



LEBANON THIS WEEK

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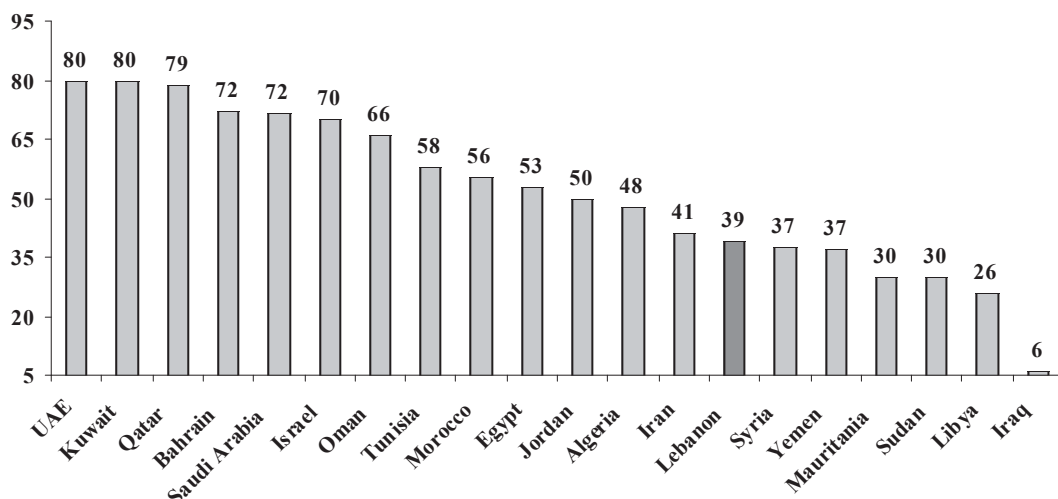
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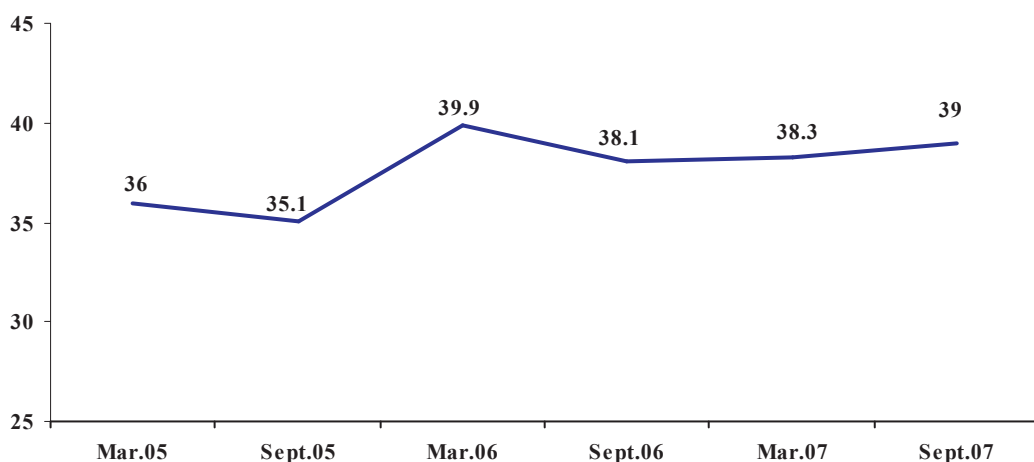
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Charts of the Week

Country Risk Scores for Countries in MENA Region (Sept-07)



Lebanon's Country Risk Scores



Source: Euromoney, September 2007

Quote to Note

“A significant upgrade in the Lebanese banks' fair value would occur in the event of an improved political outlook for the country.”

Investment bank EFG Hermes, on the prospects of Lebanon's banking sector

Number of the Week

\$17.9bn: Private consumption in Lebanon during 2005, at 2004 prices, according to the national accounts released by the Ministry of Economy & Trade.

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"	19.50	3.23%	494,782	19.45%
Solidere "B"	19.38	2.87%	167,088	12.57%
Byblos Common	2.05	(2.38%)	527,034	4.19%
Byblos Priority	2.14	0.94%	633,920	4.40%
BLOM GDR	93.30	2.08%	42,783	6.88%
BLOM Listed	80.00	3.76%	2,000	5.72%
Audi GDR	75.70	(0.33%)	10,247	7.42%
Audi Listed	70.50	0.00%	0	23.04%
HOLCIM	20.07	1.88%	3,797	3.91%

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

Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
Oct.2009	10.250	102.75	8.65
Dec.2009	7.000	96.88	8.65
Mar.2010	7.125	97.00	8.58
May 2011	7.875	97.25	8.79
Sep.2012	7.750	97.00	8.52
June 2013	8.625	98.38	9.00
Apr.2015	10.000	105.25	9.01
Jan.2016	8.500	96.13	9.18
May 2016	11.625	113.50	9.29
Apr.2021	8.250	91.88	9.32

Source: Byblos Capital Markets

	This Week	Last Week	% Change	October 2007	October 2006	% Change
Total Shares Traded	1,882,222	916,245	105.43%	53,900,188	4,929,594	993.40%
Total Value Traded	\$20,041,951	\$21,163,566	(5.30%)	\$135,734,024	\$73,610,129	84.40%
Market Capitalization	\$10.02bn	\$9.90bn	1.21%	\$9.66bn	\$9.19bn	5.11%

Source: Beirut Stock Exchange (BSE)



Government releases national accounts for 2005, shows official GDP at \$21.6bn

The government released national economic data covering the year 2005 that provide official figures of gross domestic product (GDP), its structure and components, as well as figures on gross national income (GNI) and gross national disposable income (GNDI). The economic data covering the year 1997 served as the base year for computing the national accounts from 1998 onwards. The findings show that GDP was LP32,499bn (\$21.6bn) in 2005, reflecting a real GDP growth of 1.1% that year compared to a growth of 7.4% in 2004, and national expenditures stood at LP39,625bn (\$26.3bn), resulting in a negative trade balance of LP7,126bn (\$4.7bn). The study infers that GDP alone cannot measure the level of economic activity and estimated GNDI at LP37,239bn (\$24.7bn) by adding foreign transfers and income earned abroad to GNI figures. The results show annual declines of 2.4%, 9.3% and 5.7% in private consumption, public investments and imports respectively, and year-on-year improvements of 2.9%, 5.6% and 5% in public consumption, private investments and exports respectively. In parallel, the trade deficit has always been covered by foreign revenues and transfers, which contributed to the financing of the national economy by contributing to the formation of household savings. The figures were compiled by the Ministry of Economy & Trade with the technical assistance of French research organization L'Institut National de la Statistique et des Etudes Economiques (INSEE).

GDP Distribution by Sector				
Sector	2005		2004	
	Value (LP bn)	% of Total	Value (LP bn)	% of Total
Market services	10,925	33.6	10,622	32.8
Trade	7,534	23.2	7,756	24.0
Industry	3,786	11.6	3,783	11.7
Government	3,722	11.5	3,612	11.2
Construction	2,669	8.2	2,404	7.4
Transport & communication	2,360	7.3	2,404	7.4
Agriculture & livestock	1,690	5.2	1,705	5.3
Energy & water	-188	-0.6	73	0.2
Total	32,499	100	32,359	100

Source: National Accounts for 2005, Byblos Research

EFG Hermes on Lebanon's banking sector

Investment bank EFG Hermes indicated that Lebanese banks reported a moderate increase in net profits during the third quarter of this year compared to a very strong third quarter last year. Costs however are increasing at faster rates amid the expansion of the banks' foreign subsidiaries. EFG expected downward pressure in the banks' net interest spread to be higher than previously forecast, as it believed lower spreads on loans in US dollars and especially inter-bank placements would be difficult to compensate with lower rates on deposits in US dollars, given the current political environment.

CDR signs \$60m agreements with KFAED

The Council for Development and Reconstruction (CDR) signed 13 agreements worth \$60m with the Kuwaiti Fund for Arab Economic development (KFAED). The agreements are for financing infrastructural and economic projects in several regions of the country. The \$60m are part of the \$300m grant from Kuwait to rebuild Lebanon following the war with Israel. In addition to the \$300m grant, KFAED has extended to Lebanon so far around \$480m.

Central Bank swaps CDs with TBs

The Central Bank has exchanged LP1,000bn (\$663m) of Certificates of Deposits (CDs) with Treasury Bills (TBs). The maturity of the securities was hence extended from 2010 to 2012 and the interest was increased from 11.3% to 11.5%. The Central Bank has also swapped TBs worth around \$400m into Eurobonds in order to enhance the country's foreign reserves.

Lebanon signs protocol of cooperation with French government

Lebanon's Ministry of Social Affairs signed a protocol of cooperation with the French government in order to launch a social development fund. The fund, which was granted €500,000, will finance six development projects in the social and public services sector of South Lebanon.



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

Figures released by Global Refund, the cash refund operator for international shoppers, tourists from Saudi Arabia spent the most in Lebanon in the year-to-October period, equivalent to 18% of total tourist spending, followed by tourists from Kuwait (15%), UAE (11%), Jordan (8%) and Egypt (6%). Tourist spending for the first 10 months of 2007 rose by 14% from the same period last year. Beirut attracted 80% of total spending, followed by Mount Lebanon and Metn with 14% then Keserwan with 3%. Fashion and clothing accounted for 67% of total spending in the covered period, followed by watches with 12%, home and garden with 5%, perfume and cosmetics with 4%, and other categories with 12%.

Corporate Highlights

BLOM Bank Egypt registers \$13.6m profits in first nine months of 2007

BLOM Bank Egypt registered net profits of \$13.6m in the first nine months of 2007, up 40% from \$9.7m registered in the same period in 2006. The bank posted net profits of \$5.95m in the third quarter of 2007, up 73% compared to the same quarter last year. Investment bank EFG Hermes said that the profit rise was due mainly to a decrease in provisions and an extraordinary gain from the sale of a branch in Romania. BLOM Bank Egypt's stock is traded on the Cairo Stock Exchange. BLOM Bank has 99% of BLOM Bank Egypt, previously known as Misr Romanian Bank. The bank was founded in 1977 and is based in Giza, Egypt.

Moody's assigns ratings to Bank of Beirut

Moody's Investors Service assigned 'D-' bank financial strength rating (BFSR), Ba3/Not-Prime global local currency (GLC) deposit rating and Aa2.lb/LB-1 Lebanese national scale ratings (NSRs) to Bank of Beirut. The ratings carry a stable outlook. Moody's also assigned B3/Not-Prime foreign currency deposit ratings (FCDRs) to the bank, with a negative outlook in line with the sovereign ceiling for such deposits in Lebanon. Moody's noted that in the event of difficulty, there is a relatively low likelihood that Bank of Beirut would receive support from the financial authorities. The agency's view is based on the bank's not so high importance to the domestic payments system given its 5.1% deposit market share as well as on the high level of dollarization of deposits in Lebanon, constraining the level of external support that could be provided to systemically important banks. Moody's assigned Aa1.lb long-term and LB-1 short-term Lebanese NSRs to BLOM Bank and Bank Audi, and Aa2.lb long-term and LB-1 short-term NSRs to Byblos Bank in October 2007.

Three prospective candidates for Lebanon's mobile auction

Kuwait's mobile group Zain, previously MTC Group, Bahrain's Batelco and Egypt's Orascom Telecom represent three prospective candidates for Lebanon's mobile auction. According to media sources, the three candidates consider the \$7bn expected return by the Lebanese government from privatization to be a high price relative to the political instability in the country. The Telecommunications Regulatory Authority (TRA) set February 1st, 2008 as the deadline for applications to purchase Lebanon's GSM mobile network which is currently operated by MTC and Detecon. The auction is set to take place on February 21st.

AUB launches Industrial Technology Initiative

The Faculty of Engineering and Architecture at the American University of Beirut (AUB) launched the Industrial Technology Initiative (ITI) under the objective of establishing a framework to support local and regional industry through applied research, consulting services and training programs. ITI aims to bring together engineers, technologists and other experts to drive the development of products from inception and feasibility assessment, to prototyping, testing and growth to full market potential. ITI customers are expected to be in the fields of water treatment, power and energy, agro-food, machinery, civil structures, electric and electronic manufacturing, cement processing, construction material manufacturing, packaging and printing, and security.

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	Sept.2006	Aug.2007	Sept.2007	Change*	Risk Level
Political Risk Rating	56.5	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	56.8	58.2	58.2	▲	High

Regional Average	Sept.2006	Aug.2007	Sept.2007	Change*	Risk Level
Political Risk Rating	66.3	67.6	67.6	▲	Moderate
Financial Risk Rating	41.4	42.0	41.9	▲	Very Low
Economic Risk Rating	41.1	40.2	40.3	▼	Very Low
Composite Risk Rating	74.4	74.9	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



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

