

LEBANON THIS WEEK

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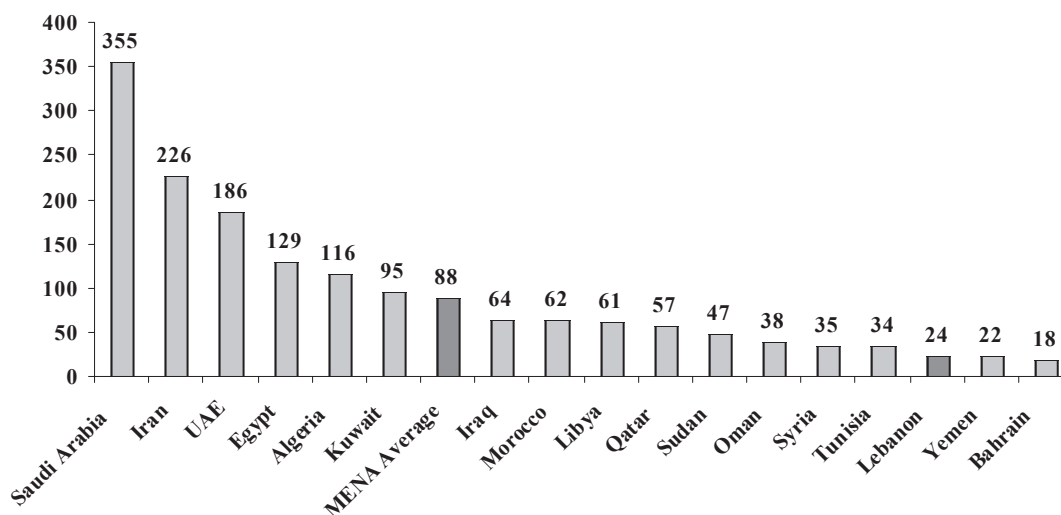
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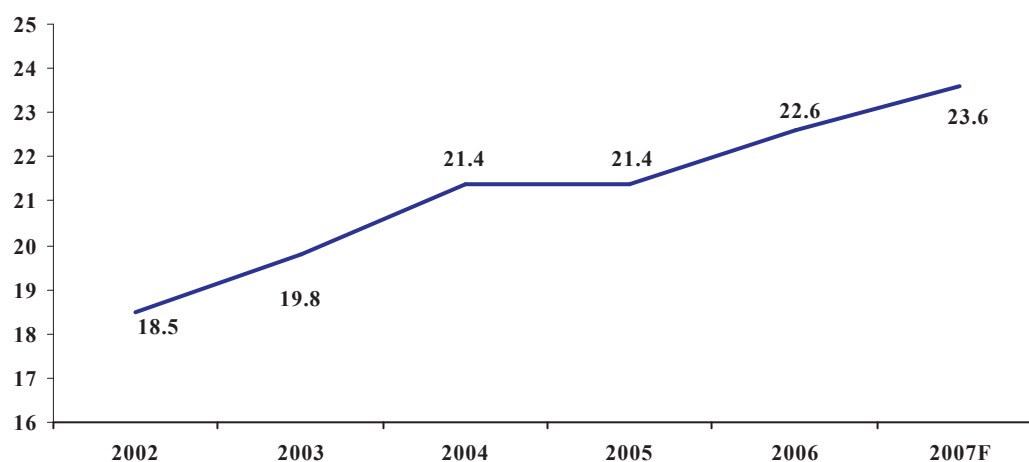
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Charts of the Week

Nominal GDP in the Middle East & North Africa Region for 2007 (\$bn)



Nominal GDP in Lebanon (\$bn)



Source: International Monetary Fund, 2007

Quote to Note

“Authorities are likely to increase their reliance on Eurobonds to reflect the changing composition of the banks’ deposit base.”

Citigroup, on the increasing dollarization of bank deposits and its impact on demand for Treasury bills

Number of the Week

7% : Loss in sales per average firm due to electricity interruptions in Lebanon, according to the World Bank

Economic Indicators

\$m (unless otherwise mentioned)	Jun.2006	Jan-Jun.06	2006	May 2007	Jun.2007	Jan-Jun.07	% Change*
Exports	269	1,302	2,282	233	-	-	-
Imports	878	5,057	9,399	930	-	-	-
Trade Balance	(609)	(3,756)	(7,118)	(697)	-	-	-
Balance of Payments	727	2,562	2,795	174	(542)	(207)	(108.1%)
Checks Cleared in LBP	629	3,753	7,219	739	656	4,058	8.13%
Checks Cleared in FC	2,463	13,941	25,268	2,457	2,410	13,687	(1.82%)
Total Checks Cleared	3,092	17,694	32,487	3,196	3,066	17,745	0.29%
Budget Deficit	(416)	(774)	3,039	-	-	-	-
Primary Balance	(145)	659	(17)	-	-	-	-
Airport Passengers	357,173	1,667,557	2,825,138	245,917	256,072	1,476,085	(11.54%)

\$bn (unless otherwise mentioned)	Dec.2005	Jun.2006	Dec.2006	Apr.2007	May 2007	Jun.2007	% Change*
BdL FX Reserves	9.85	12.90	10.21	9.81	9.91	9.92	(23.10%)
<i>In months of Imports</i>	<i>11.3</i>	<i>14.7</i>	<i>11.3</i>	<i>10.4</i>	<i>10.7</i>	-	-
Public Debt	38.50	38.82	40.39	41.29	41.41	39.82	2.58%
Net Public Debt	34.79	35.58	37.44	38.69	38.97	37.50	5.40%
Bank Assets	70.33	75.00	76.18	77.02	77.89	79.04	5.39%
Bank Deposits	56.99	60.64	60.69	61.88	62.49	63.20	4.22%
Bank Loans to Private Sector	16.23	16.93	17.20	17.81	18.09	18.52	9.39%
Money Supply M2	16.23	17.40	15.57	15.97	16.23	-	-
Money Supply M3	49.38	52.10	53.23	54.97	55.77	56.04	7.56%
LBP Lending Rate (%)	10.12	10.24	10.37	10.42	10.45	-	-
LBP Deposit Rate (%)	7.70	7.56	7.49	7.48	7.49	-	-
USD Lending Rate (%)	8.38	8.45	8.55	8.49	8.40	-	-
USD Deposit Rate (%)	4.09	4.39	4.76	4.85	4.88	-	-
%* Change in CPI**	(2.23)	5.32	7.04	4.45	3.86	-	-

* 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"	15.16	(0.52%)	53,973	18.28%
Solidere "B"	15.29	1.26%	15,335	11.98%
Byblos Common	1.74	5.45%	662,630	4.30%
Byblos Priority	1.80	1.12%	1,227,399	4.47%
BLOM GDR	66.75	0.00%	1,200	5.95%
BLOM Listed	64.00	0.00%	923	5.53%
Audi GDR	57.95	0.09%	1,233	6.87%
Audi Listed	55.00	0.00%	0	21.73%
HOLCIM	19.00	(6.17%)	417	4.47%

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

Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
Oct.2009	10.250	101.75	8.78
Dec.2009	7.000	96.50	8.64
Mar.2010	7.125	96.00	8.86
May 2011	7.875	95.75	8.63
Sep.2012	7.750	96.00	8.59
June 2013	8.625	97.50	8.76
Apr.2015	10.000	104.00	9.26
Jan.2016	8.500	94.00	9.55
May 2016	11.625	113.50	9.05
Apr.2021	8.250	89.25	9.15

Source: Byblos Capital Markets

	This Week	Last Week	% Change	July 2007	July 2006	% Change
Total Shares Traded	1,968,959	773,810	154.45%	3,588,032	3,761,421	(4.61%)
Total Value Traded	\$5,118,938	\$3,828,117	33.72%	\$22,596,353	\$82,522,119	(72.62%)
Market Capitalization	\$8.29bn	\$8.29bn	0.00%	\$8.31bn	\$5.93bn	40.13%

Source: Beirut Stock Exchange (BSE)



EIU projects average growth at 1.5% in 2007-08

The Economist Intelligence Unit estimated that the political situation in Lebanon will remain unstable and the political deadlock will not be resolved over the near term, therefore delaying economic reforms. It revised downwards real GDP growth to 0.6% this year and 2.4% in 2008 from earlier projections of 2.1% for 2007 and 2.7% for 2008. It said an extended political crisis could mean that Lebanon might not receive all of the \$8bn in financial aid and soft loans pledged at the Paris III donor conference. Also, a political deterioration could raise the risk premium and push interest rates higher. According to the EIU, the fiscal deficit will remain significant and the large public debt burden will continue to rise despite substantial international aid. But new loans should allow the government to finance the fiscal deficit in 2007-08. It considered that the key factor determining the sustainability of public finances is the willingness and capacity of commercial banks to extend new financing and to roll over foreign debt.

Country Forecast Summary

	2006	2007f	2008f
Real GDP growth (%)	-2.8	0.6	2.4
Consumer price inflation (av) (%)	4.0	5.4	4.0
Two-year T-bill rate (%)	8.7	8.8	8.9
Fiscal balance (% of GDP)	-11.7	-15.0	-10.2
Current-account balance (\$bn)	-1.7	-2.8	-1.6
Current-account balance (% of GDP)	-8.1	-12.8	-6.8
External debt (year-end; \$bn)	29.2	32.4	34.5

f EIU forecast

Source: Economist Intelligence Unit, July 2007

Merrill Lynch maintains 'Underweight' recommendation on Lebanese Eurobonds

Merrill Lynch maintained its recommendation on Lebanon's external debt at 'Underweight' in its model portfolio of emerging markets debt for August. It attributed the decision to the continued deterioration in the political outlook and considered that the long-awaited compromise to end the political crisis has yet to materialize. Merrill Lynch warned that the presidential election in September is looming on the horizon, and that Lebanon is likely to head into another crisis, which will further impact negatively the country's public finances. However, the sizeable international aid package and the IMF Emergency Post Conflict Assistance are supportive of the credit. It considered that if the political deadlock were to be solved soon, the medium- and long-term outlooks would improve on the back of higher chances for the implementation of the reform program. But the ongoing political stalemate clouds even the medium-term outlook.

Lebanon's allocation in the portfolio was 2.8%, up from 2.7% in July and 2.45% in June, and third highest after Turkey and Russia in the Emerging Europe, the Middle East and Africa region (EMEA). It accounted for 8.7% of aggregate allocations in the EMEA universe. Further, Lebanon's allocation was 8th highest in emerging markets and was similar to that of Indonesia and Uruguay. Merrill Lynch changed last April its recommendation on Lebanon's external debt from 'Overweight' to 'Underweight'. It said its preferred asset class in Lebanon remains the Republic 2016N. Lebanon was the 14th best performer in July at -3.2% among emerging markets included in Merrill Lynch's Sovereign Plus Debt Index and posted the third best return at 3.41% in the first 7 months of 2007. Lebanon, Mexico and Ukraine are the only underweight credits in the EMEA universe. Other allocations in the region include Iraq (0.6%), Tunisia (0.5%) and Egypt (0.45%).

World Bank approves \$175m in loans to Lebanon

The World Bank's Executive Directors approved an Interim Strategy Note to assist Lebanon in its recovery. The Note includes two policy-based loans for up to \$175m. The first loan is a Reform Implementation Development Policy Loan for \$100m to support the implementation of the government's reform program, mainly in the electricity and social protection sectors, and in the business environment modernization. The second loan is for up to \$75m and is expected to further advance social protection measures. The Interim Strategy Note is a 12-to-15-month program focusing on analytical assistance. The World Bank announced at the beginning of the year that it will provide \$100m to support social programs in Lebanon and around \$70m for recovery and reconstruction efforts, and to support reforms in the power sector. Those amounts are part of the \$700m that the Bank pledged at the Paris III conference.

Malaysia re-profiles \$500m of Lebanese Eurobonds

Malaysia re-profiled, as part of its contribution in the Paris III conference, \$500m of Lebanese sovereign Eurobonds held by the Central Bank of Malaysia following the Paris II conference in 2002. The re-profiling consisted of two transactions both lowering the interest charged to 3.75% and resulting in debt service savings of \$60m.

Re-profiling Structure

Outstanding amount	Before	After	Before	After
	\$300m	\$300m	\$200m	\$200m
Coupon rate	5%	3.75%	7.125%	3.75%
Issue date	12/27/02	07/20/07	09/07/04	07/20/07
Maturity date	12/27/17	07/20/17	03/05/10	07/20/12

Source: Ministry of Finance

Banking sector heading for consolidation

Investment bank EFG Hermes indicated that Lebanese banks reported a moderate increase in net profits during the first half of this year, a significant decline from a very strong first half last year. Net interest income growth was resilient for all banks, while non-interest income growth was slow or negative as a result of lower net profit from financial operations due to very low capital market activity in the country. In parallel, leading Lebanese banks are benefiting from lending to regional corporates, mainly in the GCC, which is adding to the impact of their foreign operations.

EFG expected further sector consolidation to take place over the coming year as Lebanese banks are due to implement Basel II capital requirements by the end of 2007. It expected the cost of deposits at banks to continue increasing for the remainder of 2007, in a lagged response to increases in US dollar Libor rates over the past three years. EFG noted that a decline in US dollar Libor rates might negatively impact Lebanese banks' spreads, as they will earn a lower spread on their dollar-inter bank placements. In turn, this would be difficult to compensate with a decrease in the rates on US dollar-deposits given the current political environment.

Airport passengers down 0.9% year-to-July

The number of airport passengers (arrivals, departures, transit) amounted to 1,823,006 in the first 7 months of 2007, down 0.9% from the same period last year. Airport passengers for the month of July 2007 reached 346,921, up by 35% from June 2007, and up by a significant 101% from July 2006 as Israeli attacks forced the airport's closure for about three months starting July 12 last year.

Cleared checks up 23% to \$3.2bn in July 2007

The value of cleared checks increased by 23% to \$3.2bn in July 2007 compared to July 2006. The value of cleared checks in LBP rose by 50% to the equivalent of \$706m, while the value of cleared checks in US dollars increased by 17% to \$2.5bn. The dollarization rate dropped from 81.7% to 77.7% year-on-year. The value of cleared checks reached \$20.9bn in the first 7 months of 2007, up 3% year-on-year.

Net public debt at \$37.5bn at end of June

Figures issued by the Central Bank show that Lebanon's gross public debt reached \$39.8bn at the end of June, constituting a decline of -1.4% in the first half of the year and a rise of 2.7% from \$38.8bn at end-June 2006. Domestic debt decreased by -2.4% year-to-June and rose by 3.3% year-on-year to \$19.54bn, while external debt regressed by -0.4% in the first half of the year and grew by 2% annually to \$20.3bn. Eurobonds account for about 86% of foreign currency debt. The decline in the debt is attributed to financial engineering measures between the Central Bank and the Finance Ministry about the differential in the book and market values of gold whereby the Central Bank has to disburse 80% of this differential to the ministry. Instead, the ministry has forgone the accrued sum of \$1.4bn in exchange for the bank writing off the equivalent amount of its holdings of domestic debt.

Commercial banks held 54.7% of total debt, followed by the Central Bank with 19.7%, public agencies, financial institutions and individual investors with 10.5%, and bilateral and multilateral institutions with 6.2%, while other investors accounted for the remaining 8.9%. Further, 85% of the debt is held by residents and the rest by non-residents. Net public debt, which excludes the public sector's deposits at the Central Bank and at commercial banks from overall debt figures, rose annually by 5.5% to \$37.5bn.

Corporate Highlights

BLC Bank's net profits at \$2.6m in first half 2007

BLC Bank s.a.l. announced net profits of \$2.6m in the first half of 2007. The bank's total assets and customer deposits reached \$1.8bn and \$1.5bn respectively as at end-June 2007, compared to \$2.2bn and \$1.8bn as at end-2006. The bank's shareholders' equity reached \$105m as at end-June 2007, compared to \$71m as at end-2006. Last week, Fransabank won the bid for the acquisition of 97.52% of BLC Bank from the Qatari Supreme Council for Economic Affairs and Investment at \$153m. 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 is subject to the final approval of the Central Bank.

Uniceramic posts \$1.4m net losses in first half 2007

Tile-maker Uniceramic s.a.l. registered net losses of \$1.4m in the first half of 2007 compared to losses of \$3.2m in 2006. Uniceramic's total assets and equity reached \$31.6m and \$10.2m, respectively, as at end-June 2007 compared to \$36.5m and \$11.6m as at end-2006. Uniceramic is listed on the Beirut Stock Exchange since May 1996. Its nominal share Uniceramic 'A' was last traded at \$0.9 while its bearer share Uniceramic 'C' was last traded at \$1.70.

Ratio Highlights

	2005	2006	Change*	H1-2007(1)
Nominal GDP(2) (\$bn)	21.4	22.6		23.6
External Debt / GDP	89.6	90.3	70	85.9
Local Debt / GDP	90.2	88.5	(170)	82.9
Total Debt / GDP	179.9	179.2	(70)	168.7
Trade Balance / GDP	(35.0)	(31.4)	360	-
Exports / Imports	20.1	24.3	420	-
Revenues / GDP	22.9	19.5	(340)	-
Expenditures / GDP	31.8	31.0	(80)	-
Budget Balance / GDP	(8.9)	(11.5)	(260)	-
Primary Balance / GDP	2.3	(0.1)	(180)	-
BdL FX Reserves / M2	60.7	65.6	490	-
M3 / GDP	230.8	235.5	470	237.5
Bank Assets / GDP	328.5	337.2	870	334.9
Bank Deposits / GDP	266.3	268.6	230	267.8
Private Sector Loans / GDP	75.7	76.1	40	78.5
Dollarization of Deposits	73.1	76.2	310	-
Dollarization of Loans	82.4	81.6	(80)	-

* Change in basis points

(1) Up to June 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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