



LEBANON THIS WEEK

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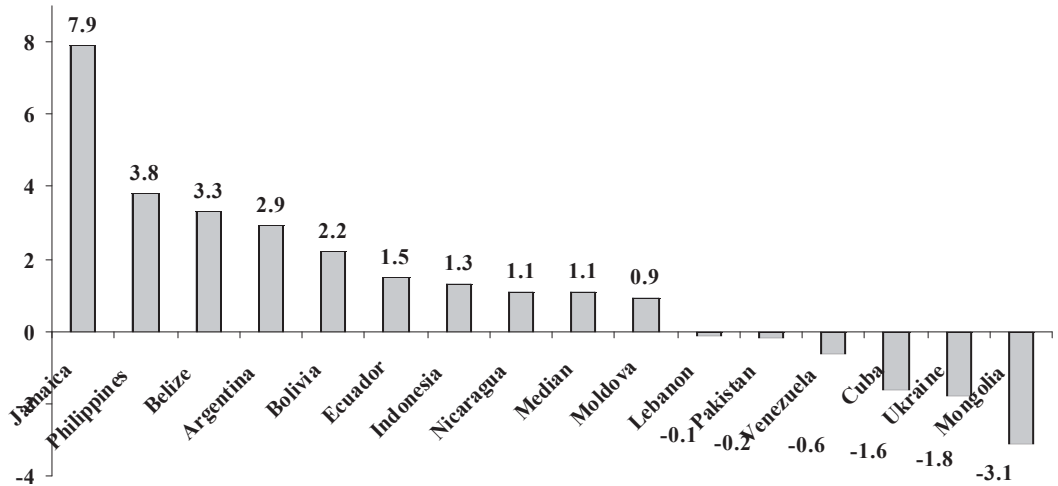
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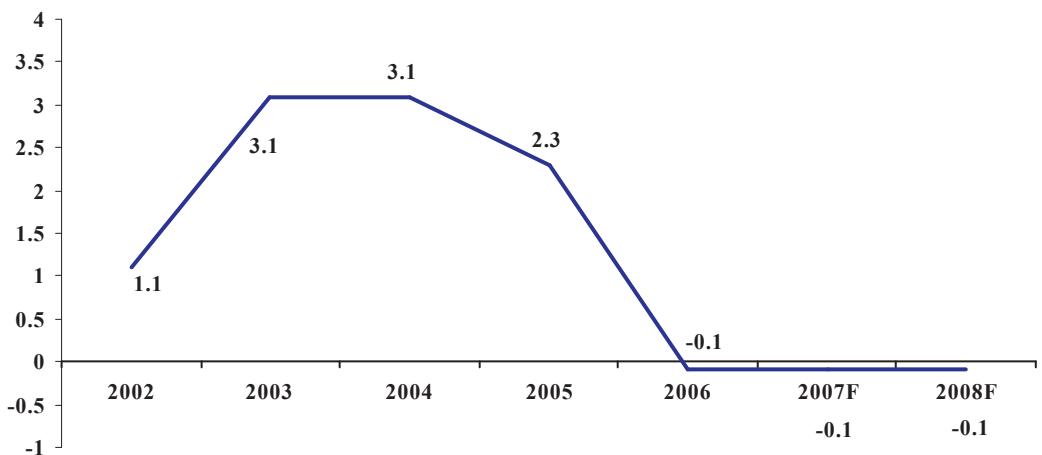
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Charts of the Week

Primary Balance-to-GDP Ratio for Similarly Rated Countries in 2007 (%)



Primary Balance-to-GDP Ratio for Lebanon (%)



Source: Moody's Investors Service, 2007

Quote to Note

“While spreads have increased by around 80 basis points between mid-July and mid-August, there has been no pressure on the currency, and deposit inflows have remained robust.”

The International Monetary Fund, on the very low impact on Lebanon of recent turbulence in international financial markets

Number of the Week

\$7,849: Estimated GDP per capita at purchasing power parity for Lebanon in 2007, according to the Economist Intelligence Unit.

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"	17.51	0.06%	440,774	18.67%
Solidere "B"	17.62	0.69%	198,819	12.21%
Byblos Common	1.91	(2.05%)	232,989	4.17%
Byblos Priority	1.98	1.54%	158,500	4.35%
BLOM GDR	79.50	(5.36%)	20,129	6.26%
BLOM Listed	65.00	0.00%	0	4.97%
Audi GDR	69.20	0.87%	27,777	7.25%
Audi Listed	70.00	6.06%	42,000	24.45%
HOLCIM	20.21	0.70%	22,627	4.20%

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

Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
Oct.2009	10.250	102.25	9.00
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	93.75	9.61
May 2016	11.625	112.50	9.46
Apr.2021	8.250	89.50	9.66

Source: Byblos Capital Markets

	This Week	Last Week	% Change	September 2007	September 2006	% Change
Total Shares Traded	50,872,507	1,182,855	4,200%	12,821,651	3,739,762	242.85%
Total Value Traded	\$71,663,196	\$25,381,214	182.35%	\$212,726,765	\$52,687,949	303.75%
Market Capitalization	\$9.38bn	\$9.27bn	1.19%	\$9.27bn	\$7.14bn	29.83%

Source: Beirut Stock Exchange (BSE)



Lebanon ranks 116th globally, 14th in MENA region in country risk

In its semi-annual survey of the country risk of 185 countries, *Euromoney* magazine ranked Lebanon in 116th place worldwide and 14th among 20 countries in the Middle East and North Africa region. Lebanon ranked 11th globally and 14th regionally in the March 2007 survey and in 106th place worldwide and 14th in the MENA region in September 2006. Also, Lebanon came in 29th place among 34 upper middle-income countries. The survey evaluates individual country risk by assigning a weighting to 9 categories that cover political risk, economic performance, debt indicators, debt in default or rescheduled debt, credit ratings, access to bank finance, access to short-term finance, access to capital markets, and discount on forfeiting. When adjusted for corruption, Lebanon's rank improves by 6 spots to 110th place, according to *Euromoney*. Luxembourg had the lowest risk worldwide and North Korea the highest risk globally.

On a global basis Lebanon ranked ahead of Mongolia, Venezuela and Nigeria, and came immediately behind Bhutan, Albania and Papua New Guinea. Also, it ranked ahead of Venezuela and Belize and behind Argentina and the Dominican Republic among upper middle-income countries. Lebanon's rank regressed by 5 spots from the March survey and by 10 spots from September 2006, posting the steepest drop in the region during the covered periods.

Lebanon received a score of 38.95 points, below the global average of 50.28 points as well as lower than the MENA and Arab averages of 51.36 points and 50.88 points, respectively. It also scored below the average of 55.65 points for upper middle-income countries. Its score improved by 1.8% from the March survey and by 2.3% from September 2006. The scores of the individual categories of country risk for Lebanon remained largely in the same range as a year earlier, reflecting little improvement in the country's overall risk profile.

Lebanon ranked ahead of Ethiopia and behind Nigeria on the Political Risk category, while it came ahead of Sudan and behind Mauritania in the region. Also, Lebanon tied with Bolivia, Grenada and Rwanda, ranked ahead of Paraguay, and came behind Argentina on the Credit Ratings category. Regionally, it tied with Yemen, came ahead of Algeria and behind Iran.

In parallel, Lebanon tied with Senegal, Guyana, and Papua New Guinea, ranked ahead of Ukraine, and came behind Albania on the Access to Short-term Finance category. It also ranked ahead of Pakistan and Turkey, and behind Barbados and Vietnam on the Access to Capital Markets category. Further, Lebanon ranked in first place globally, along with 121 countries, on the Debt in Default or Rescheduled category, and tied with such countries as Luxembourg, Denmark, Germany and the United States. It maintained a perfect score on this category, reflecting the country's clean record of honoring all of its debt obligations. Finally, Lebanon tied with Mexico, the Philippines and Zambia, ranked ahead of the Kyrgyz Republic and came behind Armenia in terms of Access to Bank Finance.

MENA Countries Rankings and Scores

	Score	MENA Rank	Global Rank
UAE	79.58	1	29
Kuwait	79.52	2	30
Qatar	78.52	3	31
Bahrain	72.26	4	35
Saudi Arabia	71.77	5	36
Israel	70.29	6	39
Oman	66.07	7	47
Tunisia	57.92	8	62
Morocco	55.52	9	65
Egypt	52.59	10	69
Jordan	49.67	11	74
Algeria	47.61	12	79
Iran	40.94	13	98
Lebanon	38.95	14	116
Syria	37.41	15	122
Yemen	37.04	16	127
Mauritania	29.89	17	155
Sudan	29.83	18	156
Libya	25.80	19	170
Iraq	5.97	20	183

Source: *Euromoney*, *Byblos Research*

Country Risk Indicators for Lebanon

	MENA Rank	Global Rank
Political Risk	18	152
Economic Performance	12	90
Debt Indicators	17	153
Debt in Default*	1	1
Credit Ratings	13	116
Access to Bank Finance	8	68
Access to Short term Finance	15	123
Access to Capital Markets	11	66
Discount on Forfeiting	15	90

*Or rescheduled

Source: *Byblos Research*

Country Risk Scores for Lebanon by Category

	Weighting	Sep-07	Mar-07	Sep-06
Political Risk	25	7.45	6.96	7.9
Economic Performance	25	7.15	6.98	6.96
Debt Indicators	10	7.52	7.52	6.39
Debt in Default or rescheduled	10	10	10	10
Credit Ratings	10	0.63	0.78	0.78
Access to Bank Finance	5	0.36	0.37	0.12
Access to Short term Finance	5	1.6	2.8	2.8
Access to Capital Markets	5	2.54	1.25	1.25
Discount on Forfeiting	5	1.71	1.6	1.86

Source: *Euromoney*, *Byblos Research*

Ministry of Finance releases third report on Paris III

The Ministry of Finance released the third progress report on the Paris III Conference, providing an update on work achieved since June 2007. The third quarter was characterized by the progress achieved on the budget support front where the Ministry of Finance signed a memorandum of understanding for \$250m grant with the United States, a debt replacement agreement for \$500m with Malaysia, and a \$100m development policy loan agreement with the World Bank, reaching a cumulative \$1.25bn worth of assistance to address debt issues. The report shows that of the total \$7.61bn pledged at the Paris III Conference, agreements have been signed for \$3.4bn including \$752m for private sector support, \$1.07bn for project financing, \$285m for aid in-kind, in addition to the \$1.25bn for budgetary support. Additional \$992m are expected to be signed by the end of 2007, including \$817m for budgetary support and \$175m for private sector support.

Lebanon meets IMF's EPCA program targets for end-June 2007

The International Monetary Fund (IMF) issued a staff report on Lebanon's performance under the Emergency Post-Conflict Assistance (EPCA) program. The report indicated that all the quantitative targets for the first and second quarters of 2007 were met, with the exception of the net government borrowing from the Central Bank which came out well below the program target because of Central Bank sales of government paper in the secondary market. The IMF said that actual disbursements of pledges committed at the Paris III and Stockholm conferences have been disappointing, as the finalization of many agreements is taking significantly longer than expected, due mostly to technical and administrative reasons. The following table shows quantitative indicative targets under the EPCA program compared to actual figures.

Selected Economic Indicators for Lebanon			
	2006	2007*	2008**
Nominal GDP (\$bn)	22.7	24.0	25.0
Real GDP growth	0.0	2.0	3.5
CPI (average)	5.6	3.5	2.5
Budget balance/GDP	-11.1	-13.1	-10.6
Primary Balance/GDP	1.7	0.1	1.1
Public debt/GDP	178	174	147
Exports/GDP	22.5	14.8	14.6
Imports/GDP	1.8	17.3	4.3

*Revised projections

**Projections

Source: IMF, September 2007

Quantitative indicative targets under the EPCA

Sbn	Target		Actual	
	March 2007	June 2007	March 2007	June 2007
BdL's gross reserves	11.5	10.6	11.7	11.6
Net public debt	40.5	39.7	40.1	38.7
Primary balance (before grants)	(0.4)	(0.6)	(0.2)	(0.1)
Public net borrowing from BdL	7.1	6.2	7.2	5.1

Source: IMF, September 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 October. It attributed the decision to the continued deterioration in the political outlook and considered that Lebanon will be unable to deliver a substantial portion of pledges from the Paris III conference due to the political impasse. It warned that Lebanon will head into another crisis if a president is not elected in the October 23rd parliamentary session, which will further impact negatively the country's public finances. However, the sizeable international aid package and the expected 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 program. But the ongoing political stalemate clouds even the medium-term outlook.

Lebanon's allocation in the portfolio was 2.6% in September, down from 2.8% in August, 2.7% in July, and third highest after Turkey and Russia in the Emerging Europe, the Middle East and Africa region (EMEA). It accounted for 8.6% of aggregate allocations in the EMEA universe. Further, Lebanon's allocation was 12th highest in emerging markets. 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 20016N. Lebanon posted the second best return at 3.85% in the first 8 months of 2007 among emerging markets included in Merrill Lynch's Sovereign Plus Debt Index. Lebanon and Ukraine are the only underweight credits in the EMEA universe. Other allocations in the region include Iraq (0.6%), Tunisia (0.4%) and Egypt (0.4%).

Ministry of Finance publishes new quarterly report on public debt

The Ministry of Finance released the first issue of a new quarterly report called "Debt & Debt Markets". The report covers recent developments relating to public debt, the government's debt structure, domestic and foreign debt primary markets, secondary markets, outstanding Eurobonds, a full range of risk indicators, configuration of creditors, and other related data. The report targets decision makers, investors, analysts and the public.

LibanPost and ministries to simplify business registration process

LibanPost and the ministries of Economy & Trade, Finance and Justice signed an agreement to help simplify the business registration process in Lebanon. The new process, which was designed under a cooperative project between the Lebanese government and the International Finance Corporation (IFC), is expected to reduce time, cost and complexity of business registration by almost 50%. According to the IFC's Doing Business 2008 report, Lebanon ranked in 85th place among 176 countries worldwide and 7th among 17 countries in the Middle East and North Africa region in terms of Ease of Doing Business in 2007. Entrepreneurs need 6 procedures to start a business in Lebanon compared to 9.7 in the MENA region and 6 procedures in OECD countries, and it takes 46 days to start a business compared to 38.5 days in the region and 14.9 days in the OECD.

Budget deficit up 2% in first 8 months of 2007

The budget deficit reached \$1.54bn in the first 8 months of 2007, equivalent to 28% of total budget and Treasury expenditures, up 1.8% from \$1.52bn and 31% of total expenditures in the same period of 2006. Total revenues amounted to \$3.97bn, up 18% year-on-year, while total expenditures amounted to \$5.51bn, up 13% annually. Overall tax revenues rose by 13% year-on-year to \$2.5bn, of which 35%, or \$881m, were in VAT receipts. Debt servicing increased by 13% year-on-year and totaled \$2.1bn, accounting for 38% of total expenditures and 47% of budgetary spending. It absorbed 53% of overall revenues and 57% of budgetary receipts. Excluding debt servicing, the budget primary surplus reached \$1.3bn, or 30% of budgetary expenditures compared to a surplus of \$1.1bn a year earlier. The overall primary surplus reached \$542m up to August 2007, or 10% of total spending compared to a surplus of \$330m or 7% of total spending a year earlier.

Corporate Highlights

Fransabank executes the acquisition of 97.52% of BLC Bank

Fransabank executed the acquisition of 97.52% of BLC Bank from the Qatari Supreme Council for Economic Affairs and Investment. Fransabank won the bid for the acquisition at \$153m in August 2007. 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 received the final approval of the Central Bank on September 26, 2007.

Murex first in Asia Risk's second annual technology rankings

The French company Murex, which has one of its most important offices in Beirut, ranked first in *Asia Risk's* second annual technology vendor rankings, holding top-three positions in 18 of the 19 categories and being an outright winner in 13 of the categories. Murex, in which a number of Lebanese hold management positions, provides systems of management of products on the technology front. *Asia Risk* surveys technology users in Asia and ask them to nominate the companies that provide the best products across categories such as market risk, credit risk, trading systems, analytics and front-to-back-office systems, based on functionality, usability, performance, return on investment and reliability.

Ratio Highlights

	2005	2006	Change*	H1-2007 ⁽¹⁾
Nominal GDP ⁽²⁾ (\$bn)	21.5	22.7		24.0
External Debt / GDP	89.3	89.9	60	85.0
Local Debt / GDP	89.8	88.1	(170)	81.7
Total Debt / GDP	179.1	178.4	(70)	165.8
Trade Balance / GDP	(34.9)	(31.3)	360	(17.5)
Exports / Imports	20.1	24.3	420	24.0
Revenues / GDP	22.8	19.4	(340)	12.5
Expenditures / GDP	31.6	30.8	(80)	17.5
Budget Balance / GDP	(8.8)	(11.5)	(270)	(5.0)
Primary Balance / GDP	2.3	0.4	(190)	1.7
BdL FX Reserves / M2	60.7	65.6	490	60.8
M3 / GDP	229.8	234.4	460	233.3
Bank Assets / GDP	327.0	335.7	870	329.2
Bank Deposits / GDP	265.1	267.4	230	267.5
Private Sector Loans / GDP	75.3	75.8	50	77.9
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 2% 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	Aug.2006	July 2007	Aug.2007	Change*	Risk Level
Political Risk Rating	57.5	56.0	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	58.2	58.2	▲	High

Regional Average	Aug.2006	July 2007	Aug.2007	Change*	Risk Level
Political Risk Rating	66.3	67.5	67.6	▲	Moderate
Financial Risk Rating	41.4	42.0	42.0	▲	Very Low
Economic Risk Rating	41.1	40.3	40.2	▼	Very Low
Composite Risk Rating	74.4	74.8	74.9	▲	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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