



LEBANON THIS WEEK

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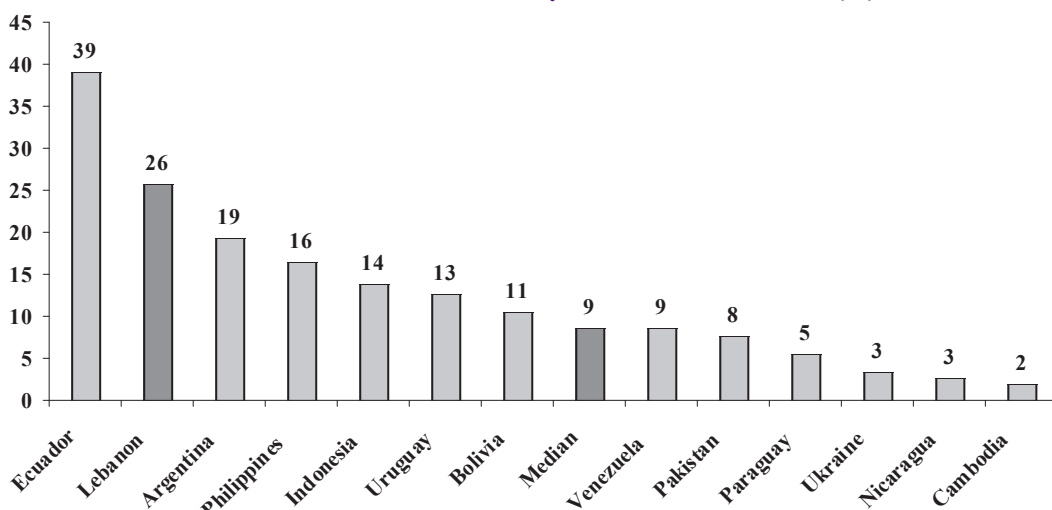
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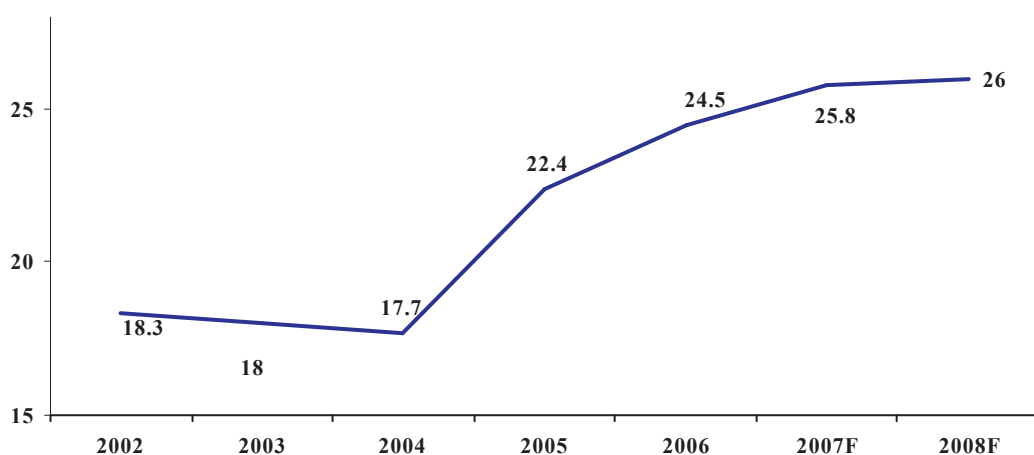
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Charts of the Week

Debt Service Ratio* of Similarly Rated Countries for 2007 (%)



Debt Service Ratio in Lebanon (%)



* (Interest + Current-Year Repayment of Principal)/Current Account Receipts
Source: Moody's Investor Services, 2007

Quote to Note

“Lebanon needs some parliamentary action to complete some of the reforms which were agreed upon [at the Paris III conference].”

Elizabeth Dibble, U.S. Deputy Assistant Secretary of State for International Finance and Development

Number of the Week

15-20%: Estimated decline in commercial activity in Lebanon due to the ongoing political and security crisis, according to the Head of the Beirut Traders Association Nadim Assi.

Economic Indicators

\$m (unless otherwise mentioned)	Jul.2006	Jan-Jul.06	2006	Jun.2007	Jul.2007	Jan-Jul.07	% Change*
Exports	104	1,406	2,282	226	-	-	-
Imports	601	5,658	9,399	892	-	-	-
Trade Balance	(497)	(4,253)	(7,118)	(666)	-	-	-
Balance of Payments	(1,189)	1,373	2,795	(542)	362	155	(88.71%)
Checks Cleared in LBP	470	4,222	7,219	656	706	4,764	12.84%
Checks Cleared in FC	2,092	16,033	25,268	2,410	2,457	16,144	0.69%
Total Checks Cleared	2,562	20,255	32,487	3,066	3,163	20,908	3.22%
Budget Deficit	207	980	3,039	381	48	1,274	30.00%
Primary Balance	(35)	624	(17)	9120	164	562	(9.94%)
Airport Passengers	172,497	1,840,054	2,825,138	256,072	346,921	1,823,006	(0.93%)

\$bn (unless otherwise mentioned)	Dec.2005	Jul.2006	Dec.2006	May 2007	Jun.2007	Jul.2007	% Change*
BdL FX Reserves	9.85	12.45	10.21	9.91	9.92	10.21	(17.99%)
<i>In months of Imports</i>	<i>11.3</i>	<i>20.7</i>	<i>11.3</i>	<i>10.7</i>	<i>11.1</i>	-	-
Public Debt	38.50	38.76	40.39	41.35	39.76	40.09	3.43%
Net Public Debt	34.79	35.84	37.44	38.92	37.44	37.75	5.33%
Bank Assets	70.33	73.22	76.18	77.89	79.04	79.58	8.69%
Bank Deposits	56.99	58.48	60.69	62.49	63.20	64.21	9.80%
Bank Loans to Private Sector	16.23	17.02	17.20	18.09	18.52	18.68	9.75%
Money Supply M2	16.23	15.91	15.57	16.23	16.30	16.47	3.52%
Money Supply M3	49.38	51.11	53.23	55.77	56.04	56.73	11.00%
LBP Lending Rate (%)	10.12	10.41	10.37	10.45	10.36	10.28	(13b.p.)
LBP Deposit Rate (%)	7.70	7.43	7.49	7.49	7.49	7.49	6b.p.
USD Lending Rate (%)	8.38	8.65	8.55	8.40	8.32	8.32	(33b.p.)
USD Deposit Rate (%)	4.09	4.53	4.76	4.88	4.89	4.92	39b.p.
%* Change in CPI**	(2.23)	6.53	7.04	3.86	3.20	1.62	(491b.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"	16.35	(0.24%)	40,660	18.79%
Solidere "B"	16.22	(0.31%)	49,770	12.12%
Byblos Common	1.75	0.57%	140,982	4.12%
Byblos Priority	1.85	2.78%	142,679	4.38%
BLOM GDR	75.45	11.86%	12,885	6.41%
BLOM Listed	64.00	0.00%	200	5.27%
Audi GDR	63.85	6.95%	5,034	7.21%
Audi Listed	60.35	0.75%	1,461	22.72%
HOLCIM	20.00	(0.84%)	2,447	4.49%

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

Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
Oct.2009	10.250	102.50	8.88
Dec.2009	7.000	96.13	8.93
Mar.2010	7.125	96.00	8.97
May 2011	7.875	96.50	9.01
Sep.2012	7.750	95.50	8.89
June 2013	8.625	97.75	9.13
Apr.2015	10.000	103.50	9.34
Jan.2016	8.500	94.00	9.56
May 2016	11.625	112.00	9.55
Apr.2021	8.250	89.25	9.69

Source: Byblos Capital Markets

	This Week	Last Week	% Change	August 2007	August 2006	% Change
Total Shares Traded	437,971	10,529,285	(95.84%)	3,583,386	8,966,583	(60.04%)
Total Value Traded	\$6,669,009	\$173,867,057	(96.16%)	\$22,029,832	\$113,223,231	(80.54%)
Market Capitalization	\$8.70bn	\$8.58bn	1.40%	\$8.37bn	\$7.12bn	17.56%

Source: Beirut Stock Exchange (BSE)



Lebanon ranks 121st globally, 17th in MENA region in credit ratings

In its semi-annual survey on the creditworthiness of 174 countries, *Institutional Investor* magazine ranked Lebanon in 121st place worldwide and 17th among 20 countries in the Middle East and North Africa region. Lebanon ranked 109th globally and 16th regionally in the March 2007 survey and in 99th place worldwide and 16th in the MENA region in September 2006. Also, Lebanon came in 31st place among 32 upper middle income countries. The survey rates the creditworthiness of countries on a scale of 0 to 100, with 100 representing countries with the least chance of debt default. The ratings are based on input provided by senior economists and sovereign risk analysts at leading global banks and money management and securities firms.

On a global basis, Lebanon ranked ahead of Bangladesh, Guyana and Benin and came immediately behind Seychelles, Mozambique and Bhutan. Lebanon's rank regressed by 12 spots from the March survey, posting the fourth biggest drop in the global rankings behind Papua New Guinea, Tonga and the Solomon Islands. Further, Lebanon's rank declined by 22 spots from September 2006, posting the third steepest drop in the world behind Kiribati that fell by 30 notches and Tonga that dropped 27 places.

Lebanon received a score of 28.7 points, below the global average of 46.9 points as well as lower than the MENA and Arab averages of 49.6 points and 49.4 points, respectively, according to Byblos Research. It also scored below the average of 56.1 points for upper middle income countries. Its score regressed by 0.8 points, or 2.7%, from March 2007 and by 2.2 points or 7.1% from September 2006. Lebanon was the only country in the region whose rating regressed year-on-year, and posted the 4th biggest decline in its score worldwide behind the Solomon Islands, Kiribati and Tonga. *Institutional Investor* considered that, when excluding countries with small economies, Lebanon would post the steepest annual decline in the ratings on a worldwide basis.

The rankings of 10 MENA countries improved, 4 were unchanged and 6 regressed, while 16 countries in the region saw their ratings increase. Switzerland remained the country with the best creditworthiness in the world while Somalia continued to have the highest probability of default worldwide.

S&P warns of damages of political crisis on Lebanon's credit ratings

Standard & Poor's Ratings Services (S&P) affirmed its 'B-' long-term and 'C' short-term foreign and local currency sovereign ratings on Lebanon with a negative outlook. The agency warned that the ratings reflect substantial political difficulties that have raised pressure on already precarious public finances. S&P also said that the confrontation between the opposition coalition and the ruling coalition has impeded policy-making and heightened social and political tensions in the country. S&P announced that the establishment of parallel governments, if there is failure to compromise over the presidency, would raise major concerns over policy-making and would lead to a rating downgrade. S&P warned that over the long term, failure to resolve the current political problems could complicate the rollover of debt, raise borrowing costs, and slow the release of Paris III funds leaving Lebanon increasingly reliant on support from donors.

Ministry of Finance announces updates about Paris III inflows

The Ministry of Finance announced updates about the inflows from Paris III. The value of total loan agreements signed exceeded \$3.4bn, while the value of loan agreements expected to be signed before the end of 2007 is around \$900m. The Ministry added that \$177m in cash were actually received including a \$100m grant from Saudi Arabia for budgetary support and a \$77m loan from the IMF to the Central Bank. Of the \$3.4bn of total loan agreements signed, \$1.3bn are for government support, \$729m for private sector support, \$1.1bn for financing projects and \$285m for technical assistance.

MENA Countries Scores & Rankings

	Score	MENA Rank	Global Rank
UAE	76.8	1	30
Qatar	76.2	2	31
Kuwait	74.9	3	34
Saudi Arabia	69.6	4	42
Bahrain	69.3	5	43
Oman	69.1	6	45
Israel	68.3	7	46
Tunisia	60.7	8	60
Morocco	54.2	9	67
Algeria	53.9	10	68
Egypt	51.4	11	72
Libya	47.7	12	79
Jordan	44.8	13	82
Iran	36.1	14	93
Yemen	32.1	15	105
Syria	31.3	16	107
Lebanon	28.7	17	121
Mauritania	23.6	18	137
Sudan	13.8	19	161
Iraq	10.5	20	169

Source: *Institutional Investor*, *Byblos Research*

Salameh on Lebanon's monetary situation

Central Bank Governor Riad Salameh announced that the Lebanese pound will stay stable since it is backed by large foreign exchange reserves. He added that two thirds of the foreign exchange reserves are held in US dollars and one third in euros and that this proportion will be maintained given that the green currency plays an essential role in the Lebanese economy. Salameh indicated that the spread between interest rates in Lebanon and international interest rates will remain stable at around 5%. The governor also forecast a growth rate of 2% for the Lebanese economy in 2007.

Government to offer one-third of cellular shares to the public

According to the General Secretary of the Higher Privatization Council, the Lebanese government intends to offer to the public one third of the shares of the two mobile licenses slated for privatization. He indicated that, according to the draft law, two-thirds of the shares will be sold to private companies and one-third will be listed on the Beirut Stock Exchange. The government expects around \$6bn from the privatization of the two mobile licenses currently managed by Mobile Telecommunications Company (MTC) and Detecon.

Beirut Port activity in first 8 months of 2007

The Port of Beirut stated that port revenues amounted to \$75.9m in the first 8 months of 2007, compared to \$52.4m in the same period last year. The freight activity and number of ships reached 3.5 million tons and 1,517 ships, up by 32% and 30% respectively in the year-to-August period compared to the same period in 2006. Port revenues reached \$9.8m in July 2007, up 4% from July 2007. The freight activity dropped by 5% to 444,800 tons, and the number of ships dropped by 3% to 176 ships in August 2007, compared to July 2007.

Corporate Highlights

Fattouche Group sells Armenian mobile license for €310m

Lebanon's Fattouche Group sold an 80% stake in Armenian mobile telecom operator K-Telecom for €310m to Mobile TeleSystems (MTS), the largest mobile operator in Russia and the Commonwealth of Independent States. K-Telecom started operations in July 2005, is the largest mobile operator in Armenia and operates under the VivaCell brand name. It has 986,000 subscribers and a 66% market share. MTS purchased 80% of shares in International Cell Holding Ltd, the owner of 100% of K-Telecom shares. The purchase price for the 80% stake includes €50m that will be paid over the 2008-10 period given that K-Telecom meets certain revenue and earnings targets. MTS will also provide K-Telecom with a loan of €140m to repay outstanding debt and finance its investment program. MTS also acquired an option to purchase the remaining 20% stake. The option is valid from July 2010 to 2012, with the purchase price to be determined by an independent international bank.

The Fattouche Group was granted a 15-year license in November 2004 to operate the second mobile communication network in Armenia in partnership with the Comium Group, another Lebanon-based telecom group. Mr. Pierre Fattouche is the chairman of the board of K-Telecom, while Mr Hussein Refai, former General Manager of LibanCell, is a member of its board. K-Telecom's revenues totaled \$104.1m in 2006 and its average revenue per user (ARPU) was \$15.6. Mobile penetration in the country is around 39%. The other operator in the country is Armentel, owned by Russia's VimpelCom. MTS operates in Russia, Belarus, Ukraine, Uzbekistan and Turkmenistan and had 76 million subscribers by the end of August 2007.

ACC awarded \$740m contract from ALDAR Properties

The Lebanese company Arabian Construction Co. (ACC) was awarded a \$740m contract from ALDAR Properties for building 3 towers at the Central Market in the heart of Abu Dhabi's Central Business District. ALDAR is leading the project of re-development of Abu Dhabi's Central Market which ACC initially built in 1971. ACC has been operating since 1967 throughout the Middle East. ALDAR Properties is a property development company established primarily to create world-class real estate developments for Abu Dhabi.

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

Economic Research & Analysis Department
Byblos Bank Group
P.O. Box 11-5605
Beirut – Lebanon
Tel: (961) 1 338 100
Fax: (961) 1 217 774
E-mail: research@byblosbank.com.lb
www.byblosbank.com.lb

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BYBLOS BANK GROUP

LEBANON

Byblos Bank S.A.L
Achrafieh Beirut,
Elias Sarkis Avenue- Byblos Bank Tower
P.O.Box: 11-5605
Riad El Solh Beirut 1107 2811
Phone: (+961) 1 335200
Fax: (+961) 1 339436

BELGIUM

Byblos Bank Europe S.A
Bussels Head Office
10, Rue Montoyer
B-1000 Brussels - Belgium
Phone: (+32) 2 551 00 20
Fax: (+32) 2 513 05 26
E-mail: byblos.europe@byblosbankeur.com

SYRIA

Byblos Bank Syria S.A
Abu Roummaneh Head Office
Al Chaalan - Amine Loutfi Hafez Str.
P.O.Box: 5424
Phone: (+ 963) 11 9292 - 3348240 / 1 / 2 / 3 / 4
Fax: (+ 963) 11 3348207
E-mail: byblosbanksyria@byblosbank.com

ENGLAND

London Branch
Berkeley Square House - Suite 5
Berkeley Sq.
GB - London W1J 6BS (U.K.)
Phone: (+44) 207 493 35 37
Fax: (+44) 207 493 12 33
E-mail: byblos.europe@byblosbankeur.com

SUDAN

Byblos Bank Africa Ltd.
Khartoum - Sudan
El Amarat -Street 21
P.O.Box: 8121 - El Amarat - Khartoum - Sudan
Phone: (+249) 183 566 444
Fax: (+249) 183 566 454
E-mail: byblosbankafrica@byblosbank.com

FRANCE

Paris Branch
15 Rue Lord Byron
F- 75008 Paris (France)
Phone: (+33) 1 45 63 10 01
Fax: (+33) 1 45 61 15 77
E-mail: byblos.europe@byblosbankeur.com

IRAQ

Erbil Branch, Kurdistan, Iraq
Street 60,
Near Sports Stadium
P.O.Box: 34 - 0383 Erbil, Iraq
Phone: (+ 964) 66 2233457 / 9
Fax: (+ 964) 66 2233458
E-mail: iraqbranch@byblosbank.com.lb

CYPRUS

Limassol Branch
1, Arch. Kyprianou / St. Andrew Street
P.O.Box 50218
3602 Limassol , Cyprus
Phone: (+357) 25 341433 / 4 / 5
Fax: (+357) 25 367139
E-mail: bybloscyprus@byblosbank.com

UNITED ARAB EMIRATES

Byblos Bank Abu Dhabi Representative Office
Intersection of Muroor and Electra Streets
P.O.Box: 73893 - Abu Dhabi
Phone: (+ 971) 2 6336400
Fax: (+971) 2 6338400
E-mail: byblosbankuae@byblosbank.com

