



## LEBANON THIS WEEK

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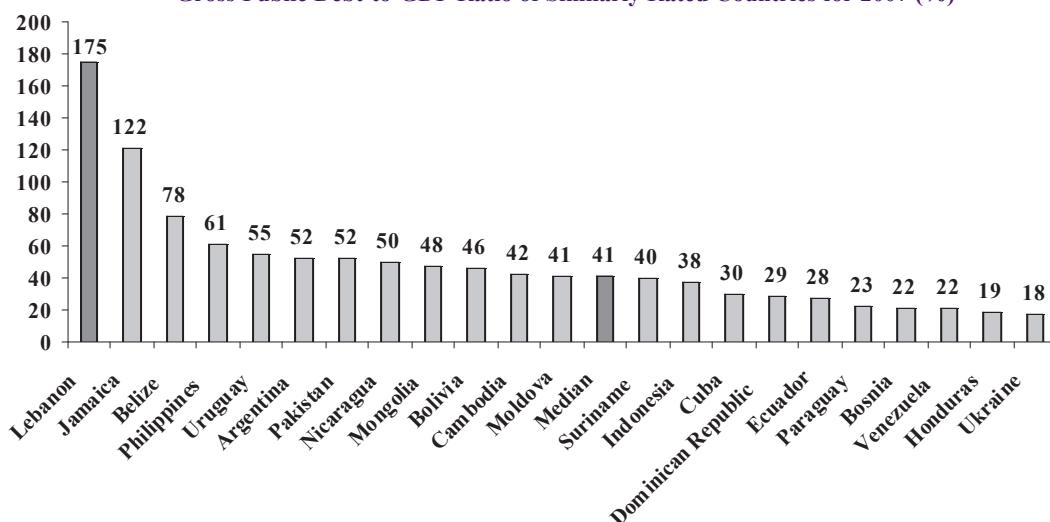
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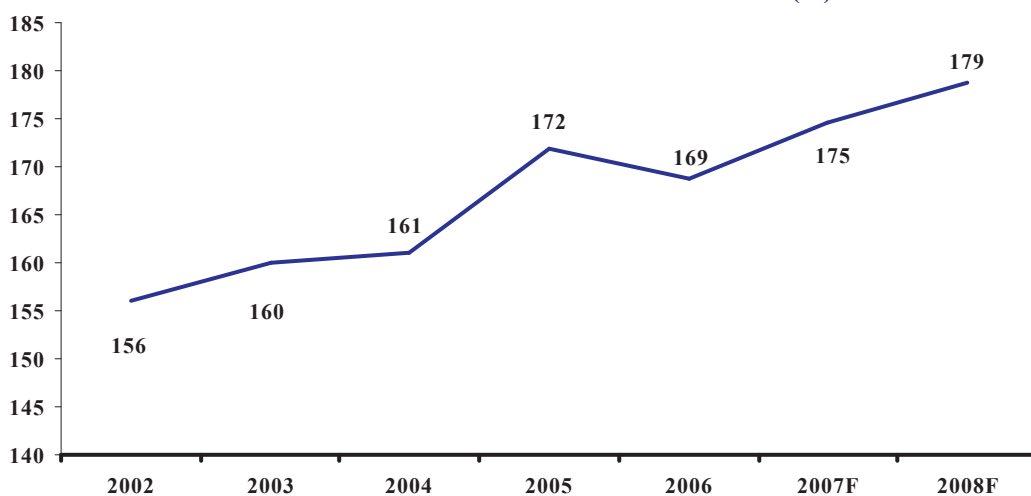
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### Charts of the Week

Gross Public Debt-to-GDP Ratio of Similarly Rated Countries for 2007 (%)



Gross Public Debt-to-GDP Ratio for Lebanon (%)



Source: Moody's Investor Services, 2007

### Quote to Note

“The ongoing political impasse will make the government’s planned economic reforms extremely difficult to implement.”

*The Economist Intelligence Unit, on the impact of the political stalemate on the Lebanese economy*

### Number of the Week

**0.1%:** Percentage of land area in Lebanon owned by non-Lebanese nationals, according to 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	233	1,086	5.13%
Imports	980	4,179	9,399	946	930	4,577	9.52%
Trade Balance	(695)	(3,147)	(7,118)	(715)	(697)	(3,491)	10.93%
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"	15.69	(0.63%)	170,786	18.72%
Solidere "B"	15.37	(1.35%)	21,730	11.92%
Byblos Common	1.75	(0.57%)	34,443	4.28%
Byblos Priority	1.81	0.00%	40,250	4.45%
BLOM GDR	66.50	(0.75%)	7,500	5.86%
BLOM Listed	65.00	0.00%	0	5.56%
Audi GDR	58.00	(0.85%)	1,798	6.80%
Audi Listed	55.00	0.00%	0	21.50%
HOLCIM	20.00	(6.54%)	1,262	4.66%

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	98.25	8.76
Apr.2015	10.000	105.50	9.00
Jan.2016	8.500	95.75	9.23
May 2016	11.625	115.50	9.05
Apr.2021	8.250	91.00	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>	302,809	1,788,434	(83.07%)	3,075,252	5,003,058	(38.53%)
<b>Total Value Traded</b>	\$5,830,373	\$6,868,660	(15.12%)	\$36,701,322	\$71,024,556	(48.33%)
<b>Market Capitalization</b>	\$8.38bn	\$8.44bn	(0.71%)	\$8.47bn	\$7.00bn	21.00%

Source: Beirut Stock Exchange (BSE)



### Credit Suisse says Lebanon's ratings need to be upgraded to justify current spread

Global investment bank Credit Suisse indicated in a report on sovereign emerging markets debt spreads that Lebanon's sovereign debt's rating needs to be upgraded by one notch from Moody's 'B3' rating and by two notches from S&P's 'B-' rating in order to make the currently prevailing spread "fair". The report added that Lebanon, along with Panama, Uruguay, Indonesia, the Philippines and Ukraine are the only countries in emerging markets that would need more than a one-notch S&P upgrade to justify tightness of their spread. Lebanon, along with Turkey and Panama, are the only emerging markets countries to have higher ratings from Moody's than from S&P. The report stresses the idea that although the current sovereign emerging markets spreads are clearly tight by historical standards, they are enough to cover or more than cover the expected losses that derive from sovereign debt exposure, on a bullish assumption about the macro-environment.

Sovereign	Current rating from Moody's/S&P	Required change in ratings from Moody's (nb. of notches)	Required change in ratings from S&P (nb. of notches)
Ecuador	Caa2/CCC	+0	+1
Argentina	B3/B+	+3	+1
<b>Lebanon</b>	<b>B3/B-</b>	<b>+1</b>	<b>+2</b>
Venezuela	B2/BB-	+2	+0
Uruguay	B1/BB-	+4	+3
Indonesia	B1/BB-	+2	+2
Turkey	Ba3/BB-	+1	+1
Brazil	Ba2/BB+	+2	+1
Morocco	Ba1/BBB-	+1	+1
Egypt	Ba1/BB+	+1	+1
Romania	Baa3/BBB-	+2	+3
Russia	Baa2/BBB+	-1	-1
Mexico	Baa1/BBB	-1	+0
Korea	A3/A	+0	-1
China	A2/A	-1	-1
Israel	A2/A-	-2	+0
Hungary	A2/BBB+	-2	+1

Source: Credit Suisse, July 2007

### Lebanon is largest Arab recipient of remittances

According to the World Bank, Lebanon was the largest recipient of remittances among the Arab countries in 2006 with an estimated figure of \$5.2bn, up from an estimated \$4.9bn in 2005. Lebanon was followed by Morocco with \$5.1bn, Egypt with \$3.3bn and Jordan with \$2.8bn. The total remittances of Arab expatriates to the Middle East were \$40bn in 2006, up 5% from the year before. The Middle East was the fifth largest recipient of remittances in 2006, while Latin America was the first with \$53.4bn, followed by Asia and the Pacific with \$45.3bn, and South Asia with \$35.7bn. The total remittances of Arab expatriates sent through formal channels (mostly banks), were \$24.7bn in 2006, up 5% from the year before. The World Bank added that there are around 11.8 million Arabs living away from home, mostly in the Gulf, Europe, South East Asia and the US.

### Most tourist spending in Lebanon originates from Saudi Arabia

According to Global Refund, the cash refund operator for international shoppers, tourists from Saudi Arabia spent the most in Lebanon in the first half of the year, equivalent to 19% of total tourist spending, followed by tourists from Kuwait (16%), UAE (11%), Jordan (8%) and Egypt (7%). Tourist spending for the first half of 2007 declined by 22% from the same period last year. Beirut attracted 82% of total spending in the first half of 2007, followed by Mount Lebanon and Metn with 12% then Keserwan with 3%. Fashion and clothing accounted for 69% of total spending in the year-to-June, followed by watches with 12%, home and garden with 5%, perfumes and cosmetics with 3%, and department stores with 3%.

### Telecom Ministry transfers \$73m to Finance Ministry

According to newspaper sources, the Ministry of Finance received on July 19, 2007 transfers of \$60m and LP20bn (\$13.3m) from the Ministry of Telecommunications to support budget financing. The announcement of the transfers came this week in parallel to the cellular boycott protesting the high fees of mobile telecom in Lebanon. Syndicates and trade unions joined the boycott on July 19, 2007 to pressure the Ministry of Telecommunications to reduce the rates, considered to be the highest in the region. According to the ministry, total revenues from telecom services amounted to \$528m in the first five months of 2007, up 9.3% year-on-year, while transfers from the telecom surplus to the Finance Ministry amounted to \$500m in the first six months of 2007.

## Lebanon in the News

### Government to increase prices of gasoline

The President of the Association of Oil Importing Companies announced that the government intends to increase the prices of gasoline by LP1,000 (\$0.66) from LP22,500 (\$14.9) to LP23,500 (\$15.6) for every tank, or 20 liters, in the coming month. He added that the increase comes as a result of the significant rise in international oil prices (the price of the barrel of oil is more than \$75 currently). With the current prices, the government collects LP100 (\$0.07) for every tank. Lebanon imports 1.3 million tons of oil and gasoline each year.

### Beirut Port revenues up 6% in June 2007

The Port of Beirut stated that port revenues amounted to \$9.2m in June 2007, up 6% from June 2006. The freight activity and number of ships dropped by 17% and 8% respectively in June 2007, compared to June 2006, to reach 383,800 tons and 169 ships. For the first half of the year, the port's revenues amounted to \$56.7m, up 23% year-on-year, while the freight activity and number of ships rose by 6% each, compared to the same period in 2006, to reach 2.54 million tons and 1,159 ships.

### Trade deficit up 11% to \$3.5bn in year-to-May

The trade deficit reached \$3.5bn in the first 5 months of 2007, up 11% year-on-year. Imports rose by 10% to \$4.6bn while exports increased by 5% to \$1.1bn year-on-year. Italy was the main source of imports with 11% of total imports, followed by the USA with 9%, while Switzerland was the main export destination with 9% of total exports, followed by the UAE with 8%. The coverage ratio reached 23.7% in the year-to-May period, down from 24.7% year-on-year. For the month of May 2007, the trade deficit rose by 0.3% to \$697m compared to \$695m in May 2006. Imports dropped by 5% year-on-year to \$930m in May, while exports dropped by 18% to \$233m.

## Corporate Highlights

### Byblos Bank acquires Financial Studio Solution for Basel II compliance

The Byblos Bank Group announced that it has acquired the Financial Studio Solution from Financial Architects (FinArch), the international provider of Finance Resource Planning (FRP) platform for the finance industry, for Basel II compliance. The Group will implement the Basel II Accord at all its entities in Lebanon, Europe (Belgium, France and UK), Sudan and Syria, as well as at foreign branches in Cyprus and in Iraq's Erbil and at the Representative Office in Abu Dhabi, to ensure Basel II compliance within regulatory deadlines.

### HOLCIM Liban to distribute dividends

The ordinary general assembly of HOLCIM Liban held on June 6, 2007 approved the following dividend distribution: LP1,368 (\$0.9) per share for a total of LP26.7bn (\$1.8m). HOLCIM Liban registered \$19.9m in audited net profits for 2006, down 12.7% from \$22.8m in 2005. The company's net sales reached \$116m in 2006, down from \$125m in 2005.

### FFA becomes a specialized bank

Financial Funds Advisors International (FFA), a Lebanese financial institution, received approval from the Central Bank to operate as a private bank, making it the first financial institution to receive a specialized bank license in Lebanon. FFA was originally founded in 1994 as a brokerage firm focused on delivering financial advice and mutual funds distribution. In 1996, it became regulated by the Central Bank and a member of the Beirut Stock Exchange. Before receiving the license, FFA increased its capital by five times to \$25m and broadened its shareholder base. In November 2006, FFA (Dubai) Limited, a fully-owned subsidiary of FFA received a license by the Dubai Financial Services Authority (DFSA) to operate as an authorized firm in the Dubai International Financial Center (DIFC).

### ARAMEX launches operations in the Logistics Free Zone

ARAMEX, provider of transportation solutions in the MENA region and South Asia, launched its operational warehouse at the Port of Beirut's new Logistics Free Zone. Skynet, a Lebanese logistics company, launched the first operational warehouse at the Free Zone in February 2007. Also, Net Logistics, the exclusive agent of EGL-Eagle Global Logistics in Lebanon, launched its operational warehouse at the Free Zone in April 2007. The zone contains 17 new parcels offered by the Port. The leasing cost per year is \$16 per sqm for each of the 1,000 sqm parcel.

### British airline bmi to increase direct flights from Heathrow to Beirut

The British airline bmi announced that it will increase its direct flights to Beirut, and also to Amman, with daily services available to both locations. The airline stated that the frequency enhancement to schedules on routes from Heathrow to Beirut and Amman will enable much greater flexibility in planning business travel itineraries. bmi, established in London in 1997, is a member of the Star Alliance network which offers more than 16,000 daily flights to 855 destinations in 155 countries.



## 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

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

(2) 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	June 2006	May 2007	June 2007	Change*	Risk Level
Political Risk Rating	58.5	58.0	56.5	▼	High
Financial Risk Rating	31.5	31.5	31.5	↔	Moderate
Economic Risk Rating	25.5	29.0	29.0	▲	High
Composite Risk Rating	57.8	59.2	58.5	▲	High

Regional Average	June 2006	May 2007	June 2007	Change*	Risk Level
Political Risk Rating	66.4	66.1	67.5	▲	Moderate
Financial Risk Rating	41.3	41.5	41.9	▲	Very Low
Economic Risk Rating	41.1	40.1	40.3	▼	Very Low
Composite Risk Rating	74.4	73.8	74.8	▲	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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