



## LEBANON THIS WEEK

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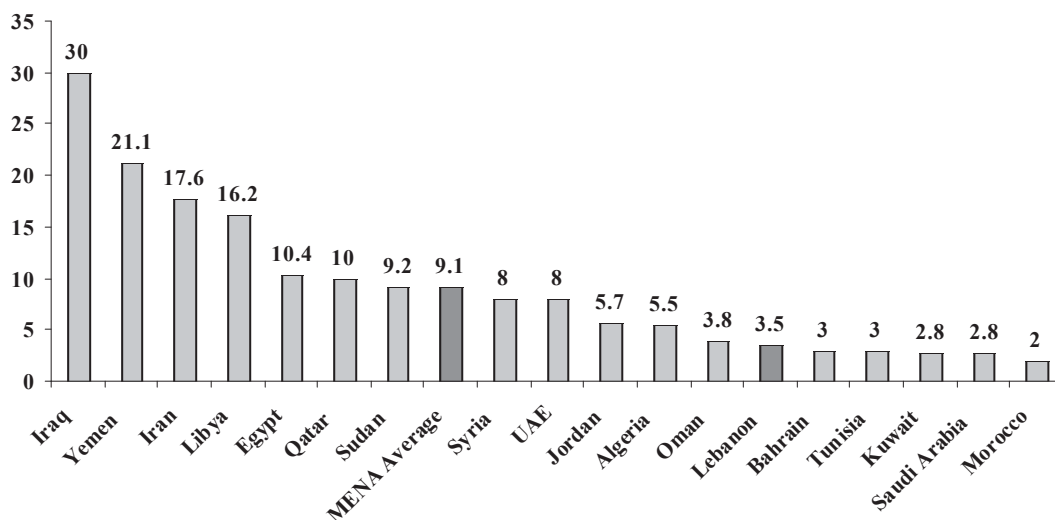
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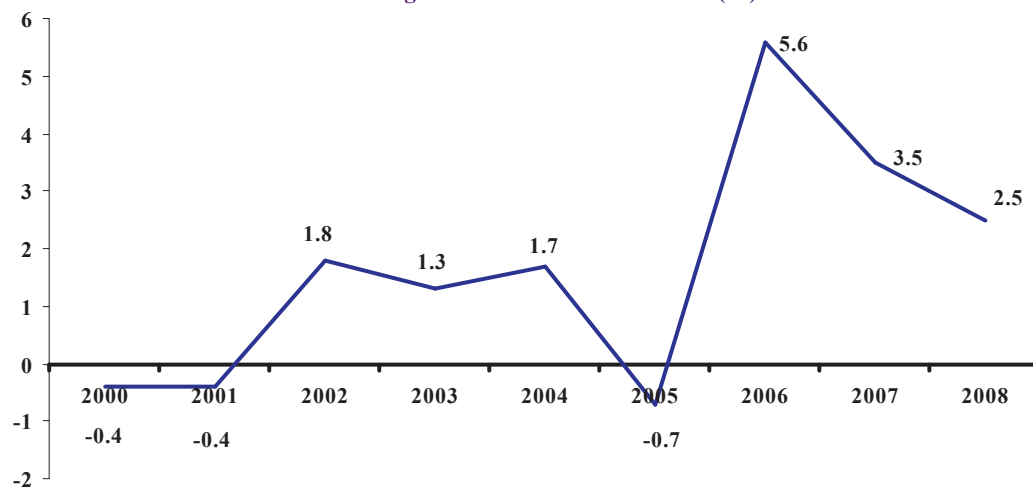
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### Charts of the Week

Average Inflation Rates in the Middle East & North Africa Region for 2007 (%)



Average Inflation Rates in Lebanon (%)



Source: International Monetary Fund, 2007

### Quote to Note

“The banking sector remains the backbone of Lebanon’s financial system, and the linchpin of support for what would otherwise be an untenable fiscal situation.”

*The Institute of International Finance, on the role of the banking sector in maintaining financial stability in the country*

### Number of the Week

**\$1.4bn:** Amount reduced from the gross public debt due to financial engineering measures between the Central Bank and the Finance Ministry

## Economic Indicators

<b>\$m</b> (unless otherwise mentioned)	<b>May 2006</b>	<b>Jan-May.06</b>	<b>2006</b>	<b>Apr.2007</b>	<b>May 2007</b>	<b>Jan-May 07</b>	<b>% Change*</b>
Exports	285	1,033	2,282	231	-	-	-
Imports	980	4,179	9,399	946	-	-	-
Trade Balance	(695)	(3,147)	(7,118)	(715)	-	-	-
Balance of Payments	414	1,835	2,795	261	174	335	(81.74%)
Checks Cleared in LBP	659	3,124	7,219	635	739	3,402	8.89%
Checks Cleared in FC	2,533	11,478	25,268	2,239	2,457	11,277	(1.75%)
Total Checks Cleared	3,192	14,602	32,487	2,874	3,196	14,679	0.53%
Budget Deficit	(32)	358	3,039	72	-	-	-
Primary Balance	290	804	(17)	251	-	-	-
Airport Passengers	270,711	1,310,384	2,825,138	290,059	245,917	1,220,013	(6.90%)

<b>\$bn</b> (unless otherwise mentioned)	<b>Dec.2005</b>	<b>May 2006</b>	<b>Dec.2006</b>	<b>Mar.2007</b>	<b>Apr.2007</b>	<b>May 2007</b>	<b>% Change*</b>
BdL FX Reserves	9.85	12.65	10.21	9.62	9.81	9.91	(21.66%)
<i>In months of Imports</i>	<i>11.3</i>	<i>12.9</i>	<i>11.3</i>	<i>9.8</i>	<i>10.4</i>	-	-
Public Debt	38.50	38.78	40.39	41.22	41.29	41.41	6.78%
Net Public Debt	34.79	35.34	37.44	38.56	38.69	38.97	10.27%
Bank Assets	70.33	74.18	76.18	77.08	77.02	77.89	5.00%
Bank Deposits	56.99	59.71	60.69	61.08	61.88	62.49	4.66%
Bank Loans to Private Sector	16.23	17.01	17.20	17.50	17.81	18.09	6.35%
Money Supply M2	16.23	17.15	15.57	15.73	15.97	16.23	(5.36%)
Money Supply M3	49.38	51.34	53.23	54.19	54.97	55.77	8.63%
LBP Lending Rate (%)	10.12	10.21	10.37	10.28	10.42	10.45	24b.p.
LBP Deposit Rate (%)	7.70	7.57	7.49	7.48	7.48	7.49	(8b.p.)
USD Lending Rate (%)	8.38	8.36	8.55	8.55	8.49	8.40	4b.p.
USD Deposit Rate (%)	4.09	4.37	4.76	4.84	4.85	4.88	51b.p.
%* Change in CPI**	(2.23)	2.53	7.04	4.91	4.45	3.86	133b.p.

\* Year-on-Year; \*\* Consumer Price Index

Note: b.p. i.e. basis point

Sources: ABL, BdL

## Capital Markets

<b>Most Traded Stocks on BSE</b>	<b>Last Price (\$)</b>	<b>% Change*</b>	<b>Total Volume</b>	<b>Weight in Market Capitalization</b>
Solidere "A"	15.79	3.20%	50,695	18.96%
Solidere "B"	15.58	2.37%	22,943	12.23%
Byblos Common	1.76	0.57%	240,065	4.22%
Byblos Priority	1.81	0.56%	499,588	4.41%
BLOM GDR	67.00	0.00%	3,000	6.19%
BLOM Listed	65.00	0.00%	0	5.42%
Audi GDR	58.50	(3.07%)	5,304	7.06%
Audi Listed	55.00	(4.35%)	30,000	22.48%
HOLCIM	21.40	9.74%	737	5.12%

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

<b>Sovereign Eurobonds</b>	<b>Coupon %</b>	<b>Mid Price \$</b>	<b>Mid Yield %</b>
Oct.2009	10.250	102.50	8.78
Dec.2009	7.000	96.50	8.64
Mar.2010	7.125	96.00	8.86
May 2011	7.875	97.00	8.63
Sep.2012	7.750	96.00	8.59
June 2013	8.625	98.50	8.76
Apr.2015	10.000	105.50	9.00
Jan.2016	8.500	96.00	9.19
May 2016	11.625	115.50	9.05
Apr.2021	8.250	91.50	9.15

Source: Byblos Capital Markets

	<b>This Week</b>	<b>Last Week</b>	<b>% Change</b>	<b>June 2007</b>	<b>June 2006</b>	<b>% Change</b>
<b>Total Shares Traded</b>	1,788,434	1,027,157	74.11%	3,075,252	5,003,058	(38.53%)
<b>Total Value Traded</b>	\$6,868,660	\$4,925,671	39.45%	\$36,701,322	\$71,024,556	(48.33%)
<b>Market Capitalization</b>	\$8.44bn	\$8.43bn	0.12%	\$8.47bn	\$7.00bn	21.00%

Source: Beirut Stock Exchange (BSE)



### Institute of International Finance sees low prospects for reforms in current political environment

The Institute of International Finance (IIF) considered that Lebanon's tense political environment offers little scope for the implementation of the fundamental reforms needed to reduce the public debt, and that growth prospects appear limited given the prevailing political uncertainties. It said the political stalemate has slowed the reform momentum and is likely to lead to the delay in the restructuring and privatization of state-owned entities. Further, most long-term investment decisions are likely to be postponed until the political stalemate is resolved, while short-term confidence has been further affected by the outbreak of unrest in the North. It expected real GDP growth at 1.5% this year, driven mainly by donor-financed infrastructure investment, and to increase to 3.5% in 2008 if there is no outbreak of violence.

According to the IIF, the fiscal balance is unlikely to improve significantly over the next two years. It expected some progress in reducing corruption and waste, while disbursements from Paris III should allow the stabilization and reduction of debt servicing costs. Consequently, the fiscal deficit will stay in the 13-14% of GDP range and the primary surplus will remain short of the 7-8% of GDP necessary to reduce the public debt. As a result, the public debt ratio is set to reach 205% of GDP by the end of 2008. It added that uncertain demand for local will not reduce the government's reliance on external debt.

The IIF expected the current account deficit to increase, as direct and portfolio investment may show some recovery from last year but will remain well below the levels of 2005. Also, income inflows will show strong growth as Lebanon's commercial banks continue to develop their regional operations, while current transfers are expected to be robust due to Paris III contributions and remittance inflows.

### Lebanon's governance indicators regress

The World Bank's annual governance indicators show that Lebanon has regressed in general in terms of percentile rankings on the six indicators that were measured in 2006. Lebanon ranked 134th worldwide and 13th in the MENA region in Government Effectiveness (GE), the indicator that measures the competence of the bureaucracy and the quality of public service delivery. It came ahead of Peru and Pakistan and ranked behind Russia and the Dominican Republic. Also, Lebanon ranked behind Guinea and ahead of Chad on the Political Stability (PS) indicator that measures the likelihood of instability, domestic violence and terrorism. Lebanon came behind Thailand and ahead of Bangladesh in Voice & Accountability (VA), the measure of the extent to which a country's citizens are able to participate in selecting their government, as well as freedom of expression, freedom of association, and a free media.

Further, Lebanon tied with Guatemala and trailed the Philippines and Macedonia on Regulatory Quality (RQ), the measure of market-friendly policies and laws. It tied with Mexico and Burkina Faso and ranked behind Brazil on the Rule of Law (RL), an indicator of the extent that citizens have confidence in and abide by the rules of society. Finally, Lebanon tied with Mozambique and Armenia and came behind Ethiopia and Mali on Control of Corruption (CC), the measure of the level of corruption. The governance indicators cover 212 countries and are rated on a scale of -2.5 to 2.5.

### Country Forecast Summary

	2006f	2007f	2008f
Real GDP Growth (%)	(4.0)	1.5	3.5
CPI Inflation (%)	5.7	3.8	3.0
Trade Balance*	(26.0)	(25.4)	(24.3)
Current Account Balance*	(9.4)	(10.5)	(7.2)
Fiscal Balance *	(13.7)	(14.1)	(13.2)
Gross Public Debt*	(182.1)	(201.3)	(204.7)
External Debt*	(118.3)	(121.3)	(123.5)
Gross FX Reserves (\$bn)	10.2	10.7	12.5
<i>in months of imports</i>	6.6	4.9	4.0

f: IIF forecast

\* % of GDP

### Government Effectiveness Rankings and Scores for 2006

Country	Score	MENA Rank	Global Rank
Israel	+1.10	1	36
UAE	+0.78	2	51
Tunisia	+0.55	3	63
Qatar	+0.53	4	64
Oman	+0.46	5	68
Bahrain	+0.35	6	72
Kuwait	+0.28	7	76
Jordan	+0.19	8	81
Morocco	+0.02	9	93
Saudi Arabia	-0.28	10	117
Algeria	-0.35	11	121
Egypt	-0.41	12	130
<b>Lebanon</b>	<b>-0.45</b>	<b>13</b>	<b>134</b>
Iran	-0.80	14	161
Libya	-0.86	15	166
Yemen	-0.93	16	176
Syria	-1.03	17	181
West Bank/Gaza	-1.11	18	185
Iraq	-1.70	19	209

### Lebanon's Rankings and Scores on Governance Indicators for 2006

Indicator	Score	MENA Average	MENA Rank	Global Rank
VA	-0.51	-0.80	4	144
PS	-1.76	-0.53	17	196
GE	-0.45	-0.16	13	134
RQ	-0.09	-0.18	10	100
RL	-0.49	-0.04	12	127
CC	-0.57	-0.03	13	133

Source: World Bank, Byblos Research

### Ministry of Finance releases second report on Paris III

The Ministry of Finance released the second progress report on the Paris III Conference. The report shows that out of the nearly \$1bn expected for government support this year, only \$177m were actually received: a \$100m grant from Saudi Arabia for budgetary support and a \$77m loan from the IMF to the Central Bank. In reference to the private sector, out of the total \$1.3bn pledges, \$762m worth of credit lines were signed, especially with banks. According to the report, the structure of the total \$7.6bn pledges is as follows: 38% are from European sources, 36% from Arab sources, 14% from international institutions, 11.7% from the US (including \$250m from USAID for budgetary support) and 0.3% from other countries. In parallel, 10% of the pledges are for existing projects, 18% to support the private sector, 4.5% for the UN and other social programs, 4.5% for technical assistance, 1% for the Central Bank, 11% in grants to government, 50% in loans to government, and 0.5% is under revision.

### Cleared checks down 1% to \$3.1bn in June 2007

The value of cleared checks dropped by 0.8% to \$3.1bn in June 2007 compared to June 2006. The value of cleared checks in LBP increased by 4.3% to the equivalent of \$656m, while the value of cleared checks in USD dropped by 2.2% to \$2.4bn. The dollarization rate dropped from 79.7% to 78.6% year-on-year. The value of cleared checks reached \$17.7bn in the first five months of 2007, up 0.3% year-on-year.

### Cabinet to drop tariff fees on steel

The Minister of Finance announced that the Cabinet's decision to drop tariff fees on steel from 15% to 5% will go into effect on July 24, 2007. According to the Cabinet, the decision will contribute in reducing construction costs and increasing competition.

## Corporate Highlights

### Solidere sets up Solidere International in Dubai

Solidere, the Lebanese Company for the Development and Reconstruction of the Beirut Central District, established Solidere International Ltd. (SI), a company launched in the Dubai International Financial Center (DIFC). Solidere has a stake of 37.2% of the 11 million shares of SI which raised successfully \$700m in a private placement. SI will be responsible for real estate projects undertaken outside Lebanon, especially in the Middle East, the Mediterranean countries and North Africa. SI is co-investing with the government of UAE's Ajman in a 12 million s.q.m. development project in the emirate.

### AFD grants credit lines to Bank Audi and BLF

L'Agence Française de Développement (AFD) extended to Bank Audi s.a.l. and Banque Libano- Française s.a.l. (BLF) credit lines of €25m and €15m respectively for the financing of small and medium sized enterprises which were damaged by the summer war of 2006. The credit lines are part of the €125m pledged by the AFD in the Paris III conference to support the private sector. The loans will allow SMEs to borrow between \$100,000 and \$1.5m over a period ranging between 12 months and 10 years at lower rates.

### Sodetel and Jordan Telecom sign MoU

Lebanon-based internet service provider Sodetel, Société de Développement des Télécommunications du Liban, signed a Memorandum of Understanding (MoU) with Jordan Telecom to examine the possibility of Jordan Telecom to extend technical support for developing Sodetel's Digital Subscriber Line (DSL) internet services. Sodetel, which was established in 1968, is 50% owned by the Lebanese Ministry of Telecommunications, 40% owned by France Telecom and 10% owned by Telecom Italia; while Jordan Telecom, Jordan's principal telecommunications service provider, is 60% owned by the Jordanian government and 40% owned by JITCO, a holding company consisting of France Telecom (88%) and the Arab Bank (12%).

### Hayek Group and Gulf Resources sign agreement

Beirut-based Hayek Group, a real estate development company, and Dubai-based Gulf Resources, signed a strategic alliance agreement to develop real estate projects in Lebanon and promote them to Gulf and international investors. In February, Hayek Group and Kuwait-based International Investors Group (IIG) launched a \$45m fund in Kuwait to finance the purchase of apartments in Lebanon by Kuwait residents, especially Lebanese expatriates.

## Ratio Highlights

	2005	2006	Change*	Q1-2007 <sup>(1)</sup>
Nominal GDP <sup>(2)</sup> (\$bn)	21.4	22.6		23.6
External Debt / GDP	89.6	90.3	70	86.4
Local Debt / GDP	90.2	88.5	(170)	88.1
Total Debt / GDP	179.9	179.2	(70)	174.6
Trade Balance / GDP	(35.0)	(31.4)	360	(8.9)
Exports / Imports	20.1	24.3	420	23.0
Revenues / GDP	22.9	19.5	(340)	5.9
Expenditures / GDP	31.8	31.0	(80)	8.9
Budget Balance / GDP	(8.9)	(11.5)	(260)	(3.0)
Primary Balance / GDP	2.3	(0.1)	(180)	0.3
BdL FX Reserves / M2	60.7	65.6	490	61.2
M3 / GDP	230.8	235.5	470	229.6
Bank Assets / GDP	328.5	337.2	870	326.7
Bank Deposits / GDP	266.3	268.6	230	258.9
Private Sector Loans / GDP	75.7	76.1	40	74.2
Dollarization of Deposits	73.1	76.2	310	76.0
Dollarization of Loans	82.4	81.6	(80)	81.6

\* Change in basis points

<sup>(1)</sup> Up to March 2007, and based on the IMF estimation of 1% Real GDP Growth Rate and 3.5% Inflation Rate

<sup>(2)</sup> Based on Ministry of Finance Estimations (assuming 1% and 0% Real GDP Growth Rates in 2005 and 2006 respectively)

Source: 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	May 2006	Apr.2007	May 2007	Change*	Risk Level
Political Risk Rating	58.5	56.0	58.0	▼	High
Financial Risk Rating	31.5	31.5	31.5	↔	Moderate
Economic Risk Rating	26.0	29.0	29.0	▲	High
Composite Risk Rating	58.0	58.2	59.2	▲	High

Regional Average	May 2006	Apr.2007	May 2007	Change*	Risk Level
Political Risk Rating	66.4	66.1	66.1	▼	Moderate
Financial Risk Rating	41.4	41.1	41.5	▲	Very Low
Economic Risk Rating	41.4	40.3	40.1	▼	Very Low
Composite Risk Rating	74.6	73.7	73.8	▼	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	B3	NP	Negative			
Fitch	B-	B	Stable	B-		
S&P	B-	C	Negative	B-	C	Negative
CI	B-	B	Negative	B-	B	Negative

Source: Rating agencies

Banking Ratings	Banks' Financial Strength	Banking Sector Risk	Outlook
Moody's	D-		Stable
EIU		B	Stable

Source: Rating agencies

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