



## LEBANON THIS WEEK

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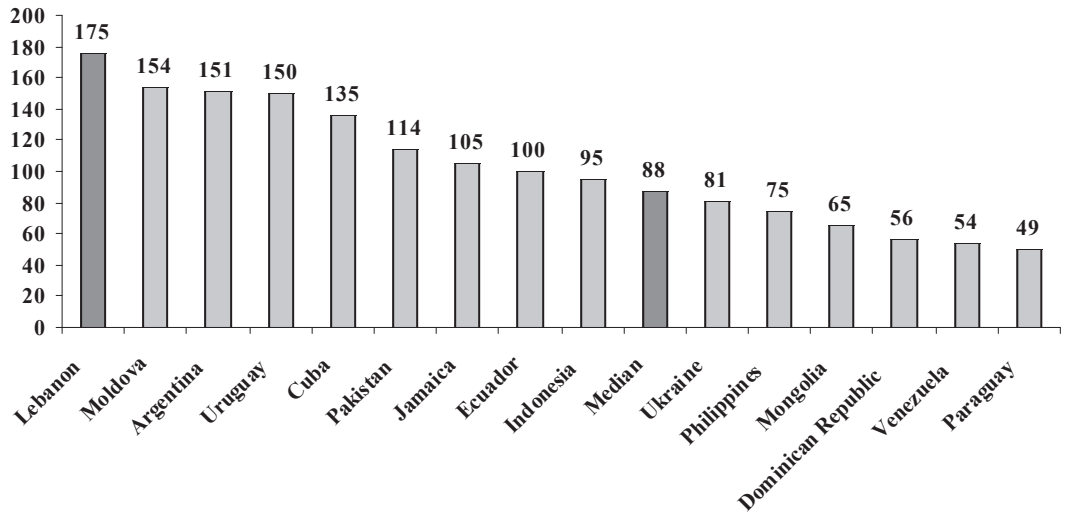
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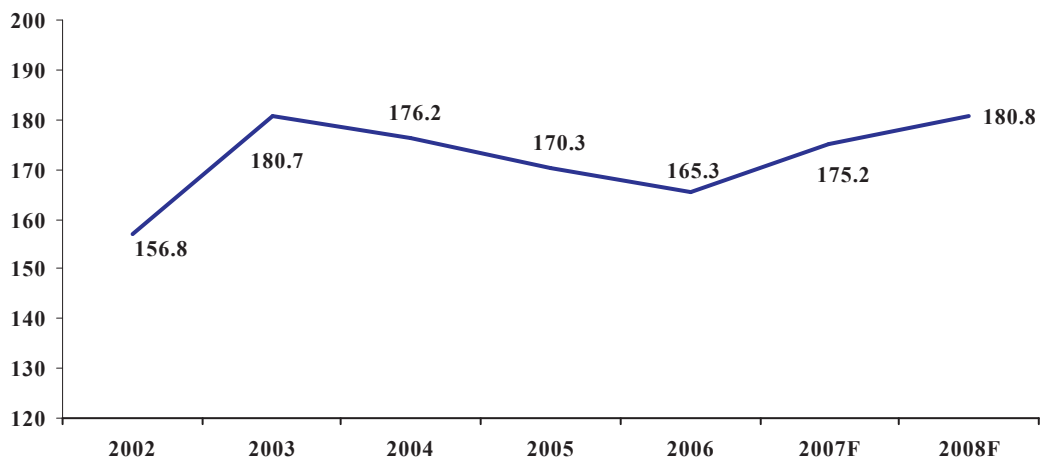
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### Charts of the Week

External Debt-to-Current Account Receipts Ratio of Similarly Rated Countries for 2007 (%)



External Debt-to-Current Account Receipts Ratio for Lebanon (%)



Source: Moody's Investor Services, 2007

### Quote to Note

“Although large commercial banks will continue to show strong profits, some smaller institutions may face growing problems with asset quality.”

*The Economist Intelligence Unit, in its risk assessment of the banking sector in view of current economic and political conditions in the country*

### Number of the Week

**7.98%** : Weighted yield on Treasury bills as at June 2007, according to the Association of Banks in Lebanon

## Economic Indicators

<b>\$m</b> (unless otherwise mentioned)	<b>Jun.2006</b>	<b>Jan-Jun.06</b>	<b>2006</b>	<b>May 2007</b>	<b>Jun.2007</b>	<b>Jan-Jun.07</b>	<b>% Change*</b>
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	417	763	3,039	114	381	1,226	60.71%
Primary Balance	146	670	(17)	187	(120)	398	(40.63%)
Airport Passengers	357,173	1,667,557	2,825,138	245,917	256,072	1,476,085	(11.54%)

<b>\$bn</b> (unless otherwise mentioned)	<b>Dec.2005</b>	<b>Jun.2006</b>	<b>Dec.2006</b>	<b>Apr.2007</b>	<b>May 2007</b>	<b>Jun.2007</b>	<b>% Change*</b>
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	16.30	(6.32%)
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	10.36	12b.p.
LBP Deposit Rate (%)	7.70	7.56	7.49	7.48	7.49	7.49	(7b.p.)
USD Lending Rate (%)	8.38	8.45	8.55	8.49	8.40	8.32	(13b.p.)
USD Deposit Rate (%)	4.09	4.39	4.76	4.85	4.88	4.89	50b.p.
%* Change in CPI**	(2.23)	5.32	7.04	4.45	3.86	3.20	(212b.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"	15.20	(1.81%)	44,960	18.21%
Solidere "B"	15.25	(0.01%)	9,682	11.87%
Byblos Common	1.70	(1.16%)	23,870	4.17%
Byblos Priority	1.80	0.00%	72,650	4.44%
BLOM GDR	65.05	(0.31%)	800	5.76%
BLOM Listed	64.00	0.00%	836	5.49%
Audi GDR	58.00	0.00%	960	6.83%
Audi Listed	56.50	2.73%	1,000	22.17%
HOLCIM	20.30	4.10%	100	4.75%

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	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

	<b>This Week</b>	<b>Last Week</b>	<b>% Change</b>	<b>July 2007</b>	<b>July 2006</b>	<b>% Change</b>
<b>Total Shares Traded</b>	165,210	441,077	(62.54%)	3,588,032	3,761,421	(4.61%)
<b>Total Value Traded</b>	\$1,761,215	\$3,904,353	(54.89%)	\$22,596,353	\$82,522,119	(72.62%)
<b>Market Capitalization</b>	\$8.35bn	\$8.32bn	0.36%	\$8.31bn	\$5.93bn	40.13%

Source: Beirut Stock Exchange (BSE)



### Lebanon has 40th lowest retail gasoline and Diesel prices in the world

The GTZ fuel price survey of 171 countries ranked Lebanon as having the 40th lowest retail gasoline prices worldwide and 14th lowest among 19 countries in the Middle East and North Africa region. It also ranked Lebanon as having the 40th lowest retail Diesel prices globally and 16th lowest in the MENA region. The survey aims to highlight energy policies in developing countries as well as to help governments assess the relevance of their pricing policy and implement related reforms. GTZ is a Germany-based organization that works on sustainable development and socio-economic reforms worldwide.

The survey classified countries in four categories ranging from countries with 'very high fuel subsidies', countries with 'fuel subsidies', those with 'fuel taxation', to countries with 'very high fuel taxation'. Lebanon came in the category of 'fuel taxation' in terms of gasoline retail prices, along with Tunisia, Jordan and Morocco in the region. Globally, it tied with Somalia, ranked ahead of the Philippines and Russia, and came behind Mexico. Lebanon came in the second category in terms of Diesel retail prices, along with Oman, Jordan, Sudan, the UAE and Tunisia in the region. It tied globally with Ethiopia, ranked ahead of Singapore and Guatemala, and came behind China and Panama.

Lebanon imports all of its fuel needs. The Lebanese government capped the retail price of gasoline at the May 2004 level due to increasing oil prices in international markets, which eroded the gasoline excise revenue base. This decision was introduced temporarily on the assumption that oil prices would go back down in the near future, but they have increased to historic highs since then. The Paris III reform program calls for the excise tax to be adjusted gradually until it reaches its pre-cap rate by 2011. Turkmenistan has the lowest retail gasoline and Diesel prices globally, while Eritrea has the most expensive gasoline prices and Iceland the most costly Diesel prices in the world.

Rankings by Retail Prices of Gasoline			
	MENA Rank	World Rank	Category
Iran	1	3	Very High Subsidies
Libya	2	4	Very High Subsidies
Saudi Arabia	3	5	Very High Subsidies
Qatar	4	6	Very High Subsidies
Bahrain	5	7	Very High Subsidies
Kuwait	6	8	Very High Subsidies
Egypt	7	9	Very High Subsidies
Yemen	7	9	Very High Subsidies
Oman	9	11	Very High Subsidies
Algeria	10	12	Very High Subsidies
UAE	11	14	Very High Subsidies
Syria	12	23	Subsidies
Sudan	13	38	Taxation
<b>Lebanon</b>	<b>14</b>	<b>40</b>	<b>Taxation</b>
Tunisia	15	59	Taxation
Jordan	16	64	Taxation
Morocco	17	121	Taxation
Palestine	18	135	Very High Taxation
Israel	19	155	Very High Taxation

Source: GTZ, Byblos Research

### Lebanon included in new Standard & Poor's Pan-Arab Index

Rating agency Standard & Poor's included Lebanon in its new S&P Pan Arab Index. The agency said the index contains the largest and most liquid stocks from 11 Arab countries. The index includes 281 stocks from listed companies in Bahrain, Egypt, Jordan, Kuwait, Lebanon, Morocco, Oman, Qatar, Saudi Arabia, Tunisia and the United Arab Emirates. Lebanon's weight in the index is 1.43% as at August 20th and is represented by Solidere 'A' and 'B' shares, Byblos Bank, Bank of Beirut and the global depository receipts (GDRs) of the local Bank Audi. Saudi Arabia and Kuwait have the highest country weightings in the new index at 44.1% and 20.5% respectively, while financials (57.3%), materials (17.3%) and telecom services (11.5%) are the biggest sector constituents. The companies represented in the index have an adjusted market capitalization of \$334.6bn, with the top 10 firms accounting for 41.4% of aggregate market capitalization. Al Rajhi Banking & Investment has the largest market capitalization and accounts for 9.4% of the total. Other constituent companies include Saudi Arabian Basic Industries Corporation (SABIC), Mobile Telecommunications Company (MTC), Eemar properties and the Arab Bank.

### Launch of reconstruction transparency campaign

The Lebanese Transparency Association (LTA) launched a campaign to raise awareness about the importance of transparency, accountability, and integrity in post-war reconstruction projects and compensation. LTA said government efforts have encouraged international support to Lebanon's reconstruction mainly through the Stockholm and Paris III conferences. But issues at the practical level constitute an obstacle to achieve planned objectives. It added that accountability and transparency in reconstruction projects at the public and private levels would help fight corruption as well as attract more aid and investment to the country. The campaign includes evaluation reports on achieved and ongoing reconstruction projects, a citizen hotline, and a citizen petition to access information. Lebanese authorities stated they have disbursed \$592m in reconstruction and humanitarian aid since the end of the summer 2006 war, excluding private contributions from individuals and institutions. In parallel, Hizbullah claimed it has disbursed \$381m in compensation and for rebuilding damaged areas over the same period. LTA is the local chapter of Transparency International.

### CPI in Greater Beirut up 1.6% year-on-year in July

According to the Lebanese consulting company, Consultation & Research Institute, the overall Consumer Price Index (CPI) in Greater Beirut area increased by 1.62% in July 2007 compared to July 2006. The indices for food & beverages, durable consumer goods, health, transport & telecommunications and personal care witnessed increases in this period while indices for clothes & shoes, housing and leisure witnessed decreases. The overall CPI decreased by 0.5% and 0.8% in July 2007 compared to December 2006 and June 2007 respectively.

### Budget deficit up 61% in first half of 2007

The budget deficit reached \$1.23bn in the first 6 months of 2007, equivalent to 29% of total budget and Treasury expenditures, up 61% from \$763m and 22% of total expenditures in the same period of 2006. Total revenues amounted to \$3bn, up 10% year-on-year, while total expenditures amounted to \$4.2bn, up 21% annually. Overall tax revenues were practically unchanged year-on-year at \$1.9bn, of which 33%, or \$634m, were in VAT receipts. Debt servicing increased by 13% year-on-year and totaled \$1.6bn, accounting for 39% of total expenditures and 48% of budgetary spending. It absorbed 54% of overall revenues and 59% of budgetary receipts. Excluding debt servicing, the budget primary surplus reached \$969m, or 29% of budgetary expenditures compared to a surplus of \$968m a year earlier. The overall primary surplus reached \$398m up to June 2007, or 9.5% of total spending compared to a surplus of \$670m or 19% of total spending a year earlier.

### Central Bank business survey: industrial activity down in first quarter of 2007

According to the Central Bank's business survey, industrial production dropped slightly during the first quarter of 2007, with a balance of opinion standing at -17, compared to -14 during the same quarter of 2006. The business survey reflects the opinions of enterprise managers on the evolution of their businesses, in order to depict the evolution of a number of key economic variables. For overall demand for industrial goods, the balance of opinion declined from -17 in the first quarter of 2006 to -27 in the same quarter of 2007. Likewise, the balance of opinion for foreign demand dropped from +8 to +7 in the same period. The balance of opinion is the difference between the proportion of managers out of total surveyed managers estimating that there has been an improvement in the said variable and the proportion of those who have reported a decline in the variable.

Industrial Activity: Year-on-year evolution of opinions				
Aggregate results	Q1-04	Q1-05	Q1-06	Q1-07
Production	-9	-42	-14	-17
Total demand	-14	-45	-17	-27
Foreign demand	6	0	8	7
Volume of investments	11	8	2	-2
Inventories of finished goods	-9	2	-10	-9
Inventories of raw material	-10	-8	-14	-5
Registered orders	-24	-41	-25	-26

Source: Central Bank Business Survey Q1-07

## Corporate Highlights

### HOLCIM Liban's net income reaches \$11m in first-half 2007

HOLCIM Liban announced that it registered \$11m in audited net profits in the first half of 2007, compared to \$20m registered in full year 2006. The company's net sales reached \$59m in the first half 2007 compared to \$119m in 2006. HOLCIM's total assets and total equity amounted to \$326m and \$201m respectively as at end-June 2007, compared to \$343m and \$220m as at-end 2006. HOLCIM decreased its capital from LP234bn (\$155m) to LP195bn (\$129m) through reducing the number of shares from 234,192,509 with a value of LP1,000 per share to 19,516,040 with a value of LP10,000 per share.

### Muhanna Rating Services reaffirms financial strength ratings of insurers Arabia, MEDGULF and UCA

Rating agency i.e. Muhanna & co Rating Services reaffirmed Arabia Insurance Company's interactive financial strength rating of 'AA-' with a 'stable' outlook. It said the rating reflects the company's good level of underwriting exposure, high liquid position and solid capital base. The agency also reaffirmed the Mediterranean & Gulf Insurance and Reinsurance Co. s.a.l. (MEDGULF Lebanon) interactive financial strength rating of 'A-' with a 'stable' outlook. The rating is based on good and steady underwriting results, strong capitalization and easy access to additional capital, as well as a good market share in the Lebanese insurance market especially in the medical business. Further, i.e. Muhanna & co awarded United Commercial Assurance s.a.l. an interactive financial strength rating of 'A-' with a 'positive' outlook. The rating is based on a better level of underwriting exposure, good liquidity, better underwriting profitability and a strong capital base. MEDGULF ranked second in Lebanon in terms of total premiums generated with \$67.5m in 2006, UCA came in 19th place with nearly \$9m and Arabia ranked 21st with \$8.5m in total premiums generated in the Lebanese market.



## 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)	12.6
Expenditures / GDP	31.8	31.0	(80)	17.8
Budget Balance / GDP	(8.9)	(11.5)	(260)	5.2
Primary Balance / GDP	2.3	(0.1)	(180)	0.02
BdL FX Reserves / M2	60.7	65.6	490	60.8
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	75.9
Dollarization of Loans	82.4	81.6	(80)	81.9

\* 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	July 2006	June 2007	July 2007	Change*	Risk Level
Political Risk Rating	57.5	56.5	56.0	▼	High
Financial Risk Rating	31.5	31.5	31.5	↔	Moderate
Economic Risk Rating	25.5	29.0	29.0	▲	High
Composite Risk Rating	57.3	58.5	58.2	▲	High

Regional Average	July 2006	June 2007	July 2007	Change*	Risk Level
Political Risk Rating	66.3	67.5	67.5	▲	Moderate
Financial Risk Rating	41.3	41.9	42.0	▲	Very Low
Economic Risk Rating	41.1	40.3	40.2	▼	Very Low
Composite Risk Rating	74.4	74.8	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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