



## LEBANON THIS WEEK

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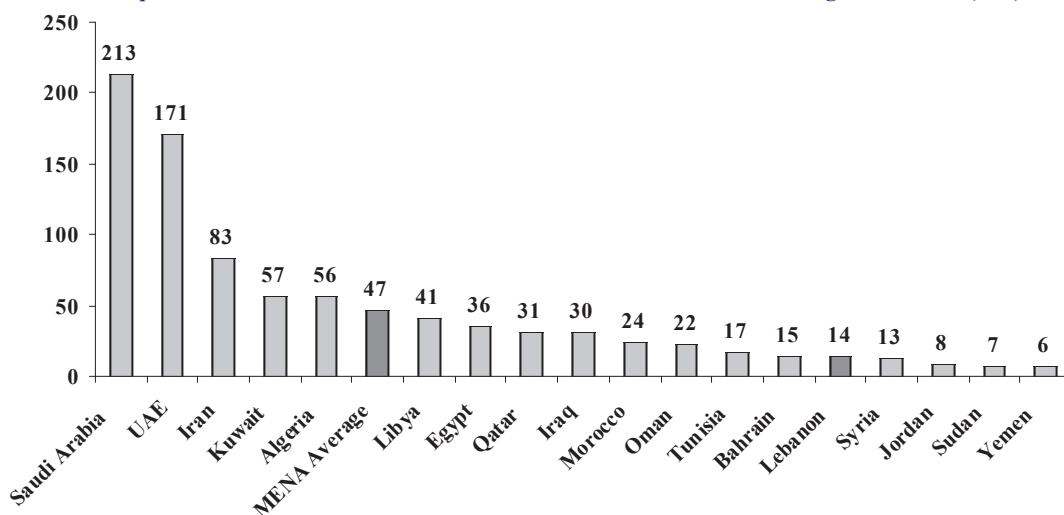
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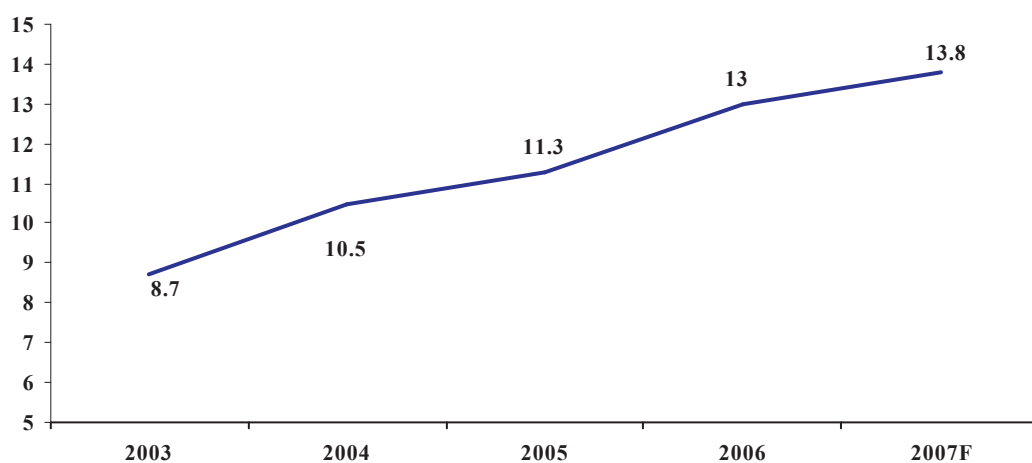
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### Charts of the Week

Exports of Goods and Services in the Middle East & North Africa Region for 2007 (\$bn)



Exports of Goods and Services from Lebanon (\$bn)



Source: International Monetary Fund, 2007

### Quote to Note

“More than 35% of the banking sector’s revenues, on average, are currently generated from foreign markets, and they are expected to increase to 50% in the coming five years.”

*Central Bank Governor Riad Salameh, on the impact of the banking sector’s regional expansion strategy*

### Number of the Week

**\$5.97bn:** Aggregate capital funds of the Lebanese banking sector at the end of June 2007, according to the Association of Banks in Lebanon

## 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	226	1,312	0.77%
Imports	878	5,057	9,399	930	892	5,469	8.15%
Trade Balance	(609)	(3,756)	(7,118)	(697)	(666)	(4,157)	10.68%
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%)

\$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	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

Most Traded Stocks on BSE	Last Price (\$)	% Change*	Total Volume	Weight in Market Capitalization
Solidere "A"	15.21	0.07%	40,965	18.17%
Solidere "B"	15.21	(0.26%)	478,603	11.81%
Byblos Common	1.70	0.00%	30,564	4.16%
Byblos Priority	1.78	(1.11%)	1,400	4.38%
BLOM GDR	65.00	(0.08%)	4,000	5.74%
BLOM Listed	64.00	0.00%	0	5.48%
Audi GDR	57.50	(0.86%)	3,693	6.75%
Audi Listed	57.50	1.77%	2,850	22.50%
HOLCIM	20.46	0.79%	6,809	4.77%

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

Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
Oct.2009	10.250	101.75	9.32
Dec.2009	7.000	96.50	8.64
Mar.2010	7.125	95.50	9.18
May 2011	7.875	95.50	9.33
Sep.2012	7.750	95.50	8.88
June 2013	8.625	97.50	9.18
Apr.2015	10.000	103.00	9.44
Jan.2016	8.500	93.25	9.52
May 2016	11.625	113.00	9.40
Apr.2021	8.250	88.25	9.83

Source: Byblos Capital Markets

	This Week	Last Week	% Change	July 2007	July 2006	% Change
<b>Total Shares Traded</b>	580,490	165,210	251.36%	3,588,032	3,761,421	(4.61%)
<b>Total Value Traded</b>	\$9,321,983	\$1,761,215	429.29%	\$22,596,353	\$82,522,119	(72.62%)
<b>Market Capitalization</b>	\$8.37bn	\$8.35bn	0.24%	\$8.31bn	\$5.93bn	40.13%

Source: Beirut Stock Exchange (BSE)



### Lebanon ranks 62nd globally, 6th in MENA region on ICT Opportunity Index

The 2007 Information and Communication Technology (ICT) Opportunity Index in 183 countries ranked Lebanon in 62nd place worldwide and 6th among 19 countries in the Middle East and North Africa region. Lebanon also ranked in 16th place among 31 upper middle income countries. The index, developed by the International Telecommunications Union, is a tool to quantify and track the digital divide by measuring the relative difference in ICT opportunity levels among economies and their evolution over time. The index is a composite of four sub-indices that measure the level of ICT networks, education and skills, uptake, and intensity of ICT use. They cover the penetration level of computers, Internet, TV, fixed lines and cellular phones per country, as well as international telephone traffic per capita, adult literacy rate and school enrolment. The survey also placed countries in four categories ranging from high ICT opportunities to low ones.

Lebanon received a score of 139.15 points, above the global average of 125.82 points and well above the MENA and Arab averages of 117.2 points and 108.2 points, respectively, but it scored below the average of 142.8 points for upper middle income countries, according to Byblos Research. On a global basis, Lebanon ranked ahead of Russia and Brazil and came immediately behind Argentina and Seychelles. Lebanon came in the category of countries with 'medium' ICT opportunities. It ranked in 5th place among the 63 economies around the world that belong in this category, and scored above their average of 101.2 points.

Lebanon ranked 88th globally and 10th in the region in terms of ICT annual average growth rates for the 2001-05 period, as it came ahead of Columbia and behind Singapore in this area. It also ranked in 12th place among 31 upper middle income countries, coming ahead of Croatia and behind the Czech Republic. The growth rates shows which countries are making progress in ICT and how fast. Lebanon's growth rate of 49.6% was below the global and MENA averages of 57.2% and 59.6%, respectively, as well as below the Arab average of 59%. It was similar to the average of 49.2% for the 63 countries in the medium ICT opportunity category.

	ICT Opportunity Index			
	Score	Global Rank	MENA Rank	Category
Israel	296.71	18	1	High
Qatar	196.92	39	2	Upper
UAE	190.99	41	3	Upper
Bahrain	182.40	44	4	Upper
Kuwait	153.88	54	5	Upper
<b>Lebanon</b>	<b>139.15</b>	<b>62</b>	<b>6</b>	<b>Medium</b>
Saudi Arabia	116.20	75	7	Medium
Jordan	102.17	84	8	Medium
Oman	100.44	86	9	Medium
Tunisia	95.12	94	10	Medium
Iran	89.74	98	11	Medium
Palestine	89.33	99	12	Medium
Morocco	79.50	105	13	Medium
Egypt	78.82	107	14	Medium
Syria	76.53	112	15	Medium
Algeria	75.55	113	16	Medium
Libya	66.71	122	17	Low
Sudan	49.83	135	18	Low
Yemen	46.47	137	19	Low

Source: ITU, Byblos Research

Components of the ICT Opportunity Index for Lebanon						
Sub-Index	Global Rank	MENA Rank	Lebanon Score	Global Average Score	MENA Average Score	Medium Category Avg. Score
Networks	81	7	110.6	145.6	117.1	103.6
Skills	61	4	120.9	101.5	100.8	110.1
Uptake	60	7	153.9	131.2	125.6	98.5
Intensity	49	5	182.2	166.4	146.5	100.7

Source: Byblos Research

### Lebanon included in new Standard & Poor's Shariah compliant index

Rating agency Standard & Poor's included Lebanon in its new S&P Pan Arab Shariah Index. The agency said the S&P Pan Arab Shariah Index offers exposure to companies in the Arab world that are compliant with Islamic canonical law, as only stocks that strictly meet Shariah norms are included in the index. The index includes 124 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 1.28% as of August 20th and is represented by Solidere 'A' and 'B' shares. Saudi Arabia and Kuwait have the highest country weightings in the new index at 49.5% and 20.3% respectively, while financials (36.5%), materials (27%) and telecom services (18.5%) are the biggest sector constituents. The companies represent an adjusted market capitalization of \$196.8bn, with the top 10 holdings accounting for 59% of total market capitalization. Constituent companies include Al Rajhi Banking & Investment, Saudi Arabian Basic Industries Corporation (SABIC), and Mobile Telecommunications Company (MTC).

### Lebanon receives \$54m in financing from OPEC Fund in 2006

The OPEC Fund for International Development's (OFID) annual report shows it has approved \$54m in credit lines to projects in Lebanon in 2006, accounting for 1% of total OFID financing approvals. OFID extended nearly \$5.4bn in credit lines to projects in agriculture & agro-industry, potable water, banking, education, energy, industry, multi-sectorial, health, telecommunications and transportation to 97 countries in the world. Lebanon received 2.6% of total credit lines extended by OFID to Asia in 2006. It received \$25m in financing for projects in transportation, representing 5% of aggregate transport financing in Asia, \$15m for health projects, accounting for 11% of total health financing, \$5m for potable water projects, representing 3% of total potable water financing, \$5m for agriculture and agro-industry projects, equivalent to 2% of total agriculture financing and \$4m for education projects, accounting for 2% of total education financing.

### IDAL and OMSAR to provide comprehensive database on Lebanon for investors

The Investment Development Authority of Lebanon (IDAL) announced it is developing a center for information and support destined to be a front-office for potential investors in Lebanon. The center will be equipped with a comprehensive database which will be developed through an information program presented by the Office of the Minister of State for Administrative Reform (OMSAR). The program, financed by the Arab Fund for Economic and Social Development (AFESD), will facilitate the compilation of data on Lebanon from various sources, and aims to raise transparency and simplify investment in the country.

### Telecommunications Ministry cancels some fees on mobile phone services

The Ministry of Telecommunications announced that it canceled some fees on mobile phone services. The canceled fees include the previously requested \$25-30 for transforming the prepaid card service into a fixed line, the \$2-10 for requesting a detailed bill and \$2 if the client pays the bill in cash. Transfer from Telecom surplus to the budget revenues amounted to \$861m in 2006.

### CDR signs \$5m MoU with Italy

The Council for Development and Reconstruction (CDR) signed a \$5m Memorandum of Understanding (MoU) with the Italian government as part of the €30m assistance Italy pledged to provide to the Lebanese government. The \$5m will finance the restoration of the Baabda public hospital.

### Budget deficit up 31% in first 7 months of 2007

The budget deficit reached \$1.27bn in the first 7 months of 2007, equivalent to 26% of total budget and Treasury expenditures, up 31% from \$763m and 24% of total expenditures in the same period of 2006. Total revenues amounted to \$3.5bn, up 14% year-on-year, while total expenditures amounted to \$4.8bn, up 18% annually. Overall tax revenues rose by 7% year-on-year to \$2.3bn, of which 35%, or \$799m, were in VAT receipts. Debt servicing increased by 14% year-on-year and totaled \$1.8bn, accounting for 38% of total expenditures and 47% of budgetary spending. It absorbed 52% of overall revenues and 56% of budgetary receipts. Excluding debt servicing, the budget primary surplus reached \$1.2bn, or 32% of budgetary expenditures compared to a surplus of \$1.1bn a year earlier. The overall primary surplus reached \$562m up to July 2007, or 12% of total spending compared to a surplus of \$636m or 16% of total spending a year earlier.

### Trade deficit up 11% to \$4.2bn in first half of 2007

The trade deficit reached \$4.2bn in the first half of 2007, up 10.7% year-on-year. Imports rose by 8% to \$5.5bn while exports increased by 0.8% to \$1.3bn year-on-year. Italy was the main source of imports with 10% of total imports, followed by China with 8%, while the UAE was the main export destination with 8.3% of total exports, followed by Switzerland with 8%. The coverage ratio reached 24% in the year-to-June period, down from 25.7% year-on-year. For the month of June 2007, the trade deficit rose by 9% to \$666m compared to \$609m in June 2006. Imports increased by 2% year-on-year to \$892m in June, while exports dropped by 16% to \$226m.

## Corporate Highlights

### Rating agency issues ratings for 10 Lebanese insurers

Rating agency i.e. Muhanna & co Rating Services issued its sixth set of ratings covering 110 insurance and reinsurance firms operating in the Arab world, including 10 Lebanese insurers and one reinsurer. The ratings provide opinions on the financial strength of the insurers and are supported by a detailed rationale describing key issues. Six Lebanese firms received ratings equal to or above the average rating of 'A-' of all rated Arab firms, while all 11 Lebanese firms came in the 'secure' category. The ratings of 3 companies improved, 6 were unchanged and 2 declined from the previous year. Arabia was the highest rated Lebanese insurer, receiving a 'AA-' rating. Byblos Bank's insurance affiliate, ADIR, received an 'A' rating, unchanged from last year. The agency said the financial strength rating of ADIR is based on good underwriting exposure, good level of earnings and underwriting results, and a strong capital base. Assurex and Libano-Arabe also received an 'A' rating each. Bankers, MEDGULF and United Commercial were rated 'A-' each, while ALIG was rated 'BBB' and Cumberland 'BBB-'. In parallel, Victoire was downgraded to 'BBB-' from 'BBB' and Arab Re to 'BBB+' from 'A-'. Arabia, MEDGULF and UCA were rated on an interactive basis while the other 8 firms were rated non-interactively.

## Ratio Highlights

	2005	2006	Change*	H1-2007 <sup>(1)</sup>
Nominal GDP <sup>(2)</sup> (\$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	(17.6)
Exports / Imports	20.1	24.3	420	24.0
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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