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LEBANON THIS WEEK

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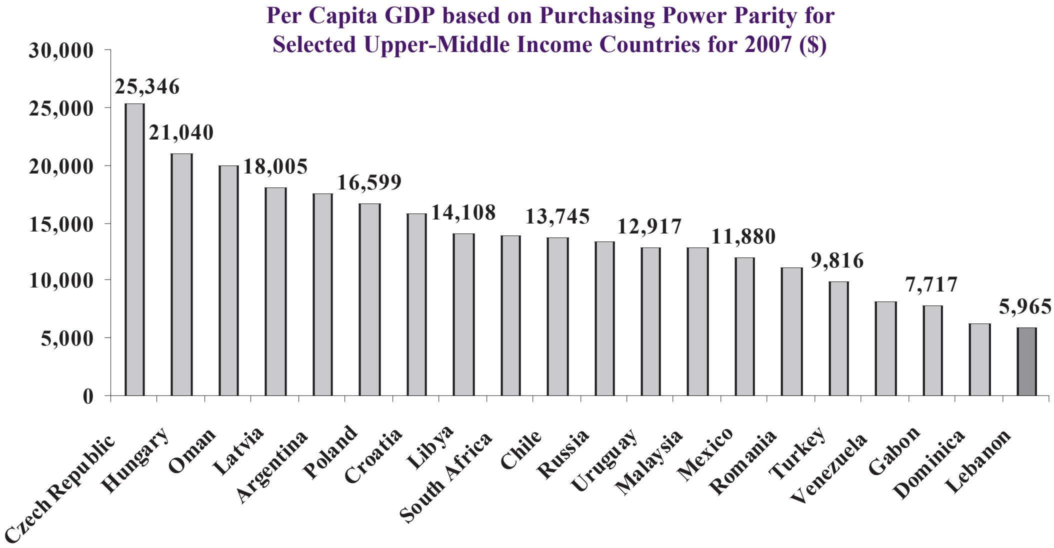
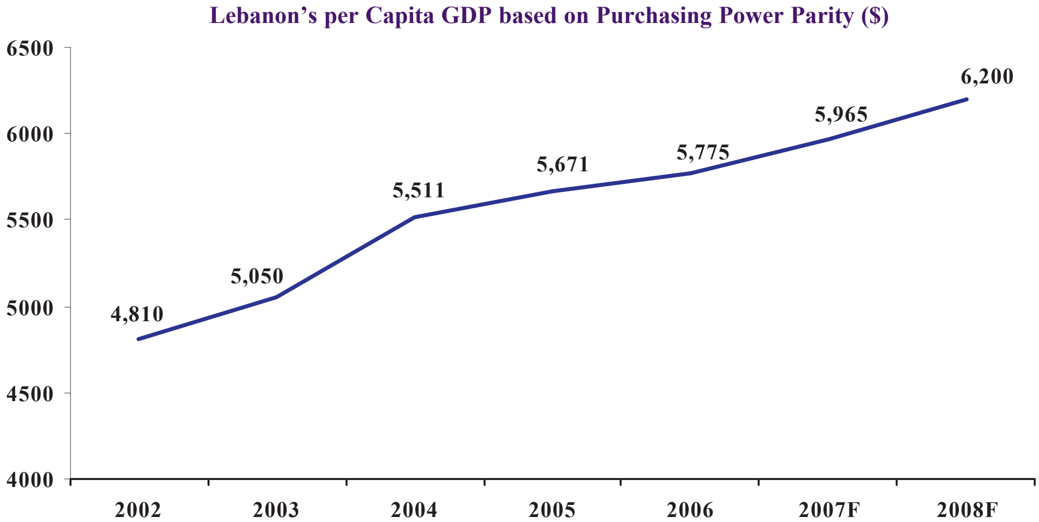
Charts of the Week





Source: International Monetary Fund, 2007

Quote to Note

"If authorities were to achieve a last-minute breakthrough, it would certainly give way to a relief rally for Lebanese bonds."

Credit Suisse, assessing the potential impact on Lebanon's Eurobond market of a solution to the presidential elections deadlock within the constitutional deadline

Number of the Week

$9.1bn: Capital funds of commercial banks in Lebanon as at end-September 2007, according to the Association of Banks in Lebanon.

Economic Indicators

$m *(unless otherwise mentioned)*	**Sep.2006**	**Jan-Sep.06**	**2006**	**Aug.2007**	**Sep.2007**	**Jan-Sep.07**	**% Change***
Exports	186	1,678	2,282	-	-	-	-
Imports	732	6,659	9,399	-	-	-	-
Trade Balance	(546)	(4,982)	(7,118)	-	-	-	-
Balance of Payments	640	2,247	2,795	135	290	580	(74.19%)
Checks Cleared in LBP	563	5,204	7,219	731	679	6,174	18.64%
Checks Cleared in FC	1,788	19,169	25,268	2,605	2,594	21,343	11.34%
Total Checks Cleared	2,351	24,373	32,487	3,336	3,273	27,517	12.90%
Budget Deficit	455	1,971	3,039	270	271	1,814	(7.96%)
Primary Balance	(203)	127	(17)	(20)	32	574	352.55%
Airport Passengers	215,185	2,092,117	2,825,138	424,105	317,142	2,573,061	22.99%

$bn *(unless otherwise mentioned)*	**Dec.2005**	**Sep.2006**	**Dec.2006**	**Jul.2007**	**Aug.2007**	**Sep.2007**	**% Change***
BdL FX Reserves	9.85	13.72	10.21	10.21	10.20	10.27	(25.15%)
In months of Imports	*11.3*	*18.7*	*11.3*	*9.7*	-	-	-
Public Debt	38.50	40.03	40.39	40.09	40.44	40.57	1.35%
Net Public Debt	34.79	36.43	37.44	37.75	38.10	38.28	5.08%
Bank Assets	70.33	73.52	76.18	79.58	79.55	81.62	11.02%
Bank Deposits	56.99	58.77	60.69	64.21	64.63	65.68	11.76%
Bank Loans to Private Sector	16.23	16.98	17.20	18.68	16.79	17.23	1.47%
Money Supply M2	16.23	15.91	15.57	16.47	16.56	16.60	4.34%
Money Supply M3	49.38	51.26	53.23	56.73	57.40	58.27	13.68%
LBP Lending Rate (%)	10.12	10.24	10.37	10.28	10.21	10.25	1b.p.
LBP Deposit Rate (%)	7.70	7.43	7.49	7.49	7.48	7.47	4b.p.
USD Lending Rate (%)	8.38	8.59	8.55	8.32	8.27	8.25	(34b.p.)
USD Deposit Rate (%)	4.09	4.61	4.76	4.92	4.90	4.91	30b.p.
%* Change in CPI**	(2.23)	7.82	7.04	1.62	1.68	3.05	(477b.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"	18.54	(1.28%)	452,988	19.14%
Solidere "B"	18.36	(2.24%)	171,385	12.32%
Byblos Common	1.90	(5.00%)	197,726	4.02%
Byblos Priority	1.97	(3.43%)	143,183	4.19%
BLOM GDR	86.40	(4.11%)	28,560	6.59%
BLOM Listed	82.40	1.42%	2,000	6.10%
Audi GDR	70.25	(5.77%)	22,390	7.13%
Audi Listed	70.50	0.00%	0	23.85%
HOLCIM	19.00	(1.20%)	1,800	3.83%

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

Sovereign Eurobonds	Coupon %	Mid Price $	Mid Yield %
Oct.2009	10.250	102.25	8.90
Dec.2009	7.000	96.50	8.91
Mar.2010	7.125	97.00	8.58
May 2011	7.875	97.25	8.81
Sep.2012	7.750	95.75	8.86
June 2013	8.625	98.50	8.97
Apr.2015	10.000	104.50	9.06
Jan.2016	8.500	95.50	9.30
May 2016	11.625	113.00	9.37
Apr.2021	8.250	91.25	9.41

Source: Byblos Capital Markets

	This Week	Last Week	% Change	October 2007	October 2006	% Change
Total Shares Traded	1,032,246	3,759,653	(72.54%)	53,900,188	4,929,594	993.40%
Total Value Traded	$17,014,886	$20,675,704	(17.71%)	$135,734,024	$73,610,129	84.40%
Market Capitalization	$9.68bn	$9.84bn	(1.63%)	$9.66bn	$9.19bn	5.11%

Source: Beirut Stock Exchange (BSE)

Lebanon in the News

IMF preliminary report expects growth of 2-3% in 2007

The International Monetary Fund (IMF) issued its preliminary report on Lebanon stating that real GDP growth is expected to be between 2% and 3% in 2007, while year-end inflation is projected to reach 5%. The report noted that the primary balance (excluding grants) posted a surplus of 0.4% of GDP compared to a projected deficit of 2.8% of GDP. The over-performance resulted from a better than projected revenue collection and a lower than expected foreign-financed expenditure. The report added that the growth in the net public debt was within target despite a higher than projected interest spending. The IMF stated that the exchange of LP1trn ($663m) in Certificates of Deposits (CDs) for Treasury bills that took place in October was an important step in reducing the government's reliance on the Central Bank's financing. The report also said that deposit inflows showed resilience despite the political uncertainty with a 10% deposit growth over 12 months and a stable dollarization rate of 76%. Also, the Central Bank was able to strengthen its foreign assets which reached $12bn at end-September 2007. The IMF said, however, that economic prospects continue to be dependent on political developments.

Budget deficit down 10% in first 10 months of 2007

The budget deficit reached $2.1bn in the first 10 months of 2007, equivalent to 30% of total budget and Treasury expenditures, down 10% from $2.3bn and 36% of total expenditures in the same period of 2006. Total revenues amounted to $4.89bn, up 21% year-on-year, while total expenditures amounted to $6.97bn, up 10% annually. Overall tax revenues rose by 15% year-on-year to $3.2bn, of which 36%, or $1.1bn, were in VAT receipts. Debt servicing increased by 14% year-on-year and totaled $2.7bn, accounting for 39% of total expenditures and 49% of budgetary spending. It absorbed 56% of overall revenues and 61% of budgetary receipts. Excluding debt servicing, the budget primary surplus reached $1.7bn, or 29% of budgetary expenditures compared to a surplus of $1.2bn a year earlier. The overall primary surplus reached $670m up to October 2007, or 9.6% of total spending compared to a surplus of $102m or 1.6% of total spending a year earlier.

Airport passengers up 22% year-to-October

The number of airport passengers (arrivals, departures, transit) amounted to 2,848,777 in the first 10 months of 2007, up 22% from the same period last year. Airport passengers for the month of October 2007 reached 275,716, down by 13% from September 2007, and up by 10% from October 2006. The total number of flights reached 3,179 in October 2007 and 32,462 in the first 10 months of the year.

Beirut Port activity in first 10 months of 2007

The Port of Beirut stated that port revenues amounted to $95.5m in the first 10 months of 2007, compared to $65.4m in the same period last year. The freight activity and number of ships reached 4.4 million tons and 1,860 ships, up by 30% and 26% respectively in the year-to-October period compared to the same period in 2006. Port revenues reached $10.9m in October 2007, up 63% from October 2006. The freight activity rose by 13% to 536,000 tons, while the number of ships dropped by 2% to 182 ships in October 2007, compared to October 2006.

Net public debt at $38.3bn at end of September

Figures issued by the Central Bank show that Lebanon's gross public debt reached $40.6bn at the end of September, constituting an increase of 0.3% in the first 9 months of the year and a rise of 1.3% from $40bn at end-September 2006. Domestic debt decreased by 0.2% in the year-to-September and rose by 2.3% year-on-year to $20.1bn, while external debt increased by 0.3% in the first 9 months of the year and grew by 0.4% annually to $20.5bn. 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 5% to $38.3bn.

CDR signs €69m loan and grant agreements with Italy

The Council for Development and Reconstruction (CDR) signed a €39m soft loan and a €30m grant agreements with Italy. The loan will finance the project of providing potable water in Jbeil while the grant represents the assistance Italy pledged to provide to the Lebanese government at the Paris III conference.

Central Bank amends circular on bank provisions

The Central Bank announced that it amended the basic circular number 7694 of October 18, 2000 related to provisions and bank reserves in Lebanese Pounds. The new circular requires banks operating in Lebanon to form reserves specific for the portion of doubtful loans and bad debts that are not covered by provisions and are not written off. The reserves should cover 30% in case at least 40% are not written off, 45% in case at least 50% are not written off, 60% in case at least 60% are not written off and 100% in case 100% are not written off. The circular also stated that banks should form specific reserves equivalent to guarantees on doubtful loans and bad debts not covered by provisions and not written off.

Lebanon in the News

BSE to list new $400m 2013 sovereign Eurobond

The Beirut Stock Exchange (BSE) announced that it approved the new listing of the $400m sovereign Eurobond maturing in June 2013 starting November 21, 2007. The Eurobond, which pays a fixed semi-annual coupon of 8.625%, was issued by the sovereign on May 31, 2007. The Eurobond's nominal price is $1,000. Currently, 16 sovereign Eurobonds are listed on the BSE but they rarely witness any trading.

Corporate Highlights

Byblos Bank closes $200m convertible subordinated debt

Byblos Bank announced that it has successfully closed a $200m subordinated debt convertible into common shares. The debt has a 5-year maturity during which subscribers can ask every three months to convert their subordinated debt into Byblos Bank common shares for the price of $2.25 per share. The bond has a coupon rate of 6.5% paid semi-annually. The placement constitutes the first and only capital market transaction by a Lebanese bank on the international capital markets during 2007, and is the first-of-its kind convertible debt instrument to be issued by a Lebanese bank. Byblos Bank was able to attract, without the assistance of an international investment bank or any other placement agent, international institutional investors as well as local investors despite the adverse political conditions in the country. The placement contributed to consolidating the Bank's private funds that will reach around $900m, and will assist the Bank in pursuing its strategy of asset diversification and expansion in emerging markets. The Byblos Bank Group is directly present in Sudan, Syria, Iraq, the United Arab Emirates and Armenia, as well as in Belgium, France, the United Kingdom, and Cyprus.

Vivendi and Oger Telecom end talks

French media and telecom company Vivendi announced that its discussions with Saudi Oger regarding an investment in Oger Telecom have ended, and that it will not buy a stake in the telecom operator. Vivendi has been negotiating with Oger Telecom, which is part of the Hariri family-owned group Saudi Oger, to acquire a majority stake in the company. Oger Telecom provides Internet services in Saudi Arabia and is present in fixed and mobile telephony in Turkey, South Africa, Jordan and Lebanon. Earlier this year, Oger Telecom abandoned its plan for a $1.25bn initial public offering. Vivendi is a leader in entertainment with activities in music, TV, cinema, mobile, Internet, and games. It is present in 20 countries and posted revenues of €20bn last year. It has a controlling stake in Maroc Telecom, and owns Universal Music Group and Groupe Canal+, among others.

Launch of 24-hour news channel

Future News, a new 24-hour Arabic-language satellite news channel will be launched and will start to broadcast around the world this coming December. The news channel is part of Future Network that includes *Al-Mustaqbal* newspaper, the satellite channel Future TV, and the Radio Orient station. Future News is expected to operate seven hours a day and will start to broadcast round-the-clock by the end of the year. The channel will have 250 to 300 employees and correspondents in 10 cities including Beirut, Paris, Washington, Gaza, Tehran and Riyadh. Future News will cover international news while focusing on Lebanon. Future News joins a highly competitive market that includes Al-Jazeera and Al-Arabiya pan-Arab satellite news channels.

Ratio Highlights

	2005	2006	Change*	Q3-2007*(1)*
Nominal GDP*(2)* ($bn)	21.5	22.7		24.0
External Debt / GDP	89.3	89.9	60	85.4
Local Debt / GDP	89.8	88.1	(170)	83.7
Total Debt / GDP	179.1	178.4	(70)	169.0
Trade Balance / GDP	(34.9)	(31.3)	360	-
Exports / Imports	20.1	24.3	420	-
Revenues / GDP	22.8	19.4	(340)	18.1
Expenditures / GDP	31.6	30.8	(80)	25.7
Budget Balance / GDP	(8.8)	(11.5)	(270)	(7.6)
Primary Balance / GDP	2.3	0.4	(190)	2.4
BdL FX Reserves / M2	60.7	65.6	490	42.8
M3 / GDP	229.8	234.4	460	242.8
Bank Assets / GDP	327.0	335.7	870	340.1
Bank Deposits / GDP	265.1	267.4	230	273.7
Private Sector Loans / GDP	75.3	75.8	50	71.8
Dollarization of Deposits	73.1	76.2	310	76.5
Dollarization of Loans	82.4	81.6	(80)	84.4

** Change in basis points*
(1) Up to September 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	**Oct.2006**	**Sep.2007**	**Oct.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	**Oct.2006**	**Sep.2007**	**Oct.2007**	**Change***	**Risk Level**
Political Risk Rating	66.3	67.6	67.3	▲	Moderate
Financial Risk Rating	41.7	41.9	41.9	▲	Very Low
Economic Risk Rating	41.4	40.3	40.4	▼	Very Low
Composite Risk Rating	74.7	74.9	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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