electricity production continued to weigh down on Treasury finances this year, with transfers to EdL accounting for almost 21% of government primary expenditures between January and September, after having constituted 16.2% of spending during the same period in 2010.

## CORPORATE DEVELOPMENTS

### Performance of Audi GDR and Listed Stocks



Source: Blominvest Bank- Research dept.

### BSE Converts 500,000 "Audi Listed" Shares to "Audi GDR"

The Beirut Stock Exchange has agreed to convert 500,000 of Bank Audi's common shares to GDRs as per the bank's request. The converted GDRs will be added to the previously listed 99,581,430 shares, raising the total number of Bank Audi GDRs to 100,081,430. Trading in the converted shares will begin as of Friday December 30, 2011. The details related to the conditions of pricing, trading, settlement and clearance of the newly listed GDRs will be the same as those of the previously listed ones.

## FOCUS IN BRIEF

### Overview of Business Monitor's "Lebanon, Food and Drink Report"

#### Lebanon Sectoral Trade Indicators - Historical Data and Forecast

	2009	2010e	2011f	2012f	2013f	2014f	2015f	2016f
Exports (food, drink & tobacco) (US\$ Million)	274.1	285.8	307.4	343	375.8	394.1	410.3	427.3
Imports (food, drink & tobacco) (US\$ Million)	486.7	488	492	493	494.9	496.6	498.3	499.4
Balance (US\$ Million)	-212.6	-202.1	-184.6	-150	-102.5	-102.5	-88	-72

Source: Business Monitor International (BMI)

#### Soft Drinks Sales

	2008	2009	2010e	2011f	2012f	2013f	2014f	2015f	2016f
Soft drinks sales (LB Million)	566.6	576	648.6	686.1	726.4	771.5	812.8	862.6	906.6
Soft drink sales growth (y-o-y)	20.26	1.66	12.61	5.78	5.87	6.21	5.34	6.13	5.1
Soft drinks sales (US \$Million)	0.376	0.381	0.43	0.457	0.484	0.513	0.539	0.574	0.605

Source: Business Monitor International (BMI)

Business Monitor International (BMI) issued lately a study on the Food and Drink industry in Lebanon. Below is an overview of the key findings.

The food industry in Lebanon is highly fragmented into small enterprises in the absence of a legal framework and thus operates informally without official permits. Aside from a lack of governmental control, hurdles for the industry are many and comprise a nonexistence of marketing regulations and competition from low-cost imports from neighboring countries. The agriculture industry alone employs 25% of Lebanon's private sector wage earners and stands well compared to the region, as the country enjoys big disparity in its agricultural production due to the significant differences in altitude found within the country. But only 55% of the country's productive areas are being exploited due to poor management.

Yet as much as the latter issues hamper the development of the industry, they represent great opportunities to be taken advantage of as they suggest that the potential of the sector is unreached and growth of the industry far from saturation point. In that setting, governmental efforts are being provided. In summer 2011, Lebanese government ministers agreed on a new food safety framework to be implemented in the upcoming months.

The drink industry in Lebanon performs under a different setting yet shares the same gap between its actual performance and its potential growth. The sector growth is mostly driven by non-alcoholic drinks such as the carbonate, bottle water and fruit juice segments, as a large part of the population is Muslim resulting in a relatively low per capital consumption of alcoholic drinks. Tea and coffee for instance are considered relatively mature sub-sectors in Lebanon especially that their consumption is an essential part of the local culture. Thus, most companies have been focusing their product innovation on non-alcoholic beverages. Yet this does not prevent the existence of a large alcoholic drinks sector in Lebanon, which stand as the biggest in the region. The country comprises 18 vineyards, compared to just three in 1990.

On another front, the drink sector suffers from managerial issues, mostly felt through excessive bureaucracy and red tape, which held back the growth of the sector. In light of the situation, members of the Arab Forum for Beverages, held in Beirut in October 2010, called for “the establishment of agro-industrialist co-operatives to strengthen capabilities and opportunities for growth and innovation, and for the codification of health and competitive standards in the food industry.”

The several challenges faced by the food and drinks industry put Lebanon’s food and drink trade balance in negative territory. Yet looking forward, the deficit is expected to narrow between 2011 and 2016, from \$-184.6 million down to \$-72 million, as the country is actively planning to achieve greater agricultural efficiency. The shifting trade balance, as perceived by Business Monitor, echoes the country’s growing regional trade ties with both the EU and the wider Middle East region. Unlike its peer countries, Lebanon benefits from a robust agricultural industry, and can meet certain categories of domestic demand, particularly for fruits and vegetables. This, along with governmental efforts, should boost exports over the longer term, and help meet domestic demand, reducing by that the need for costly imports.

The performance of the food and drinks industry over the third quarter of 2011 was put under pressure due to global economic woes and internal political uncertainty but prospects for the industry remain strong. On the demand front, Business Monitor expects food consumption to register only moderate growth, pulled back by global slowdown and regional political crisis. However, in case of an unexpected shock occurrence, local consumption level is likely to remain resilient, backed by remittances which account for around 22% of GDP.

Another major booster behind industry growth is the continued investment in the country’s Mass Gross Retail (MRG) sector<sup>1</sup>, which will help fuel further food consumption. Lebanon’s MRG sector is underdeveloped, and does not appeal much for new retailers to enter it as the country holds neither a high-spending consumer base nor a large market. According to Business Monitor, the sector sales will continue to be dominated by the supermarket front, which accounted for around 8% of sector sales in 2011. Between 2011 and 2016, sales through the supermarket format are expected to surge by 85% to reach a value of LB4,507 billion, while sales through hypermarket will experience a more muted growth of 41% to reach a value of LB594.9 billion.

On the price front, Business Monitor perceives rising prices to be a key risk for Lebanon as the country is highly dependent on food imports to meet its domestic needs<sup>2</sup>. Looking forward, local consumer price inflation is expected to remain relatively tamed over 2012 as lower prices across the global commodities complex and slower economic growth should restrain inflationary pressures. Consumer price inflation is expected to reach 4.4% in 2012, slightly below the 5.3% estimate for 2011.

The soft drinks industry is expected to continue to post solid growth heading into 2012. Business Monitor forecast sales to grow by 32.1% in value terms, between 2011 and 2016 to reach LBP906.6 million. The alcoholic drinks sector is also expected to post steady growth, backed mostly by the wine subsector. The performance of the industry will be backed by the tourism sector and youthful population and the expected rise in disposable income.

Despite its small population, Lebanon holds much strength that if used efficiently, should contribute to boost further up the performance of the food and drinks industry. The country enjoys an extensive trade network of Lebanese around the world, created by decades of emigration and which should offer opportunities for food and drinks producers to export to these diaspora markets, increasing by that the growth capacity of the industry.

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<sup>1</sup> Which comprises supermarkets and hypermarkets

<sup>2</sup> For instance, imports account for 100% of demand for sugar, rice, tea and coffee, while over 90% of meat requirements are met by imports





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