



LEBANON THIS WEEK

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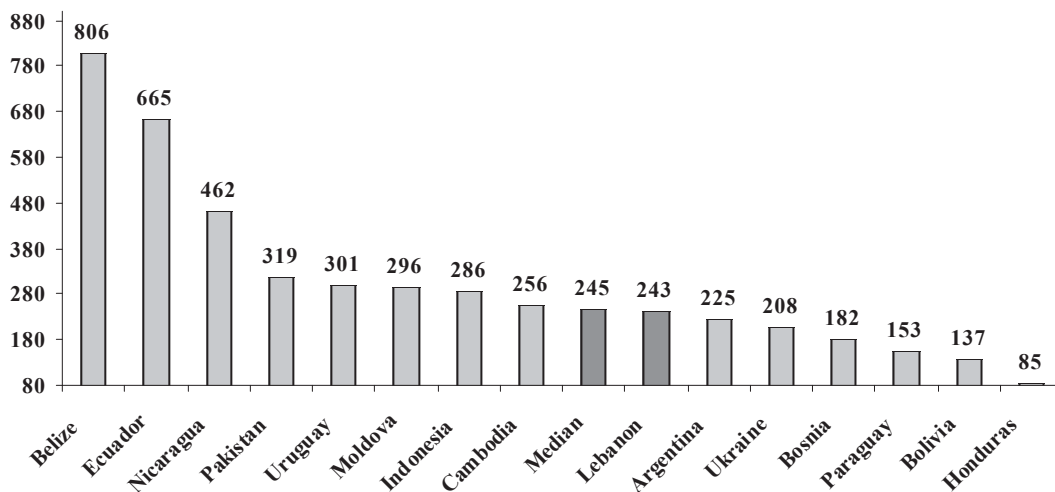
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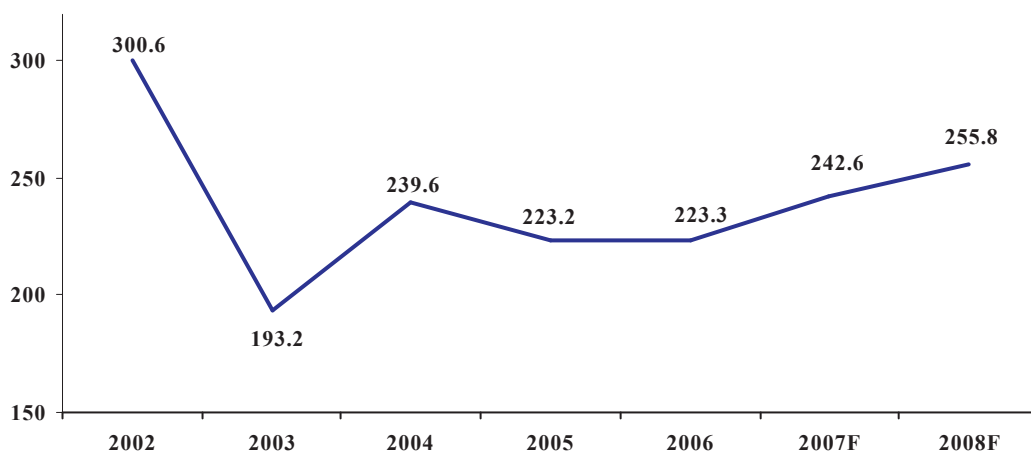
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Charts of the Week

External Debt-to-FX Reserves Ratio of Similarly Rated Countries in 2007 (%)



External Debt-to-FX Reserves Ratio for Lebanon (%)



Source: Moody's Investors Service, 2007

Quote to Note

“The economy is highly vulnerable to swings in confidence, and the political deadlock has increased risks.”

The International Monetary Fund, on the impact of the political stalemate and episodes of violence on the Lebanese economy

Number of the Week

123 : Number of short-term reform initiatives expected to have a tangible impact by November 2007, according to the Finance Ministry.

Economic Indicators

\$m (unless otherwise mentioned)	Aug.2006	Jan-Aug.06	2006	Jul.2007	Aug.2007	Jan-Aug.07	% Change*
Exports	86	1,492	2,282	217	-	-	-
Imports	269	5,927	9,399	1,050	-	-	-
Trade Balance	(183)	(4,436)	(7,118)	(833)	-	-	-
Balance of Payments	(235)	1,608	2,795	362	135	289	(82.03%)
Checks Cleared in LBP	419	4,641	7,219	706	731	5,495	18.40%
Checks Cleared in FC	1,348	17,381	25,268	2,457	2,605	18,749	7.87%
Total Checks Cleared	1,767	22,022	32,487	3,163	3,336	24,244	10.09%
Budget Deficit	547	1,527	3,039	48	270	1,543	1.05%
Primary Balance	(305)	319	(17)	164	(20)	542	69.91%
Airport Passengers	36,878	1,876,932	2,825,138	346,921	424,105	2,255,919	20.19%

\$bn (unless otherwise mentioned)	Dec.2005	Aug.2006	Dec.2006	Jun2007	Jul.2007	Aug2007	% Change*
BdL FX Reserves	9.85	13.41	10.21	9.92	10.21	10.20	(23.94%)
<i>In months of Imports</i>	<i>11.3</i>	<i>49.9</i>	<i>11.3</i>	<i>11.1</i>	<i>9.7</i>	-	-
Public Debt	38.50	39.37	40.39	39.76	40.09	40.45	2.74%
Net Public Debt	34.79	36.33	37.44	37.44	37.75	38.10	4.87%
Bank Assets	70.33	72.04	76.18	79.04	79.58	81.46	13.08%
Bank Deposits	56.99	57.55	60.69	63.20	64.21	64.63	12.30%
Bank Loans to Private Sector	16.23	17.01	17.20	18.52	18.68	18.68	9.82%
Money Supply M2	16.23	15.45	15.57	16.30	16.47	16.56	7.18%
Money Supply M3	49.38	50.54	53.23	56.04	56.73	57.40	13.57%
LBP Lending Rate (%)	10.12	9.99	10.37	10.36	10.28	10.21	22b.p.
LBP Deposit Rate (%)	7.70	7.46	7.49	7.49	7.49	7.48	2b.p.
USD Lending Rate (%)	8.38	8.48	8.55	8.32	8.32	8.25	(23b.p.)
USD Deposit Rate (%)	4.09	4.58	4.76	4.89	4.92	4.90	32b.p.
%* Change in CPI**	(2.23)	8.27	7.04	3.20	1.62	1.68	(659b.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"	17.25	(1.48%)	234,716	18.39%
Solidere "B"	17.41	(1.19%)	48,552	12.06%
Byblos Common	1.95	2.09%	89,126	4.26%
Byblos Priority	2.08	5.05%	55,025	4.57%
BLOM GDR	79.00	(0.63%)	15,362	6.22%
BLOM Listed	67.00	3.08%	100	5.12%
Audi GDR	69.00	(0.29%)	11,605	7.23%
Audi Listed	70.00	0.00%	18,400	24.45%
HOLCIM	20.35	0.69%	4,380	4.23%

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	112.00	9.55
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	480,156	50,872,507	(99.06%)	12,821,651	3,739,762	242.85%
Total Value Traded	\$8,891,461	\$71,663,196	(87.59%)	\$212,726,765	\$52,687,949	303.75%
Market Capitalization	\$9.38bn	\$9.38bn	0.00%	\$9.27bn	\$7.14bn	29.83%

Source: Beirut Stock Exchange (BSE)



Credit Suisse forecasts growth at 3%, fiscal deficit at 11% of GDP and public debt at 157% of GDP for 2008

Global finance and investment firm Credit Suisse forecast Lebanon's real GDP growth at 0.5% in 2007 and at 3% for 2008 compared to growth of 6.2% in 2007 and 5.9% in 2008 in Emerging Europe, the Middle East & Africa (EMEA), and compared to growth of 7.1% and 6.8% for emerging markets in 2007 and 2008, respectively. Lebanon's economic growth forecast was the lowest among 15 countries in the EMEA region for 2007 and the second lowest for 2008. Also, Credit Suisse forecast Lebanon's inflation rate at 4.5% in 2007 and 3% for 2008 compared to inflation of 6.7% in 2007 and 5.6% in 2008 in the EMEA region, and compared to inflation of 5.4% and 5.2% for emerging markets in 2007 and 2008, respectively. Lebanon's inflation rate projection was the 12th lowest in the EMEA region for 2007 and for 2008.

In parallel, Credit Suisse forecast Lebanon's government expenditures at 38.7% of GDP for 2007 and 35.8% of GDP for 2008 compared to 35.7% of GDP in 2007 and 35.8% of GDP in 2008 in the EMEA region, and compared to 28.6% of GDP and 28.7% of GDP for emerging markets in 2007 and 2008, respectively. Lebanon's government expenditures were the fourth highest among 15 countries in the EMEA region for 2007 and seventh highest for 2008. Also, Credit Suisse forecast Lebanon's fiscal deficit at 12.4% of GDP for 2007 and 11% for 2008 compared to a surplus of 0.2% of GDP in 2007 and a deficit of 0.7% of GDP in 2008 in the EMEA region, and compared to deficits of 0.6% of GDP and 0.8% of GDP for emerging markets in 2007 and 2008, respectively. Lebanon's fiscal deficit forecast was the highest in the EMEA region for 2007 and for 2008.

Further, Credit Suisse projected Lebanon's government debt at 176% of GDP at the end of 2007, declining to 157% of GDP for 2008, compared to 31.4% of GDP in 2007 and 29.5% of GDP in 2008 in the EMEA region. Also, it forecast Lebanon's foreign debt at 101.9% of GDP at the end of 2007 and at 101.3% of GDP for 2008, compared to 39.2% of GDP in 2007 and 37.4% of GDP in 2008 in the EMEA region, and compared to 26.1% of GDP and 24.7% of GDP for emerging markets in 2007 and 2008, respectively. Lebanon's total and external debt to GDP ratios were the highest among all emerging markets for 2007 and for 2008.

Finally, Credit Suisse forecast Lebanon's current account deficit at 11% of GDP for 2007 and at 10% of GDP for 2008 compared to deficits of 0.9% of GDP in 2007 and 2.4% of GDP in 2008 in the EMEA region, and compared to surpluses of 3.3% of GDP and 2% of GDP for emerging markets in 2007 and 2008, respectively. Lebanon's current account deficit was the fourth highest in the EMEA region for 2007 and for 2008.

Fitch considers Lebanese banking sector has low vulnerability level

In its risk assessment of 87 banking systems in advanced and emerging economies, Fitch Ratings indicated that Lebanon's banking sector was among 28 banking systems that came in the 'low strength' category on its Banking System Indicator (BSI). The BSI is a measure of intrinsic banking system quality or strength, derived from Fitch's long-standing and current Individual Ratings for banks. It deliberately excludes potential support from shareholders or governments since the objective is to highlight systemic weakness that might trigger the need for such support. The BSI measures system quality or strength on a scale ranging from 'A' representing very high quality or strength, through 'B' (high), 'C' (adequate), 'D' (low) and 'E' (very low). Lebanon came in the 'D' category along with Israel, Morocco and Nigeria in the Middle East & Africa region, as well as with other countries such as Hungary, Lithuania, India, Russia, Taiwan, and Peru among others. Fitch said that 50% of emerging markets banking systems came in the 'D' category and 20% in the 'E' segment.

In parallel, the agency placed Lebanon's banking sector among 34 bank systems with a 'low level of potential vulnerability', coming in the highest category on Fitch's Macro-prudential Indicator (MPI). The MPI highlights the existence and severity of a set of macroeconomic circumstances that has been shown to anticipate a majority of past episodes of banking system distress and in some cases full-blown systemic crises. The MPI identifies instances of rapid credit growth that bring the ratio of private sector credit-to-GDP and the real exchange rate or real equity prices above long-run trend values by certain trigger amounts. An MPI score of '1' denotes low potential vulnerability, while a score of '2' reflects moderate vulnerability and a score of '3' denotes a high level of vulnerability to potential systemic stress. The assessment is based on three years of annual data with a trigger in any of the three years being relevant to a country's MPI score. Lebanon received a score of '1', along with Egypt, Morocco, Oman, Tunisia, Israel and Nigeria in the Middle East & Africa region. Other countries in this category included Austria, Germany, Hong Kong, Singapore and Uruguay, among others.

Also, Lebanon was one of 15 countries whose banking system has a 'low level of potential vulnerability' despite the 'low strength' of their banking sectors. This category included Benin, China, El Salvador, Hungary, Indonesia, Israel, Morocco, Nigeria, Panama, Peru, the Philippines, Poland, Taiwan and Thailand.

LTA and IFC to establish Corporate Governance Institute in Lebanon

The Lebanese Transparency Association (LTA) and the International Finance Corporation (IFC) signed a Memorandum of Understanding to establish the Institute of Corporate Governance in Lebanon. The institute, which is an LTA initiative, will provide training courses on corporate governance, offer consultancy services, carry out research and educational activities, and organize events to promote awareness and the benefits of corporate governance. The institute aims to raise transparency, professionalize board practices, and reinforce shareholder rights in order to improve the growth and competitiveness of Lebanese enterprises. IFC's support will be through its advisory project, the Lebanon Corporate Governance Project. LTA is the local chapter of global non-government organization Transparency International.

Cleared checks up 13% to \$27.5bn in first 9 months of 2007

The value of cleared checks reached \$27.5bn in the first 9 months of 2007, up 13% year-on-year. The value of cleared checks in LBP rose by 19% to the equivalent of \$6.2bn, while the value of cleared checks in US dollars increased by 11% to \$21.3bn. The dollarization rate dropped from 78.7% to 77.6% year-on-year. The value of cleared checks increased by 39% to \$3.3bn in September 2007 compared to August 2006.

Saudi Arabia accounts for 18% of total tourist spending in Lebanon

According to Global Refund, the cash refund operator for international shoppers, tourists from Saudi Arabia spent the most in Lebanon in the year-to-September period, equivalent to 18% of total tourist spending, followed by tourists from Kuwait (15%), UAE (11%), Jordan (7%) and Egypt (6%). Tourist spending for the first 9 months of 2007 rose by 13% from the same period last year. Beirut attracted 81% of total spending, followed by Mount Lebanon and Metn with 14% then Keserwan with 3%. Fashion and clothing accounted for 68% of total spending in the covered period, followed by watches with 11%, home and garden with 5%, perfume and cosmetics with 4%, and other categories with 12%.

Net public debt at \$38.1bn at end of August

Figures issued by the Central Bank show that Lebanon's gross public debt reached \$40.4bn at the end of August, constituting a drop of 0.1% in the first 8 months of the year and a rise of 2.7% from \$40.1bn at end-August 2006. Domestic debt decreased by 0.2% in the year-to-August and rose by 5.7% year-on-year to \$20bn, while external debt increased by 0.05% in the first 8 months of the year and grew by 0.01% annually to \$20.4bn. Net public debt, which excludes the public sector's deposits at the Central Bank and at commercial banks from overall debt figures, rose annually by 4.9% to \$38.1bn.

Balance of payments posts \$289m surplus year-to-August

Central Bank figures show that Lebanon's balance of payments recorded a surplus of \$289m in the first 8 months of 2007 compared to a surplus of \$1.6bn in the same period last year. The surplus resulted from an increase of \$352m in commercial banks' net foreign assets combined with a decrease of \$63m in the Central Bank's net foreign assets. The balance of payments posted a surplus of \$135 in August 2007 compared to one of \$362m in July 2007 and \$235m in August 2006. The surplus in August came as a result of an increase of \$143m in the commercial banks' net foreign assets with a decrease of \$8m in the Central Bank's net foreign assets.

Trade deficit up 17% to \$5bn in first 7 months of 2007

The trade deficit reached \$4.99bn in the first 7 months of 2007, up 17.3% year-on-year. Imports rose by 15% to \$6.5bn while exports increased by 9% to \$1.5bn 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 8.5% of total exports, followed by Syria with 7.7%. The coverage ratio reached 23.5% in the year-to-July period, down from 24.8% year-on-year. For the month of July 2007, the trade deficit rose by a significant 68% to \$833m compared to \$497m in July 2006. Due to the summer war of 2006, imports increased by 75% year-on-year to \$1.1bn in July, while exports rose by 109% to \$217m.

Corporate Highlights

MEA posts \$39m profits in 2006

The Chairman of Middle East Airlines (MEA) Mohamed El-Hout announced that the country's national carrier registered net profits of \$39m in 2006, down from \$61.4m in 2005, despite the summer war of 2006 and the forced blockade of the Hariri International Airport. He added that the airline would have registered profits between \$70m and \$75m if the situation had been normal in Lebanon last year. The Chairman expects MEA to post profits in 2007 despite the security and political problems in the country. He added that the company will offer to the public 25% of its shares when the time is right. MEA, which has a fleet of 9 planes, is expected to buy 10 new planes by 2010.

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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