



LEBANON THIS WEEK

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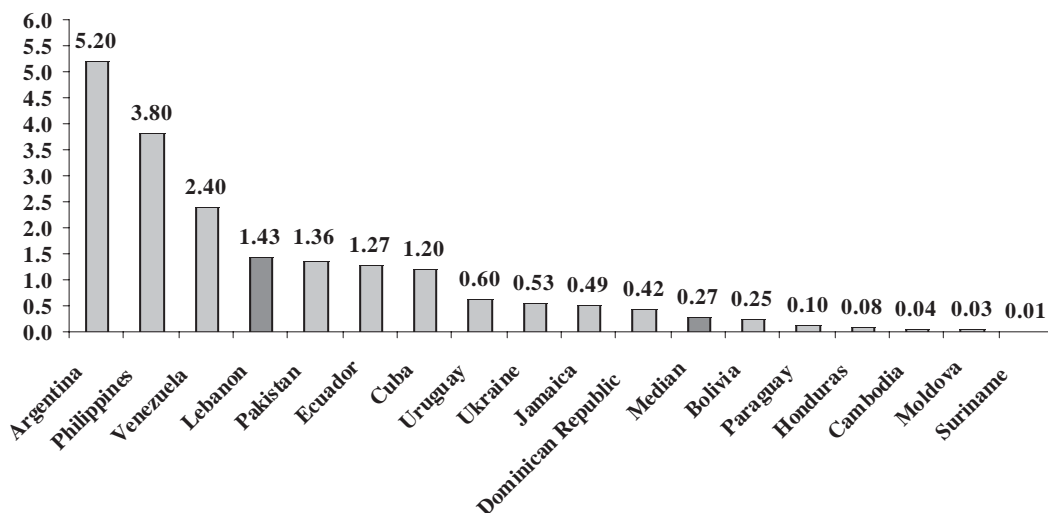
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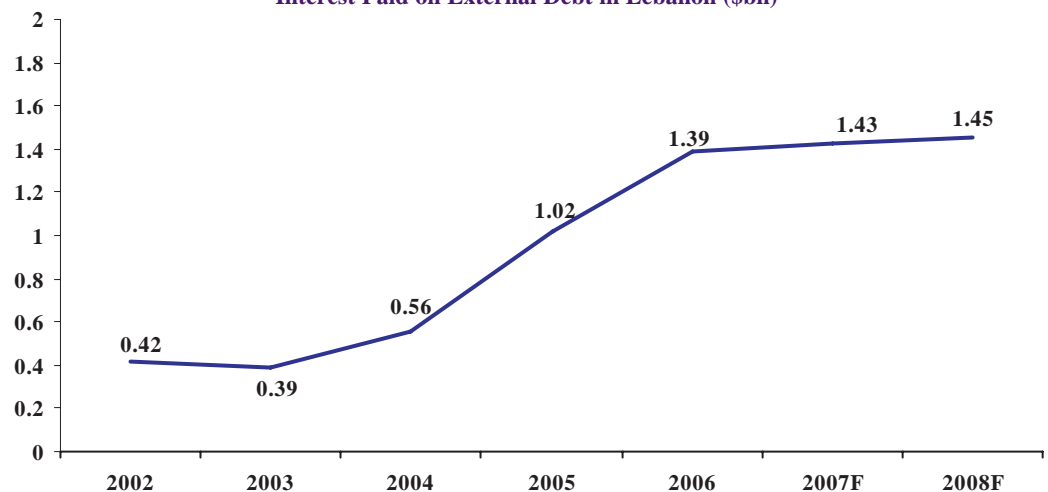
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Charts of the Week

Interest Paid on External Debt in Similarly Rated Countries for 2007 (\$bn)



Interest Paid on External Debt in Lebanon (\$bn)



Source: Moody's Investors Service, 2007

Quote to Note

“The banking system seems well-prepared for the introduction of Basel II, and the authorities expect all banks to meet the tightened capital adequacy criteria.”

The International Monetary Fund, on the readiness of the Lebanese banking sector to implement Basel II starting in 2008

Number of the Week

11: Number of times the parliamentary session to elect a president for Lebanon has been postponed during the last quarter of 2007.

Economic Indicators

\$m (unless otherwise mentioned)	Oct.2006	Jan-Oct.06	2006	Sep.2007	Oct.2007	Jan-Oct.07	% Change*
Exports	177	1,855	2,282	-	-	-	-
Imports	852	7,511	9,399	-	-	-	-
Trade Balance	(675)	(5,657)	(7,118)	-	-	-	-
Balance of Payments	698	2,945	2,795	290	45	625	(78.78%)
Checks Cleared in LBP	650	5,854	7,219	679	775	6,949	18.71%
Checks Cleared in FC	2,002	21,171	25,268	2,594	2,879	24,222	14.41%
Total Checks Cleared	2,652	27,025	32,487	3,273	3,354	31,171	15.34%
Budget Deficit	339	2,310	3,039	271	263	2,077	(10.09%)
Primary Balance	(25)	102	(17)	32	96	670	556.86%
Airport Passengers	250,759	2,342,876	2,825,138	317,142	275,716	2,848,777	21.59%

\$bn (unless otherwise mentioned)	Dec.2005	Oct.2006	Dec.2006	Aug2007	Sep.2007	Oct.2007	% Change*
BdL FX Reserves	9.85	11.22	10.21	10.20	10.27	9.58	(14.62%)
<i>In months of Imports</i>	<i>11.3</i>	<i>13.2</i>	<i>11.3</i>	<i>9.8</i>	-	-	-
Public Debt	38.50	40.43	40.39	40.44	40.57	41.16	1.81%
Net Public Debt	34.79	36.51	37.44	38.10	38.28	38.68	5.94%
Bank Assets	68.54	72.45	74.27	79.55	81.62	80.72	11.41%
Bank Deposits	56.99	59.80	60.69	64.63	65.68	66.28	10.84%
Bank Loans to Private Sector	14.46	15.20	15.31	16.79	17.23	17.32	13.95%
Money Supply M2	16.23	16.33	15.57	16.56	16.60	16.53	1.22%
Money Supply M3	49.38	52.33	53.23	57.40	58.27	58.88	12.52%
LBP Lending Rate (%)	10.12	10.22	10.37	10.21	10.25	10.28	6b.p.
LBP Deposit Rate (%)	7.70	7.47	7.49	7.48	7.47	7.46	(1b.p.)
USD Lending Rate (%)	8.38	8.54	8.55	8.27	8.25	8.21	(33b.p.)
USD Deposit Rate (%)	4.09	4.62	4.76	4.90	4.91	4.87	25b.p.
%* Change in CPI**	(2.23)	6.84	7.04	1.68	3.05	3.55	(329b.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	Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
Solidere "A"	21.43	(6.95%)	393,995	20.27%	Oct.2009	10.250	103.50	8.10
Solidere "B"	21.52	(5.20%)	81,505	13.23%	Dec.2009	7.000	97.75	8.25
Byblos Common	2.10	(5.41%)	15,600	4.07%	Mar.2010	7.125	97.50	8.38
Byblos Priority	2.16	(2.26%)	95,788	4.21%	May 2011	7.875	97.75	8.65
BLOM GDR	87.30	(3.22%)	8,810	6.10%	Sep.2012	7.750	95.75	8.86
BLOM Listed	84.00	0.00%	1,248	5.69%	June 2013	8.625	99.00	8.86
Audi GDR	74.60	(2.16%)	2,957	6.94%	Apr.2015	10.000	106.00	8.87
Audi Listed	70.00	0.00%	0	21.79%	Jan.2016	8.500	97.50	8.94
HOLCIM	20.01	(3.57%)	400	3.69%	May 2016	11.625	115.00	9.03
					Apr.2021	8.250	93.75	9.07

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

Source: Byblos Capital Markets

	This Week	Last Week	% Change	December 2007	December 2006	% Change
Total Shares Traded	607,400	3,419,011	(82.23%)	10,306,378	2,499,188	312.4%
Total Value Traded	\$12,360,724	\$42,287,178	(70.77%)	\$174,254,532	\$34,042,463	411.9%
Market Capitalization	\$10.57bn	\$10.89bn	(2.94%)	\$10.89bn	\$8.30bn	31.20%

Source: Beirut Stock Exchange (BSE)



Lebanon meets EPCA targets for end-September 2007

The International Monetary Fund's update on the Emergency Post Conflict Assistance program indicated that the primary balance and net debt targets for end-September 2007 were met with significant margins, while the targets on foreign reserves and government net borrowing from the Central Bank were also met comfortably. The IMF said the primary balance posted a small surplus of 0.3% of GDP in the first 9 months of the year compared to a projected deficit of 2.8% of GDP. As a result, net debt was contained to below the target despite higher than projected interest payments. The IMF added that the Central Bank was able to increase its gross reserves by \$400m during the third quarter to \$12bn by end-September 2007, somewhat higher than expected, and despite significant shortfalls in donor support relative to program expectations. In parallel, progress has also been made on structural reforms, as the global income tax law was approved by the Cabinet in November, and the privatization process of the two mobile phone networks has been initiated ahead of schedule.

The IMF said fiscal targets for 2007 appear achievable with an ample margin given the strong performance through September. It expected the primary fiscal balance to post significant results, which should more than offset higher interest spending relative to that projected under EPCA, so that government net debt would also come out below the program ceiling by year-end. It added that the target on foreign reserves is also achievable, provided the political situation remains manageable, and expected financial inflows to continue at a sustained pace through the remainder of the year, which should allow the Central Bank to maintain foreign reserves at their current level or realize a modest further build-up. The challenge in the fourth quarter is to reduce government net borrowing from the Central Bank as envisaged under the program.

Quantitative indicative targets under the EPCA				
\$bn	Target		Actual	
	June 2007	September 2007	June 2007	September 2007
BdL's gross reserves	10.7	9.9	11.6	11.8
Net public debt	39.8	40.7	38.9	39.8
Primary balance (before grants)	(0.6)	(0.7)	0.1	0.1
Public net borrowing from BdL	6.2	6.3	5.1	5.9

Source: IMF, December 2007

Extended political deadlock to raise financing risk

Merrill Lynch expressed concerns about the weak public finances and high financing need of the Lebanese government in case the political deadlock in Lebanon persisted for another few months. According to Merrill Lynch, the banking sector, traditionally the main asset for debt sustainability, has become reluctant to roll over public debt. It estimated that the gross public debt held by domestic banks will decrease to 91% of GDP at end-2007 from 95% of GDP in 2006, while the share of public institutions have increased to 14% of GDP from 10% of GDP. It said the government is relying on the Central Bank and other public institutions for debt financing for the time being, while awaiting better political conditions.

Merrill Lynch indicated that, without a political solution soon, debt sustainability would become a significant issue. It said that financing for 2007 was compounded with one-off factors and noted that Lebanon is expected to receive only \$0.8bn by end-2007 from Paris III pledges of \$7.6bn. It estimated that the 2007 budget deficit of 12.4% of GDP was financed mainly through revaluation of the Central Bank's gold reserves, equivalent to 6.6% of GDP, and public institutions' exposure of 8% of GDP in 2007. It added that commercial banks contributed only 0.6% of GDP compared to 12.4% of GDP in 2006. In parallel, Merrill Lynch considered the external debt situation to be manageable in the short run, as Eurobond redemptions for 2008 total \$2.2bn, or 9% of GDP, with the bulk coming in June 2008. It warned, however, that the quality of financing is deteriorating, which would add more risk premiums to the credit.

Lebanon signs \$85m loan agreements with AMF

The Ministry of Finance signed with the Arab Monetary Fund (AMF) a loan agreement of \$48m in budgetary support. The loan represents part of the \$150m in budgetary support pledged by the AMF at the Paris III Conference. In parallel, the Central Bank signed with the Fund a loan agreement of \$37m in support of the program designed by the Bank to develop risk management in the financial and banking sector.

Finance Ministry signs \$50m grant agreement with USAID

The Ministry of Finance signed with the United States Agency for International Development (USAID) a grant agreement of \$50m in budgetary support. The grant covers the second part of \$250m in budgetary support pledged by the United States at the Paris III Conference and follows the signing of a Memorandum of Understanding in July for the total amount. The first part of the pledge, which was a grant of \$75m, was signed in September. The \$50m will be used for servicing of upcoming debt payments due to the World Bank Group. The remaining funds are expected to be transferred by the end of 2008. The total pledges from the US to Lebanon at the Paris III Conference amount to \$890m: \$120m for private sector support, \$50m for development projects, \$250m for budgetary support, \$185m for support of UNIFIL and \$286m for support of the Lebanese Armed and Internal Security Forces.

Central Bank foreign assets decline by 4.5% to \$12.39bn in 2007

The Central Bank's interim balance sheet reached \$32.3bn at the end of 2007 compared to \$30.6bn at the end of 2006. Assets in foreign currencies declined by 4.47% to \$12.39bn from \$12.97bn at the end of the previous year. Assets in foreign currencies increased by \$59m in December, \$68m in September, \$298m in July, \$33m in June, \$222m in April, \$28m in February and \$72m in January. They declined by \$155m in November, \$389m in October, \$81m in August, \$225m in May, and \$510m in March. This resulted in an aggregate decline of \$580m, or 4.5%, in 2007.

The bank's gold reserves increased by 31.6% in 2007 to \$7.64bn on the strength of the global rise in gold prices, while its securities portfolio declined by 5.1% to \$6.21bn. The Central Bank and the Finance Ministry conducted during the year an operation related to the differential in the book and market values of gold whereby the Central Bank has to disburse 80% of this differential to the ministry. Instead, the ministry has forgone the accrued sum of \$1.4bn in exchange for the bank writing off the equivalent amount of its holdings of domestic debt. Further, deposits of the financial sector at the Central Bank rose by \$616m, or 2.8%, to \$22.8bn while deposits of the public sector rose by \$331m, or 17%, to \$2.23bn. Assets in foreign currencies increased by \$1.32bn in 2006, \$174m in 2005, and declined by \$598m in 2004. Assets in foreign currencies were equivalent to about 13 months worth of imports at end-2007.

Lebanon and China sign MoU to establish a GSM cellular network

Lebanon and China signed a Memorandum of Understanding (MoU) to establish a GSM cellular network operating system which could absorb 50,000 subscribers. The network will be financed by a grant provided by the Chinese company Hawaoi and the Chinese government. The network will be connected to the existing cellular networks MTC and Alfa.

GSM penetration in Lebanon reaches 30.9% by end-September 2007

A new survey of Lebanon's cellular users, which was conducted by the Arab Advisors Group, revealed that the country's GSM penetration stood at 30.9% by the end of the third quarter of 2007 according to reported figures from the two mobile operators MTC Touch and Alfa. The survey, which was based on face-to-face interviews with a random sample of 600 respondents, showed that 37.8% of Lebanon's urban cellular users do not use the Internet. The survey also showed that 12.8% of the country's GSM users share their phone lines with other members of their families which indicates a restricted demand for cellular services in Lebanon and explains why the country's mobile penetration is below regional levels. The survey added that 89.8% of Lebanon's GSM users use the SMS services; and that this ratio increases to 96% among the youth.

Lebanon renews electricity agreement with Syria

Lebanon and Syria renewed the agreement on supplying electricity to Lebanon with a capacity of 60 to 200 Megawatts per hour via the Tartous and Dimas power plants. Syria has been providing Lebanon with electricity for more than 10 years.

Bank profits reach \$665m in first 10 months of 2007

Profits of the banking sector reached \$665m in the first 10 months of 2007, up 15% from \$579m in the same period last year. Bank assets reached \$80.7bn as at October 31, 2007, up 9% year-on-year. Bank loans to the private sector rose from \$17.1bn to \$17.3bn in the same period, while bank loans to the public sector rose from \$20.8bn to \$20.9bn. Bank deposits reached \$66.3bn, up 11% from end-October 2006, while capital funds reached \$5.9bn, up 4% year-on-year. The dollarization rate of deposits increased from 74.5% as at end-October 2006 to 76.8% as at end-October 2007.

EIB extends Byblos Bank \$87m credit line

The European Investment Bank (EIB) extended to Byblos Bank a credit line of \$87m for the financing of small and medium sized enterprises. Byblos Bank has already received a credit line of \$60m from the EIB in early 2006. The EIB allocated \$709m to the private sector at the Paris III conference.

Central Bank approves establishment of new Islamic bank in Lebanon

The Central Bank has given its approval for the establishment of a new Islamic bank in Lebanon. The bank, Al Masref, is expected to have a share capital of \$100m distributed among 100 million shares. The bank's principal founder is Qatari businessman Khaled bin Ahmad al-Suaidi. The founding members have subscribed to 25% of the share capital and the other 75% will be raised through a private placement among GCC investors. Al Masref is expected to offer a series of banking services including investment, asset management and commercial services, among others. The bank will target at first the GCC market, and expand later on to cover other Arab markets and Islamic countries with large populations. There are four Islamic banks currently operating in Lebanon, Al Baraka Bank, BLOM Development Bank, the Lebanese Islamic Bank of Credit Libanais, and Arab Finance House.

Solidere and SODIC sign deal to co-develop \$4bn projects

Solidere, the Lebanese Company for the Development of Beirut Central District, and Egypt's Sixth of October for Development and Investment Company (SODIC), signed a deal to develop two real estate joint projects in Egypt with an expected investment cost of \$4bn. The larger of the two, the \$2.4bn West Town, will be part of Sheikh Zayed City, located outside of Cairo on the highway linking the Egyptian capital with the port of Alexandria. The second, East Town, will be located at Katameya on the road to Suez and has a projected budget of \$1.6bn. Both companies will work together on the construction, property management, finance, sales and marketing of the projects which will be developed over the next five years.

Five prospective candidates for Lebanon's mobile auction

Emirates telecommunications Co. (Etisalat) and Qatar's Telecommunications Co. (Qtel) expressed interest in taking part in Lebanon's mobile auction along with Kuwait's mobile group Zain, previously MTC Group, Bahrain's Batelco and Egypt's Orascom Telecom. The bidding is expected to take place in the last week of February. Credit Suisse estimates revenues of \$6.8bn to the Lebanese government from this privatization. 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.

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	318.8	327.2	840	340.1
Bank Deposits / GDP	265.1	267.4	230	273.7
Private Sector Loans / GDP	67.3	67.4	10	71.8
Dollarization of Deposits	73.1	76.2	310	76.5
Dollarization of Loans	84.5	84.0	(50)	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	Nov.2006	Oct.2007	Nov.2007	Change*	Risk Level
Political Risk Rating	57.5	56.0	57.0	▼	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	58.7	▲	High

Regional Average	Nov.2006	Oct.2007	Nov.2007	Change*	Risk Level
Political Risk Rating	66.3	67.3	67.3	▲	Moderate
Financial Risk Rating	41.3	41.9	41.8	▲	Very Low
Economic Risk Rating	41.1	40.4	40.4	▼	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

