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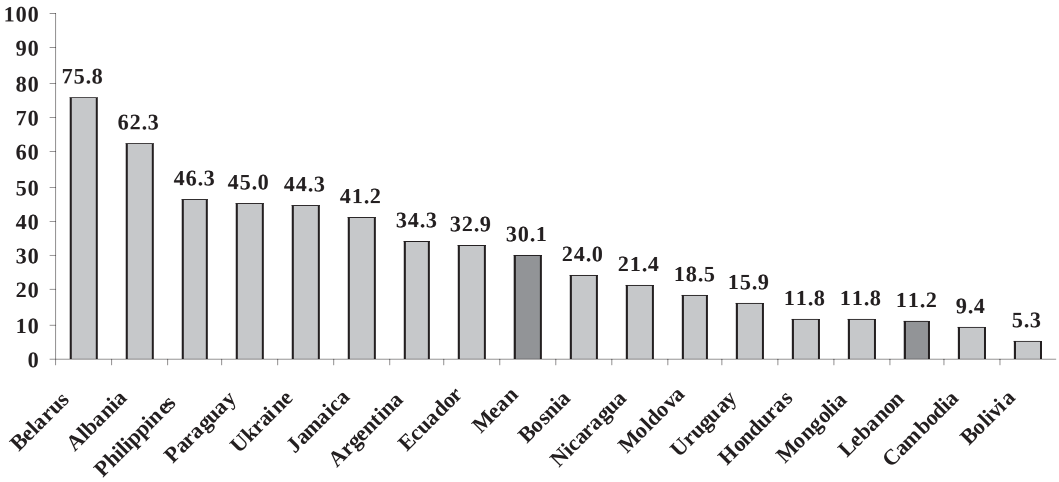
LEBANON THIS WEEK

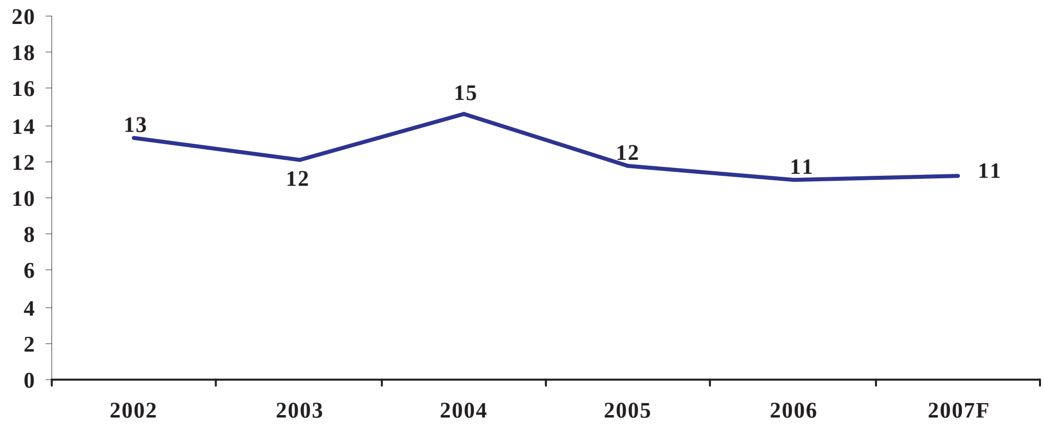
In This Issue

Charts of the Week

Liquidity Ratio in Similarly Rated Countries for 2007 (%)



Liquidity Ratio in Lebanon (%)



Source: Moody's Investors Service, 2007

Quote to Note

"We believe that the story is not about Lebanon's ability to weather the storms, but rather about how frequent and destructive these storms have become."

Merrill Lynch, expressing concern about the impact of continuous political uncertainties on public finances over the long term.

Number of the Week

3%: Lebanon's primary surplus as a percentage of GDP for 2007, its highest level in the past 15 years, according to the Ministry of Finance

Economic Indicators

$m (unless otherwise mentioned)	Nov.2006	Jan-Nov.06	2006	Oct.2007	Nov.2007	Jan-Nov.07	% Change*
Exports	221	2,076	2,282	258	-	-	-
Imports	984	8,459	9,399	1,193	-	-	-
Trade Balance	(763)	(6,420)	(7,118)	(935)	-	-	-
Balance of Payments	19	2,963	2,795	45	547	1,172	(60.44%)
Checks Cleared in LBP	695	6,549	7,219	775	778	7,727	17.99%
Checks Cleared in FC	1,991	23,162	25,268	2,879	2,902	27,124	17.23%
Total Checks Cleared	2,686	29,711	32,487	3,654	3,680	34,851	17.30%
Budget Deficit	260	2,570	3,039	263	314	2,391	(6.96%)
Primary Balance	33	135	(17)	96	(30)	639	373.33%
Airport Passengers	216,226	2,559,102	2,825,138	275,716	225,571	3,074,348	20.13%

$bn (unless otherwise mentioned)	Dec.2005	Nov.2006	Dec.2006	Sep.2007	Oct.2007	Nov.2007	% Change*
BdL FX Reserves	9.85	10.94	10.21	10.27	9.58	9.75	(10.88%)
In months of Imports	*11.3*	*11.12*	*11.30*	*10.90*	*8.03*	-	-
Public Debt	38.50	40.43	40.39	40.57	41.16	41.61	2.92%
Net Public Debt	34.79	36.96	37.44	38.28	38.68	38.71	4.73%
Bank Assets	68.54	73.05	74.27	81.62	80.72	80.11	9.66%
Bank Deposits	56.99	60.15	60.69	65.68	66.28	65.93	9.61%
Bank Loans to Private Sector	14.46	15.24	15.31	17.23	17.32	17.65	15.81%
Money Supply M2	16.23	16.04	15.57	16.60	16.53	16.27	1.43%
Money Supply M3	49.38	52.76	53.23	58.27	58.88	58.75	11.35%
LBP Lending Rate (%)	10.12	10.29	10.37	10.25	10.28	10.24	(5b.p.)
LBP Deposit Rate (%)	7.70	7.47	7.49	7.47	7.46	7.42	(5b.p.)
USD Lending Rate (%)	8.38	8.52	8.55	8.25	8.21	8.22	(30b.p.)
USD Deposit Rate (%)	4.09	4.66	4.76	4.91	4.87	4.84	18b.p.
%* Change in CPI**	(2.23)	5.09	7.04	3.05	3.55	5.07	(2b.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"	21.46	(0.28%)	189,323	20.09%
Solidere "B"	21.34	(1.57%)	101,362	12.98%
Byblos Common	2.19	(3.10%)	154,382	4.20%
Byblos Priority	2.29	0.00%	32,500	4.42%
BLOM GDR	89.35	0.90%	11,245	6.18%
BLOM Listed	81.50	0.62%	34,111	5.47%
Audi GDR	74.00	(0.13%)	11.653	6.81%
Audi Listed	70.00	0.00%	0	21.56%
HOLCIM	19.65	0.72%	6,650	3.59%

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

Sovereign Eurobonds	Coupon %	Mid Price $	Mid Yield %
Oct.2009	10.250	103.25	8.09
Dec.2009	7.000	97.75	8.34
Mar.2010	7.125	98.00	8.20
May 2011	7.875	97.88	8.63
Sep.2012	7.750	97.00	8.55
June 2013	8.625	99.50	8.74
Apr.2015	10.000	105.75	8.90
Jan.2016	8.500	97.50	8.95
May 2016	11.625	114.50	9.08
Apr.2021	8.250	94.50	8.97

Source: Byblos Capital Markets

	This Week	Last Week	% Change	January 2008	January 2007	% Change
Total Shares Traded	543,876	1,268,519	(57.13%)	4,272,183	3,352,646	27.43%
Total Value Traded	$11,483,569	$23,675,925	(51.50%)	$77,621,174	$43,564,786	78.17%
Market Capitalization	$10.68bn	$10.72bn	(0.30%)	$10.70bn	$8.40bn	27.30%

Source: Beirut Stock Exchange (BSE)

Lebanon in the News

Moody's affirms Lebanon's sovereign ratings

Moody's Investors Service affirmed Lebanon's sovereign ratings at 'B3', adding that a downgrade is not imminent despite the ongoing political turmoil and poor economic performance in the country. It said there are a number of supporting credit factors that justify maintaining Lebanon's current rating, albeit with a negative outlook. It noted that the Lebanese government is not in default, nor has it ever defaulted, defying many observers' past expectations and indicating a strong willingness to repay.

The agency cited as a key factor the Central Bank of Lebanon's large stock of foreign currency reserves to protect the exchange rate peg and finance external payments if necessary, with reserves totaling around $9.8bn, or 40% of GDP, at the end of 2007. Also, local commercial banks continue to purchase and roll over government paper despite their reluctance. According to Moody's, banks have little choice given the devastating impact that a government default would have on their own performance. Further, banks' ability to finance the government continues to be bolstered by rising bank deposits that have historically shown a high level of resilience to shocks.

Moody's added that Lebanon's government continues to receive support from external donors, who are likely to remain committed given the country's sensitive geopolitical position. It said budgetary support pledged at the Paris III donors' conference continues to be gradually disbursed, adding that the government had so far received around $1bn in a combination of grants, loans and debt relief out of a total of $4.7bn pledged for budgetary support. Finally, inward remittances remain buoyant, providing support to the vulnerable balance of payments. In parallel, Moody's warned that the impact of a hypothetical government default would be relatively high given the large size of the debt stock and the fact that around half of it is denominated in foreign currencies.

Saudi Arabia to deposit $1bn at Central Bank

Within the context of its financial support for Lebanon, Saudi Arabia plans to deposit $1bn at the Central Bank of Lebanon to bolster monetary and financial stability in the country. The deposit is expected to take place as soon as the procedures are finalized and will carry an interest rate equivalent to the prevailing Libor rate. Total Saudi deposits at the Central Bank would reach $2bn, as the kingdom deposited $1bn at the Bank when the national currency was under pressure during the summer 2006 war. Kuwait also deposited at the time $500m at the Central Bank. Saudi Arabia has pledged $1.1bn to Lebanon at the Paris III conference held in January 2007, of which $100m in budgetary support and $1bn in project financing. The budgetary support was fully disbursed last April.

USAID transfers $96m as part of Paris III pledges

The United States Agency for International Development (USAID) prepaid in January, on behalf of Lebanon, three outstanding loans to the World Bank for an amount equivalent to $89m. It also paid $7m to cover Lebanon's debt and debt service to the World Bank. The two payments bring total disbursements made by the United States to $110m out of $125m in grants pledged to Lebanon at the Paris III conference. The U.S. pledged a total of $250m in budgetary support to Lebanon at the conference.

Saudi fund grants Lebanese University $15m

The Council of Development and Reconstruction and the Saudi Development Fund signed an agreement whereby the Saudi fund granted Lebanon $15m for the development of a faculty of sciences at the Lebanese University branch in Tripoli.

Fiscal deficit down 16% to $2.55bn in 2007

Figures released by the Finance Ministry show that the fiscal deficit reached $2.55bn in 2007, equivalent to 30.5% of total budget and Treasury expenditures, down 15.9% from $3.03bn and 38.4% of total spending in 2006. Government expenditures reached $8.35bn, up 6% year-on-year, while revenues increased by 19.6% to $5.8bn over the covered period. Overall tax revenues improved by 13% year-on-year to $3.7bn, of which 35.9%, or $1.33bn, were in VAT receipts that posted a 20.7% annual rise. Tax revenues accounted for 69% of budgetary revenues and for 63.8% of total Treasury and budget receipts. The budget posted a deficit of 19.6% of expenditures in 2007 compared to 27% in the previous year.

Debt servicing increased by 8.4% year-on-year and totaled $3.23bn, accounting for 39.2% of total expenditures and 49% of budgetary spending. It absorbed 56.5% of overall revenues and 61% of budgetary receipts. Excluding debt servicing, the primary surplus reached $1.96bn, or 29.4% of budgetary expenditures compared to a surplus of 21.3% a year earlier. The overall primary surplus reached $731m or 8.8% of total spending compared to a deficit of 0.06% a year earlier. The fiscal deficit was equivalent to 10% of GDP in 2007, down from 11.5% of GDP in 2006.

Kafalat loan guarantees at $85m in first 11 months of 2007

The Kafalat Corporation issued 709 loan guarantees in the first 11 months of 2007 for a total value of $85m and an average loan size of approximately $120,066 compared to 496 loan guarantees issued in the same period of 2006 for a total value of $47m and an average loan size of $93,930. Beirut and Mount Lebanon accounted for 50.9% of guarantees, followed by the Bekaa with 21.4%. The industry sector accounted for 44.9% of total guarantees, followed by agriculture with 40.8%. Kafalat issued 64 loan guarantees in the November for a total value of $9m.

Trade deficit up 31% to $7.4bn in fist 10 months of 2007

The trade deficit reached $7.41bn in the first 10 months of 2007, up 31% year-on-year. Imports rose by 29.1% to $9.7bn while exports increased by 22.9% to $2.28bn year-on-year. Italy was the main source of imports with 9.5% of total imports, followed by the United States with 9.3%, China with 8.7%, France with 7.2% and Germany with 6.3%. Switzerland was the main export destination with 10.3% of total exports, followed by the UAE with 8.5%, Syria with 7.5%, Saudi Arabia with 6.8% and Iraq with 5%. The coverage ratio reached 23.5% in the year-to-October period compared to 24.7% in the same period of the previous year. The trade deficit reached $935m in September 2007, rising by 38.5% from the same month of the previous year. Part of the rise in overall imports is attributed to the jump of global oil prices and of food prices, as well as to the weakening of the US dollar. Further, the increase in imports and exports during the covered period is distorted by the summer 2006 war and the Israeli blockade that crippled trade activity in most of July and August.

Customs receipts at $736m in first 10 months of 2007

Figures released by the Higher Customs Council show that customs revenues reached $736.3m in the first 10 months of 2007, up 26.7% from the same period of the previous year. Customs revenues totaled $78.3m in October compared to $71m in September and $88.2m in September 2006. The Port of Beirut continues to be the main point of customs revenues, accounting for 82.3% of the total, and was followed by the Hariri International Airport with 11.7%, the Masnaa crossing point with 2.3% and the Port of Tripoli with 1.9%. Overall customs receipts totaled $1.72bn when including revenues from the value-added tax that totaled $936.7m in the first 10 months of 2007.

Corporate Highlights

Lebanon's mobile telecom sector one of rare opportunities in the region

International rating agency Fitch Ratings indicated that the growth of the mobile telecommunications sector in most established markets of the Middle East and North Africa slowed down substantially in 2007, and that opportunities have diminished over time in the region. It noted the lack of greenfield opportunities with sound growth potential in the MENA region, adding that one of the only regional growth opportunities in the next 12 to 18 months will be the limited number of new licenses that are expected to be available in Lebanon.

Fitch Ratings cited several reasons for the importance of such opportunities. First, prices for licenses will remain excessively high due to the immense liquidity and scarce number of opportunities in the MENA region. Second, the core strategy for leading telecommunications firms in the region has been to invest in underdeveloped markets with low mobile penetration and strong long-term growth prospects, but these opportunities have diminished over time. Third, the high penetration level that has exceeded 100% and reached 150% in several markets such as Bahrain, Qatar and the United Arab Emirates, has made regional and international expansion crucial for regional telecom operators that are willing to step out of their own market for growth opportunities in the region. Fourth, the new strategy for the biggest mobile telecommunications companies is to grow with whatever means necessary, or they would otherwise fall behind in the race for leadership. Fifth, North Africa is considered a growth market due to low cellular penetration rates, but most of the countries in the region pose a business risk for the operators, as the legal and regulatory framework has not been fully established.

In parallel, the agency stated that government stakes in some of the biggest names in the region will have to be privatized, while protectionism by local governments or regulatory agencies would keep interested parties out of these markets.

Standard & Poor's downgrades three Lebanese banks

Standard & Poor's lowered its long-term counterparty credit ratings on Bank Audi sal, Bankmed sal and BLOM Bank sal to 'CCC+' from 'B-', and maintained the outlook at 'stable'. At the same time, the agency removed the long-term ratings on the three banks from CreditWatch with negative implications. It also affirmed the 'C' short-term counterparty credit ratings on Bank Audi and Bankmed. S&P attributed the banks' downgrade to the earlier downgrade of Lebanon's sovereign credit ratings from 'B-' to 'CCC+' with a 'stable' outlook. It said the ratings on all three banks reflect the high risks inherent in operating in Lebanon that are a result of the country's macroeconomic problems, including the government's high debt, fiscal deficit and fragile political stability.

The agency attributed the sovereign downgrade to the increase in political instability that has raised tensions in the country and the likelihood that it will be protracted. S&P said that the stand-off could shake confidence in the financial sector and compromise domestic banks' ability to lend to the government, as well as delay crucial reforms. S&P warned that it would lower the ratings further if civil unrest breaks out or if the political deadlock causes protracted policy inertia. However, it could raise the ratings in the event of the election of a president and the formation of a cabinet by consensus accompanied by some success in advancing the program of economic reforms pledged at the Paris III donor conference.

ACAL unveils 2008 Action Plan

The Association of Insurance Companies in Lebanon (ACAL) unveiled its plan for 2008 that includes starting the process for the creation of a 'Centrale des Risques' database on insurance risks, as well as the activation of a center for arbitration and mediation. The association will also launch an insurance awareness campaign that will reach a broad spectrum of the population. Further, ACAL plans to pursue a dialogue with the relevant ministries and regulatory bodies about improving the tax regime on life, medical and cargo insurance; the legal aspects of bancassurance; the exchange of information on the sector's statistics; and the promotion of insurance opportunities in schools and universities. The action plan stipulates the increased support for the association's technical committees and emphasizes professional education and the accumulation of market expertise for its members. ACAL also revealed that it intends to hold a regional insurance conference in Beirut in cooperation with the General Arab Insurance Federation.

In parallel, ACAL indicated that it has joined the International Insurance Society (IIS) as a corporate member as of August 2007. The United States-based IIS is an international non-profit organization for the insurance industry that acts as a forum for the global insurance industry and that has more than 1,000 corporate and individual members.

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	**Dec.2006**	**Nov.2007**	**Dec.2007**	**Change***	**Risk Level**
Political Risk Rating	66.3	57.0	56.5	↓	High
Financial Risk Rating	31.5	31.5	31.5	↔	Moderate
Economic Risk Rating	25.5	29.0	29.0	↑	High
Composite Risk Rating	56.0	58.7	58.5	↑	High

Regional Average	**Dec.2006**	**Nov.2007**	**Dec.2007**	**Change***	**Risk Level**
Political Risk Rating	66.3	67.3	65.6	↓	Moderate
Financial Risk Rating	41.5	41.8	41.3	↓	Very Low
Economic Risk Rating	41.3	40.4	40.0	↓	Very Low
Composite Risk Rating	74.6	74.8	73.5	↓	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	CCC+	C	Stable	CCC+	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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