



LEBANON THIS WEEK

In This Issue

Economic Indicators.....1

Capital Markets.....1

Lebanon in the News.....2

Lebanon ranks 85th globally, 3rd in MENA region on democracy index

Bader's Building Block Equity Fund raises \$17m

USAID grants \$5m in assistance to the government to join WTO

Number of tourists down 59% in June 2007

ESC launches first Business Confidence Index in Lebanon

Corporate Highlights.....3

Lebanese Canadian Bank and Fransabank in line to buy BLC Bank

ADIR receives Syria license

M1 Group buys Façonnable brand for \$210m

Lebanese company to acquire Algerian hotel

EuroMena Fund sponsors investment in SODAMCO Holding

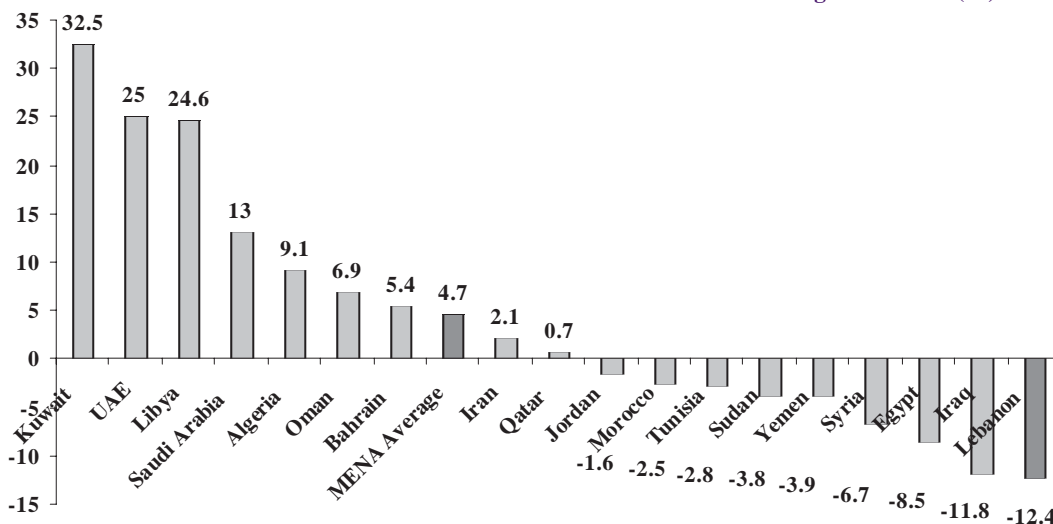
Ratio Highlights.....4

Risk Outlook.....4

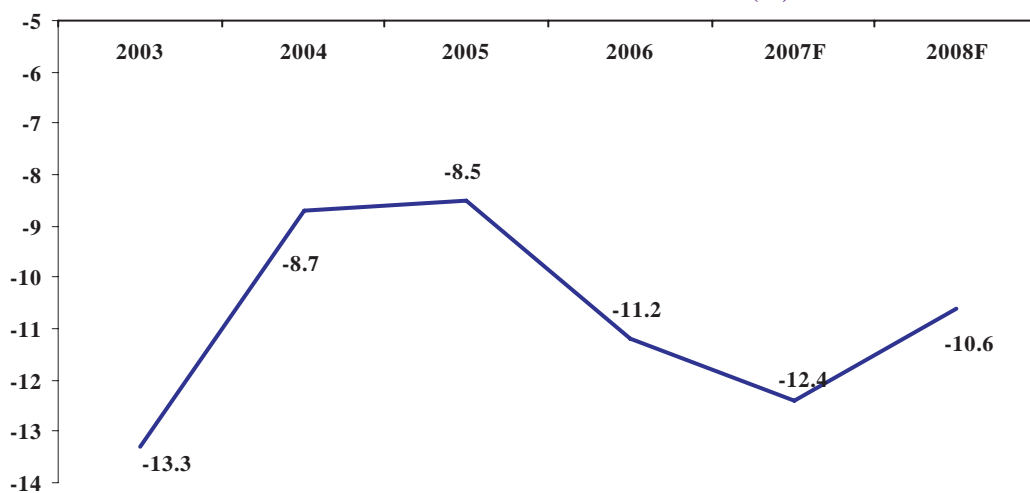
Ratings & Outlook.....4

Charts of the Week

Fiscal Balance-to-GDP Ratio in the Middle East & North Africa Region for 2007 (%)



Fiscal Balance-to-GDP Ratio for Lebanon (%)



Source: International Monetary Fund, 2007

Quote to Note

“The price of inaction or lack of agreement is too high for Lebanon and its future generations.”

The World Bank, on the opportunity cost of not implementing structural reforms

Number of the Week

\$469m: Aggregate amount of sovereign Eurobonds that mature in the second half of 2007, according to the Association of Banks in Lebanon

Economic Indicators

\$m (unless otherwise mentioned)	May 2006	Jan-May.06	2006	Apr.2007	May 2007	Jan-May 07	% Change*
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%)

\$bn (unless otherwise mentioned)	Dec.2005	May 2006	Dec.2006	Mar.2007	Apr.2007	May 2007	% Change*
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

Most Traded Stocks on BSE	Last Price (\$)	% Change*	Total Volume	Weight in Market Capitalization
Solidere "A"	15.40	(1.85%)	19,004	18.44%
Solidere "B"	15.32	(0.33%)	7,500	11.92%
Byblos Common	1.74	(0.57%)	36,852	4.27%
Byblos Priority	1.81	0.00%	28,299	4.46%
BLOM GDR	67.95	2.18%	8,235	6.01%
BLOM Listed	64.00	(1.54%)	2,500	5.49%
Audi GDR	57.50	(0.86%)	310	6.77%
Audi Listed	55.00	0.00%	0	21.58%
HOLCIM	20.25	1.25%	3,318	4.73%

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

Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
Oct.2009	10.250	102.00	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	98.00	8.76
Apr.2015	10.000	105.25	9.04
Jan.2016	8.500	95.75	9.23
May 2016	11.625	114.50	9.05
Apr.2021	8.250	90.50	9.15

Source: Byblos Capital Markets

	This Week	Last Week	% Change	June 2007	June 2006	% Change
Total Shares Traded	123,472	302,809	(59.22%)	3,075,252	5,003,058	(38.53%)
Total Value Traded	\$3,066,873	\$5,830,373	(47.40%)	\$36,701,322	\$71,024,556	(48.33%)
Market Capitalization	\$8.35bn	\$8.38bn	(0.36%)	\$8.47bn	\$7.00bn	21.00%

Source: Beirut Stock Exchange (BSE)



Lebanon ranks 85th globally, 3rd in MENA region on democracy index

The Economist Intelligence Unit's Democracy Index in 167 countries ranked Lebanon in 85th place worldwide and 3rd among 20 countries in the Middle East and North Africa region. The index measures 60 indicators that are grouped in five categories such as electoral processes and pluralism, civil liberties, the functioning of government, political participation, and political culture. Each category is rated on a scale from zero to 10, with the overall index calculated as a simple average of the five sub-indices. The survey also placed countries in five categories of political freedoms that are full democracies, flawed democracies, hybrid regimes and authoritarian regimes.

Lebanon received a score of 5.82 points, above the global average of 5.52 points and well above the MENA and Arab averages of 3.53 points and 3.35 points, respectively. On a global basis, Lebanon tied with Madagascar and came immediately behind Singapore and Albania, while it ranked ahead of Bosnia & Herzegovina and Turkey. Lebanon came in the category of 'hybrid regimes', with 16 countries in the region classified as authoritarian and two as flawed democracies.

Lebanon ranked 89th globally and first in the region on the Civil Liberties sub-index, as it tied with Thailand and Georgia in this category. It came in 31st place globally and 3rd in the region on the Political Participation sub-index, tying with Italy, Spain and Portugal in this area. It also ranked in 74th place worldwide and 3rd in the region on the Electoral Process and Pluralism sub-index, where it tied with Turkey and Paraguay. Further, Lebanon ranked 48th worldwide and 6th in the MENA region on the Political Culture sub-index, tying with Cyprus, Hong Kong and Indonesia. Finally, it came in 136th place globally and 13th regionally on the Functioning of Government sub-index, ranking ahead of Angola and Sierra Leone.

Country	Score	MENA Rank	Global Rank
Israel	7.28	1	47
Palestine	6.01	2	79
Lebanon	5.82	3	85
Iraq	4.01	4	112
Jordan	3.92	5	113
Morocco	3.90	6	115
Egypt	3.90	6	115
Bahrain	3.53	8	123
Algeria	3.17	9	132
Kuwait	3.09	10	134
Tunisia	3.06	11	135
Yemen	2.98	12	137
Iran	2.93	13	139
Sudan	2.90	14	141
Qatar	2.78	15	142
Oman	2.77	16	143
UAE	2.42	17	150
Syria	2.36	18	153
Saudi Arabia	1.92	19	159
Libya	1.84	20	161

Source: Economist Intelligence Unit, 2007

Bader's Building Block Equity Fund raises \$17m

Bader's Building Block Equity Fund, a venture capital fund that aims to support small and medium Enterprises (SMEs) in Lebanon, especially in the fields of IT and services, raised \$17m in capital which is expected to reach \$20m by the end of the year. The investors in the fund are the European Investment Bank (EIB) with 22.5% of the shares of the fund, Averroès Finance (an investment capital fund for Mediterranean countries) with 24.2%, 8 Lebanese banks (BLOM, Banque Libano-Française, Lebanese Canadian Bank, Crédit Libanais, BBAC, Fransabank, BankMed and Bank Audi) and members from Bader. Bader is an organization launched by a group of local business leaders and entrepreneurs to raise awareness among Lebanese youth about the importance of entrepreneurship. It aims at building partnerships between the private and the public sector to enhance the legal and regulatory framework for SMEs, and is supported by the Ministry of Finance.

USAID grants \$5m in assistance to the government to join WTO

The United States Agency for International Development (USAID) signed a \$5m Memorandum of Understanding (MoU) with the Lebanese government in which it pledged technical assistance to boost Lebanon's chances to join the World Trade Organization (WTO). The assistance will finance technical work by consultancy firm Booz Allen Hamilton.

Number of tourists down 59% in June 2007

The number of incoming tourists to Lebanon totaled 69,303 in June 2007, down 59% from June 2006, and 5% from May 2007. Visitors from Europe, mainly Lebanese immigrants to Europe, accounted for 31% of total visitors. They were followed by Arab tourists with 30%, visitors from the Americas with 19% and those from Asia with 11%. The number of tourists reached 412,041 in the first half of 2007, down 35% year-on-year.

ESC launches first Business Confidence Index in Lebanon

The Economic Support Center (ESC) launched the first Business Confidence Index (BCI) in Lebanon. The index, covering the first half of 2007, reached 40.75 points showing a decline in the level of confidence in the Lebanese economy compared to the first half of 2006, as well as pessimistic expectations for the coming six months. The index values range between zero and 100. If the index is above 50, then the level of confidence is positive. The farther the index is from 50, the greater is the change.



Lebanon in the News

The index is based on a questionnaire answered by more than 100 executives of companies representing three main sectors for which weights were assigned according to their contribution to GDP that are industry (40%), trade (40%) and services (20%).

The BCI survey covers six topics: turnover, employment, investments capacity, core activity, general economic and business issues, and various issues. The level of confidence decreased in the first half of 2007 for all the aspects covered. The BCI is part of the Private Sector Recovery Program which is conducted by the ESC and is jointly financed by the Beirut Chamber of Commerce, Industry and Agriculture (CCIAB) and the United States Agency for International Development (USAID).

Business Confidence Index: First Half 2007		
	Weight	Index
Turnover	20%	36.37
Employment	20%	43.39
Investments, capacity	20%	45.19
Core activity	20%	40.57
Various	10%	43.93
General economic and business issues	10%	32.55
Business Confidence Index (BCI)		40.75

Source: Economic Support Center

Corporate Highlights

Lebanese Canadian Bank and Fransabank in line to buy BLC Bank

The Lebanese Canadian Bank and Fransabank are reported to have submitted the highest bids to buy BLC Bank from the Qatari Supreme Council for Economic Affairs and Investment. The other two bidders were SGBL and Al Ahli International Bank. The Qatari investor, which acquired in 2005 the Central Bank's stake of 96.22% in BLC for \$236.4m, put up the bank for sale earlier this year. The deal includes the bank's assets and branches in Lebanon as well as its branch in France. Lebanese Canadian's bid totaled \$135.5m and Fransabank's bid is \$131m, both higher than bids submitted by the two other institutions. BLC announced net profits of \$3m in the first quarter of 2007. The bank's total assets and customer deposits reached \$2.3bn and \$1.9bn respectively as at end-March 2007, compared to \$2.2bn and \$1.8bn as at end-2006. The Central Bank is managing the sale process and is expected to announce final results in the near term.

ADIR receives Syria license

Adonis Insurance and Reinsurance sal (ADIR), Byblos Bank's insurance affiliate, received a full license from Syrian authorities to establish a direct presence and operate in the Syrian market. Last February, ADIR received a preliminary license from the Syrian Insurance Supervisory Commission to establish a direct presence in the Syrian market. ADIR Syria will have a capital of SYP1.25 billion, or \$25 million, the highest capital among all non-Islamic insurers already operating in the country. ADIR sal, Byblos Bank sal (Lebanon) and Byblos Bank Syria will hold together 58% of the shares of ADIR Syria. The founding shareholders will also include over 20 Syrian businessmen. ADIR Syria becomes the 10th traditional insurance firm authorized to operate in Syria.

M1 Group buys Façonnable brand for \$210m

US-based Nordstrom Inc., a chain of department stores that carries over 500 brands, announced that it has agreed to sell its Façonnable brand to Lebanon-based M1, the company owned by the Mikati family, for \$210m. Nordstrom currently operates four U.S. and 37 European Façonnable boutiques. The brand is also sold in upscale multi-brand boutiques, department stores, and franchised boutiques throughout Europe, the Middle East, Canada and Latin America. Nordstrom purchased Façonnable for \$169 million in 2000. M1 Group intends to invest in the brand for the long term to break into new markets and create new product lines. M1 Group is a diversified business that focuses mainly on telecom, energy and real estate activities.

Lebanese company to acquire Algerian hotel

Lebanon's Société Moderne pour la Construction received the approval from Algeria's State Participations Council to fully acquire the 4-star hotel El-Riadh. The hotel is situated in the Sidi Fredj area on the West coast of Algiers. The amount of the acquisition has not been disclosed yet. The hotel belonged to the state-owned Tourism Management Company of Sidi Fredj.

EuroMena Fund sponsors investment in SODAMCO Holding

Lebanon's EuroMena Fund, raised and managed by the Capital Trust Group, announced that it sponsored the acquisition of 30% of SODAMCO Holding s.a.l. by E-R Holding s.a.l. SODAMCO Holding, founded in Lebanon in 1985 and member of Debbane Group, manufactures and markets a wide range of quality building materials in four different manufacturing, blending and distribution locations in Lebanon, Syria, the UAE, Qatar and Saudi Arabia. E-R Holding is a member of the Capital Trust Group.

Ratio Highlights

	2005	2006	Change*	Q1-2007 ⁽¹⁾
Nominal GDP ⁽²⁾ (\$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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