



LEBANON THIS WEEK

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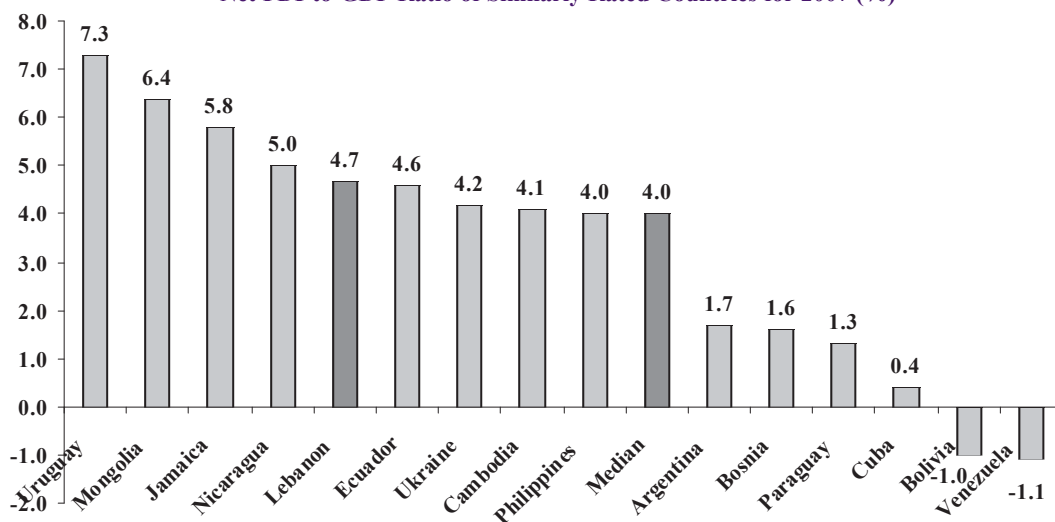
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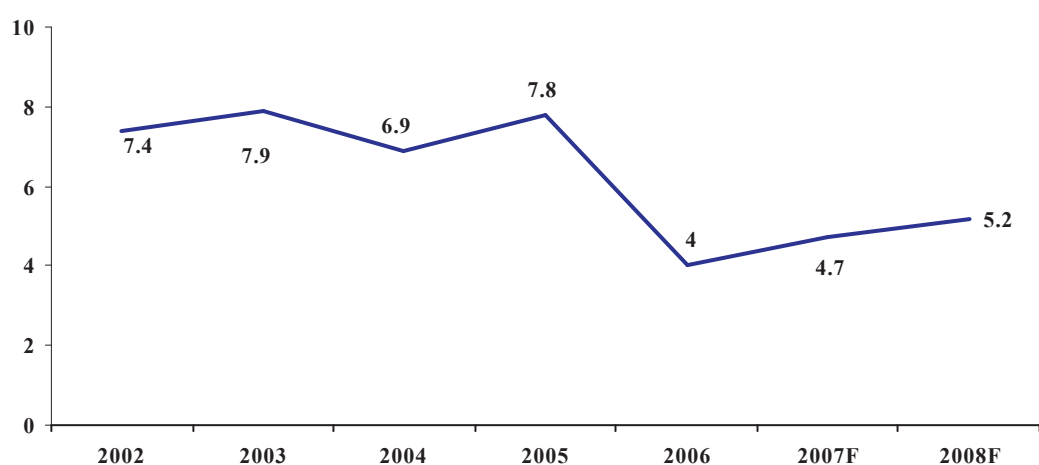
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Charts of the Week

Net FDI-to-GDP Ratio of Similarly Rated Countries for 2007 (%)



Net FDI-to-GDP Ratio for Lebanon (%)



Source: Moody's Investor Services, May 2007 forecast

Quote to Note

“The banking sector currently holds 52% of the public debt, down from 79% six or seven years ago.”

Central Bank Governor Riad Salameh, on the declining share of the overall public debt held by Lebanese banks

Number of the Week

\$9.01bn: Non-resident private sector deposits in commercial banks as at end-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>	<i>11.1</i>	<i>(24.49%)</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"	16.83	10.65%	157,930	19.39%
Solidere "B"	16.80	10.45%	157,211	12.58%
Byblos Common	1.74	2.35%	287,016	4.11%
Byblos Priority	1.79	0.56%	48,780	4.25%
BLOM GDR	67.05	3.15%	2,569	5.71%
BLOM Listed	64.00	0.00%	4,688	5.29%
Audi GDR	58.90	2.43%	1,827	6.67%
Audi Listed	57.50	0.00%	0	21.71%
HOLCIM	20.45	(0.05%)	6,919	4.60%

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

Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
Oct.2009	10.250	102.13	9.09
Dec.2009	7.000	96.13	8.93
Mar.2010	7.125	96.00	8.96
May 2011	7.875	96.00	9.17
Sep.2012	7.750	96.00	8.76
June 2013	8.625	97.75	9.13
Apr.2015	10.000	103.50	9.34
Jan.2016	8.500	94.25	9.51
May 2016	11.625	113.50	9.32
Apr.2021	8.250	89.50	9.65

Source: Byblos Capital Markets

	This Week	Last Week	% Change	August 2007	August 2006	% Change
Total Shares Traded	671,540	580,490	15.69%	3,583,386	8,966,583	(60.04%)
Total Value Traded	\$6,809,484	\$9,321,983	(26.95%)	\$22,029,832	\$113,223,231	(80.54%)
Market Capitalization	\$8.68bn	\$8.37bn	3.70%	\$8.37bn	\$7.12bn	17.56%

Source: Beirut Stock Exchange (BSE)



Lebanon's gross external financing needs at 13% of GDP in 2008, highest in Emerging Europe, the Middle East and Africa

A report by Credit Suisse on the impact of a global credit crunch on emerging markets said Lebanon's gross external financing needs stand at 12.8% of GDP in 2008, highest among 15 economies in Emerging Europe, the Middle East and Africa (EMEA). Credit Suisse indicated that Lebanon's near-term foreign currency debt profile appears to be challenging, particularly in view of the persistent domestic and regional political tensions. It said the government is due to meet \$2.3bn in Eurobond repayments next year over a relatively short period of time stretching from May to August 2008. This amount is equivalent to 9.4% of GDP, highest among EMEA countries. Also, Lebanon's basic balance, defined as the current account balance plus net FDI inflow, stands at -3.4% of GDP, constituting the 4th highest deficit in the EMEA region.

Credit Suisse noted that most of Lebanon's sovereign external debt claims are held by local institutions and the Central Bank, so the government should be able in theory to refinance most of the maturing liabilities. In turn, this should reduce the country's gross external financing needs by about 5% of GDP to 7.8% of GDP, putting Lebanon in a more comfortable position.

But it warned that the rollover of maturing debt cannot be taken for granted as politicians have yet to agree on a way to resolve the prolonged political standoff that is now threatening to disrupt the upcoming presidential elections. It said that in the event presidential elections fail to take place and that outgoing President Emile Lahoud appoints an interim administration, investors will be reluctant to make significant financial commitments in Lebanon prior to the emergence of a unified government. Also, a two-government scenario would likely delay the start of the privatization process which is supposed to generate large-scale revenues for the government estimated at up to \$5bn. In the absence of sizeable privatization receipts next year, Lebanon would have to rely on either the willingness of domestic investors to maintain their large exposure to public sector debt or the readiness of the Central Bank to resume its operations in support of the budget. Finally, the government may be able to convince some of its Paris III donors to disburse a larger share of their commitments than was initially earmarked in the form of grants and loans, rather than as project-specific allocations.

Higher Relief Council announces \$466m spent in post-war relief

The Higher Relief Council announced that Lebanon received \$748m, or 56%, of the \$1.33bn that donor countries pledged following last summer's Israeli war on Lebanon. A total of \$466m were spent on relief up till the end of August 2007. The Council noted that \$35.7m pledged from Syria, Jordan, Egypt, Bahrain and Yemen were not received. The Council added that \$300m were pledged from Qatar and are expected to be spent directly by the donor.

	\$m	Description
Total pledges	1,330.0	
Amount received	748.3	
	587.9	Actually received
	110.4	On account
	50.0	Through the CDR*
Amount spent	466.4	
	325.0	On reconstruction of the South and Beirut Southern suburbs
	141.4	On injured, displaced, martyrs' families and infrastructure

*Council for Development and Reconstruction

Source: Higher Relief Council

	Gross External Financing Needs (% of GDP)		
	Basic Deficit	Principal Debt Repayment	Gross external financing needs
Lebanon	3.4	9.4	12.8
South Africa	9.4	1.2	10.6
Turkey	2.9	6.6	9.6
Romania	4.8	3.3	8.2
Bulgaria	3.1	4.9	8.0
Hungary	4.5	3.1	7.7
Serbia	2.1	5.4	7.5
Croatia	-1.2	7.9	6.8
Poland	0.7	3	3.7
Kazakhstan	-4.9	6.9	3.0
Ukraine	-2.4	2	-0.4
Russia	-7.2	1.5	-5.7
Israel	-11.5	3.1	-8.4
Egypt	-11.2	1.9	-9.3

Source: Credit Suisse

Lebanon in the News

Finance Ministry signs \$75m grant agreement with USAID

The Ministry of Finance signed with the United States Agency for International Development (USAID) a grant agreement of \$75m in budgetary support. The grant covers the first part of \$250m in budgetary support pledged by the United States at the Paris III Conference and follows the signing of a Memorandum of Understanding in July for the total amount. The \$75m will be used for servicing of upcoming debt payments due to the World Bank Group. The remaining funds are expected to be all transferred by the end of 2008. The total pledges from USA to Lebanon at the Paris III Conference amount to \$890m: \$120m for private sector support, \$50m for development projects, \$250m for budgetary support, \$185m for support of UNIFIL and \$286m for support of the Lebanese Armed and Internal Security Forces.

Oman and UAE to exempt Lebanese products from laboratory tests

Oman and the UAE decided to recognize the laboratory tests conducted by the Lebanese Industrial Research Institute in order to extend special treatment for industrial and agricultural Lebanese products and facilitating their admission to Arab markets. The decision was approved by the Arab League's Economic and Social Council during its meeting held in Beirut in October 2006. Additionally, Oman decided to exempt Lebanese refrigerated or non-refrigerated trucks from transit fees for two years, with special facilities at country borders.

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

According to the Central Bank's business survey, the volume of commercial sales dropped during the first quarter of 2007, with a balance of opinion standing at -33, compared to -20 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 inventory levels in all commercial sub-sectors, the balance of opinion declined from -9 in the first quarter of 2006 to -13 in the same quarter of 2007. 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.

Commercial Activity: Year-on-year evolution of opinions

Aggregate results	Q1-04	Q1-05	Q1-06	Q1-07
Sales volume	0	-70	-20	-33
Inventories of finished goods	5	7	-9	-13
Q1-07 Regional results	Beirut, Mount Lebanon	North	South	Bekaa
Sales volume	-15	-42	-56	-76
Inventories of finished goods	-9	15	-22	-40

Source: Central Bank Business Survey Q1-07

Corporate Highlights

Kafalat loan guarantees at \$36.5m in first-half 2007

The Kafalat Corporation issued 316 loan guarantees in the first 6 months of 2007 for a total value of \$36.5m and an average loan size of \$115,423, compared to 271 loan guarantees in the first period of 2006 for a total value of \$25.5m and an average loan size of approximately \$94,000. Industry accounted for 45% of guarantees, followed by agriculture with 39%, while regionally Beirut and Mount Lebanon accounted for 55% of guarantees, followed by the Bekaa with 22%. Kafalat issued 68 loan guarantees in the month of June alone for a total value of \$7.5m.

Malia and Rotana to co-manage 5-star hotel in Kurdistan

Lebanon's Malia Group signed a partnership agreement with hotel management firm Rotana Hotels to build and co-manage a \$55m 5-star hotel in Irbil, the capital of Kurdistan in northern Iraq. The hotel, which is expected to open in October 2009, will be the first 5-star hotel in Kurdistan. The 205-room hotel will be among a group of projects to be launched by Malia Holding through its tourism investment affiliated company, Hotel Line.

ATFP grants Bank Audi \$25m credit line

The Arab Trade Financing Program (ATFP) extended to Bank Audi a credit line of \$25m for the financing of trade between Lebanon and other countries. The total number of credit lines to Lebanon amounts to 101 for a total value of \$970m.



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	(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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