

LEBANON THIS WEEK

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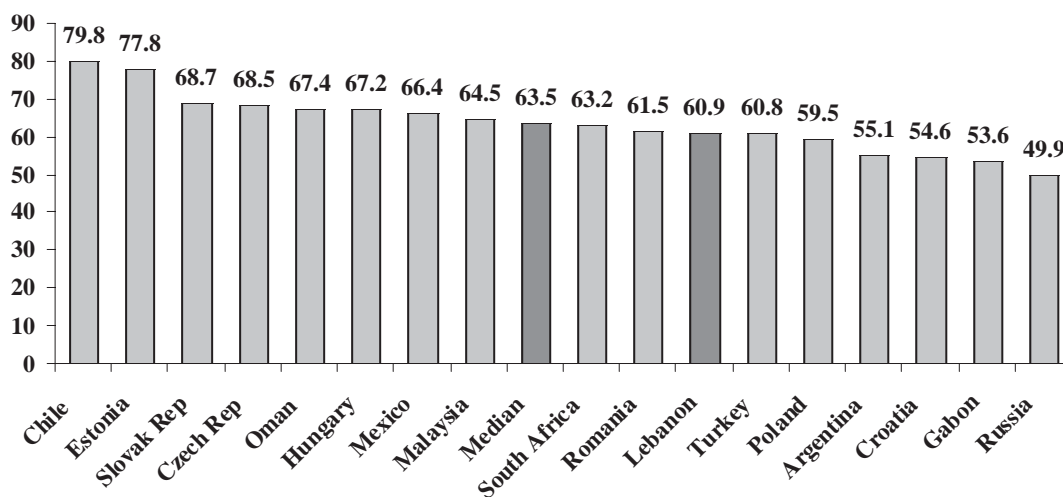
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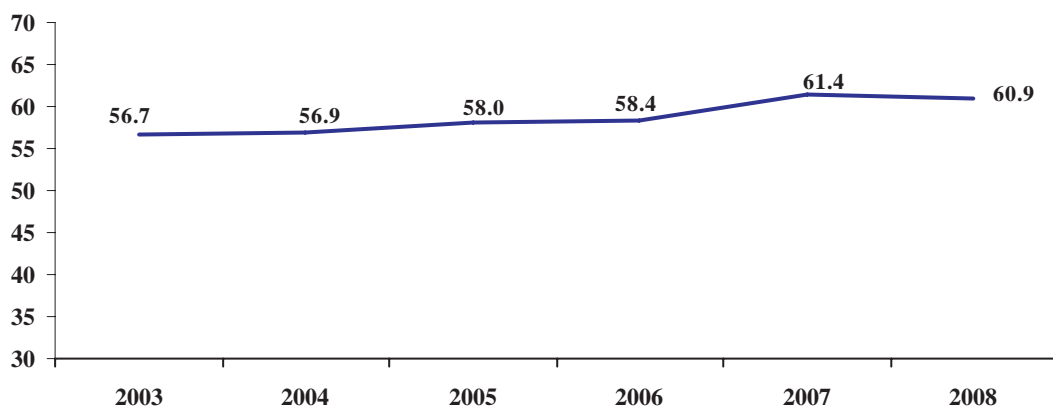
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Charts of the Week

Index of Economic Freedom for Upper-middle-income Countries in 2008 (%)



Index of Economic Freedom for Lebanon (%)



Source: Heritage Foundation/Wall Street Journal, 2008

Quote to Note

“Without major fiscal reforms, creditworthiness is likely to deteriorate in the longer term.”

The Economist Intelligence Unit, warning about the eventual impact of chronic delays in implementing structural reforms.

Number of the Week

\$289m: Public revenues in 2007 from the 5% tax imposed on local deposits' interest income, according to the Ministry of Finance

Economic Indicators

\$m (unless otherwise mentioned)	Dec.2006	2006	Oct.2007	Nov.2007	Dec.2007	2007	% Change*
Exports	206	2,282	258	293	241	2,816	23.4%
Imports	904	9,398	1,193	1,054	1,064	11,815	25.7%
Trade Balance	(698)	(7,116)	(935)	(1,347)	(237)	(8,999)	26.4%
Balance of Payments	(169)	2,795	45	547	864	2,036	(27.15%)
Checks Cleared in LBP	669	7,219	775	778	682	8,409	16.48%
Checks Cleared in FC	2,106	25,268	2,879	2,902	2,769	29,883	18.26%
Total Checks Cleared	2,775	32,487	3,654	3,680	3,451	38,292	17.87%
Budget Deficit	457	3,039	263	314	154	2,545	(16.25%)
Primary Balance	(140)	(17)	96	(30)	91	730	4,349.1%
Airport Passengers	266,036	2,825,138	275,716	225,57	334,486	3,408,834	20.66%

\$bn (unless otherwise mentioned)	Dec.2005	Dec.2006	Sep.2007	Oct.2007	Nov.2007	Dec.2007	% Change*
BdL FX Reserves	9.85	10.21	10.27	9.58	9.75	9.78	(4.21%)
<i>In months of Imports</i>	<i>11.3</i>	<i>11.30</i>	<i>10.90</i>	<i>8.03</i>	<i>9.25</i>	<i>9.19</i>	<i>(18.67%)</i>
Public Debt	38.50	40.37	40.57	41.16	41.84	42.06	4.19%
Net Public Debt	34.79	37.44	38.28	38.68	38.71	39.06	4.33%
Bank Assets	68.54	74.27	81.62	80.72	80.11	82.25	10.74%
Bank Deposits	56.99	60.69	65.68	66.28	65.93	67.29	10.87%
Bank Loans to Private Sector	14.46	15.31	17.23	17.32	17.65	17.75	15.94%
Money Supply M2	16.23	15.57	16.60	16.53	16.27	16.42	5.46%
Money Supply M3	49.38	53.23	58.27	58.88	58.75	59.83	12.40%
LBP Lending Rate (%)	10.12	10.37	10.25	10.28	10.24	10.14	(23b.p.)
LBP Deposit Rate (%)	7.70	7.49	7.47	7.46	7.42	7.40	(9b.p.)
USD Lending Rate (%)	8.38	8.55	8.25	8.21	8.22	8.16	(39b.p.)
USD Deposit Rate (%)	4.09	4.76	4.91	4.87	4.84	4.75	(1b.p.)
%* Change in CPI**	(2.23)	7.04	3.05	3.55	5.07	5.92	(112b.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"	21.51	(0.32%)	291,392	20.13%
Solidere "B"	21.32	(0.74%)	80,201	12.97%
Byblos Common	2.25	0.00%	217,720	4.32%
Byblos Priority	2.27	(0.87%)	84,099	4.38%
BLOM GDR	88.50	0.51%	18,100	6.12%
BLOM Listed	81.55	0.06%	9,530	5.47%
Audi GDR	73.50	0.00%	6,754	6.76%
Audi Listed	70.00	0.00%	0	21.55%
HOLCIM	19.60	1.24%	1,804	3.58%

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

Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
Oct.2009	10.250	102.88	8.31
Dec.2009	7.000	99.00	7.59
Mar.2010	7.125	98.00	8.21
May 2011	7.875	98.00	8.59
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	97.25	8.99
May 2016	11.625	114.50	9.08
Apr.2021	8.250	94.25	9.00

Source: Byblos Capital Markets

	This Week	Last Week	% Change	January 2008	January 2007	% Change
Total Shares Traded	768,837	462,151	66.36%	4,272,183	3,352,646	27.43%
Total Value Traded	\$13,424,411	\$8,179,380	64.13%	\$77,621,174	\$43,564,786	78.17%
Market Capitalization	\$10.69bn	\$10.70bn	(0.10%)	\$10.70bn	\$8.40bn	27.30%

Source: Beirut Stock Exchange (BSE)



Lebanon ranks 76th globally, 7th in MENA region in telecommunications infrastructure

The United Nations' Telecommunications Infrastructure Index for 2008 ranked Lebanon in 76th place among 192 countries worldwide and 7th among 19 countries in the Middle East and North Africa region. Lebanon ranked in 62nd place globally and in 7th place regionally in the previous survey, which was conducted in 2005. Also, Lebanon ranked in 25th place among 36 Upper Middle-Income Countries (UMICs) in 2008 and in 18th place in the previous survey. The index includes five primary variables reflecting a country's telecommunications infrastructure capacity. It is a composite measure of the penetration of personal computers, telephone lines, Internet usage, mobile subscriptions and broadband.

Globally, Lebanon ranked ahead of Venezuela, Bosnia & Herzegovina and South Africa, and came behind Mexico, Maldives and Serbia. It ranked immediately ahead of Venezuela and behind Mexico among UMICs. Lebanon received a score of 0.193 points, below the global average of 0.211 points, the MENA average of 0.1941 points, and the UMICs average of 0.2483 points, but above the Arab average of 0.1708 points.

Lebanon ranked ahead of Chile and came behind Poland on the Internet Usage Sub-Index. Lebanon has 26.28 Internet users per 100 inhabitants compared to the Arab average of 14.23 users per 100 inhabitants. It ranked ahead of Iran and behind Israel in the region.

Lebanon ranked ahead of Peru and came behind Cape Verde on the Personal Computers Sub-Index. It has 11.45 personal computers per 100 inhabitants compared to the Arab average of 7.88 PCs per 100 inhabitants. It ranked ahead of Trinidad & Tobago and behind Russia among UMICs, while it tied with Sudan, came ahead of Iran and behind Saudi Arabia in the region.

Lebanon tied with Honduras, ranked ahead of Peru and came behind Moldova on the Cellular Sub-Index. It has 30.53 subscribers per 100 inhabitants compared to the Arab average of 52.6 subscribers per 100 inhabitants. It ranked ahead of Saint Kitts & Nevis and behind Costa Rica among UMICs, and came ahead of Syria and behind Libya in the region.

Also, Lebanon tied with Vietnam, ranked ahead of Mexico and came behind St Vincent & the Grenadines on the Telephone Lines Sub-Index. It has 18.85 fixed phone lines per 100 inhabitants compared to the Arab average of 12 lines per 100 inhabitants. Lebanon ranked ahead of Syria and came behind Kuwait in the region.

Finally, Lebanon ranked ahead of Dominica and came behind St Vincent & the Grenadines on the Broadband Sub-Index. Lebanon has 4.70 broadband users per 100 inhabitants compared to the Arab average of 1.61 users per 100 inhabitants. It came ahead of Morocco and behind the UAE in the region.

MENA Countries Rankings & Scores

Country	MENA Rank	Global Rank	Score
Israel	1	16	0.6085
UAE	2	38	0.3813
Qatar	3	43	0.3549
Bahrain	4	46	0.3346
Kuwait	5	55	0.2777
Saudi Arabia	6	72	0.2110
Lebanon	7	76	0.1930
Iran	8	80	0.1747
Jordan	9	82	0.1693
Tunisia	10	83	0.1636
Oman	11	87	0.1559
Morocco	12	95	0.1349
Algeria	13	100	0.1230
Libya	14	101	0.1170
Syria	15	111	0.0923
Egypt	16	116	0.0886
Sudan	17	124	0.0664
Yemen	18	150	0.0286
Iraq	19	173	0.0127

Source: United Nations, Byblos Research

Components of Telecommunications Infrastructure Index for Lebanon

Sub-Index	Global Rank	MENA Rank	UMICs Rank	Lebanon Score	Global Average Score	MENA Average Score	UMICs Average Score
Internet	56	5	14	0.296	0.223	0.188	0.261
Personnel Computers	69	7	23	0.127	0.173	0.137	0.156
Cellular	106	13	33	0.199	0.327	0.400	0.467
Telephone Lines	77	7	23	0.195	0.201	0.167	0.238
Broadband	49	5	12	0.148	0.204	0.100	0.128

Source: United Nations, Byblos Research

EU project to improve consumer protection

Within the context of the Euro-Mediterranean Partnership Accord, the European Union announced the progress of a joint project by the Lebanese government and the EU to improve consumer protection in Lebanon. The twinning project aims to support the administration of consumer protection at the Ministry of Economy & Trade by developing its organizational and institutional structure and modernizing its legislative foundations. The twinning project was launched two years ago and is financed by a €1.05m grant from the EU. The project aims to assess the quality of goods and services in Lebanon, regulating marketing techniques, upgrading the organizational structure of the consumer directorate and raising consumer protection awareness among citizens. Lebanon is one of the first states outside the European Union to act as beneficiary in a twinning project. The EU said that €17m have been donated for consumer protection to date.

Cleared checks up 33.2% to \$3.9bn in January 2008

The value of cleared checks increased by 33.2% to \$3.9bn in January 2008 compared to January 2007. The value of cleared checks in Lebanese pounds rose by 8.9% to the equivalent of \$766m, while the value of cleared checks in U.S. dollar rose by 40.9% to \$3.1bn. The dollarization rate increased from 75.8% to 80.2% year-on-year.

Stock market activity declines by 51% to \$994m in 2007

Figures released by the Beirut Stock Exchange for 2007 indicates that total volume reached 114.24 million shares, a decline of 15.3% from the previous year, while aggregate turnover amounted to \$993.8m, down 51% from a turnover of \$2.03bn in 2006. Market capitalization rose by 31.2% year-on-year to \$10.89bn, of which 60% was in banking stocks and 34.7% in Solidere stock. The market liquidity ratio was 9.1% compared to 24.5% at the end of 2006.

Banking stocks accounted for 64.3% of aggregate trading volume, followed by Solidere with 31.8%, trading with 3.3%, industrial stocks with 0.4%, and investment funds' stocks with 0.2%. In terms of value of shares traded, Solidere accounted for 65% of aggregate value in 2007, followed by bank stocks with 31.6%, investment funds with 2.5%, industry with 0.6%, and trading with 0.4%. The average daily traded volume for the period was 470,113 shares for an average daily value of \$4.09m. The figures reflect decreases of 19% in volume and 53.3% in value from similar figures in 2006. An aggregate of 20,690 transactions took place in 2007, down 51.8% from the previous year, with Solidere accounting for 70.4% of the total. The average value per transaction was \$48,033 in 2007 compared to \$47,332 in 2006.

Trade deficit up 25% to \$9bn in 2007

The trade deficit reached \$9bn in 2007, up 24.7% from \$7.6bn in 2006. Imports rose by 25.7% to \$11.82bn while exports increased by 23.4% to \$2.82bn year-on-year. The coverage ratio reached 23.8% in 2007 compared to 24.3% in the previous year. The United States was the main source of imports with \$1.14bn or 9.8% of the total, followed by Italy with \$1.06bn (9%), China with \$1.02bn (8.6%), France with \$883 (7.5%) and Germany with \$750m (6.3%). Switzerland was the main export destination with \$308m or 11% of the total, followed by the UAE with \$244m (8.7%), Syria with \$210m (7.5%), Saudi Arabia with \$187m (6.6%) and Iraq with \$148m (5.3%). Exports peaked in November at \$293m and imports peaked in December at \$1.06bn.

Lebanon's main export was mineral products at \$494m or 17.5% of total exports, followed by jewelry with \$488m (17.3%), machinery & appliances with \$460m (16.2%), food & beverages with \$238m (8.5%), and chemical products with \$234m (8.3%). Re-exports totaled \$188m in 2007, up 76% from \$107m in 2006. 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 in 2007 is distorted by the summer 2006 war and the Israeli blockade that crippled trade activity in most of July, August and parts of September.

Customs receipts at \$873m in 2007

Figures released by the Higher Customs Council show that customs revenues reached \$873m in 2007, up 16% from the previous year. Customs revenues totaled \$65.7m in December 2007 compared to \$71.6m in November and \$76.3m in December 2006. The Port of Beirut continues to be the main point of customs revenues, accounting for 83.4% of the total, and was followed by the Hariri International Airport with 11.3%, the Masnaa crossing point with 2.5% and the Port of Tripoli with 1.3%. Overall customs receipts totaled \$1.84bn when including revenues from the value-added tax that totaled \$962.5m in 2007.

Byblos Bank raises capital

The Extraordinary General Assembly of Byblos Bank sal held on January 24, 2007 approved a capital increase for the bank in the amount of \$27m as part of the \$200m convertible bond that was fully subscribed and closed in November 2007. The bond 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 capital increase took place through the issuance of 12,088,834 shares at a par value of LP1,200 per share for a total of LP14.5bn, or \$9.6m as paid in capital, with the balance going to additional paid-in capital. As a result, the Bank's new capital increased to \$337.6m.

The convertible bond placement constituted 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. 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.

Public Corporation for Housing signs deal with Islamic bank

The Public Corporation for Housing (PCH) signed an agreement with the Arab Finance House (AFH) to extend housing finance based on Islamic principles, or Shariaa. AFH is one of four Islamic banks in Lebanon. The PCH already has agreements with 24 banks operating in the country, but this is the first such deal with an Islamic bank. It will allow AFH to extend financing based on Islamic principles to individuals for the purchase, building or renovation of a house. Housing loans under the protocol between banks and the PCH totaled \$576.5m at the end of June 2007. The PCH said it processed 5,300 housing loans in 2007 alone. Loans extended through the PCH benefit from deductions in reserve requirements for banks and target low income citizens.

Commercial banks' assets reach \$82.3bn at end of 2007

The Association of Banks in Lebanon released the consolidated balance sheet of commercial banks showing that total assets reached \$82.25bn at the end of 2007, constituting a 10.8% rise from the end of 2006 compared to a growth of 8.4% in 2006. Private sector deposits totaled \$67.3bn, up 10.9% from \$60.7bn at the end of the previous year, as deposits in Lebanese pounds rose by 5.6% and those in foreign currencies increased by 12.5% year-on-year. Non-resident foreign currency deposits rose by 2.3% to \$9.12bn. The dollarization rate of deposits increased to 77.3% from 76.2% a year earlier. Further, the average deposit rate in Lebanese pounds was 7.4% compared to 7.49% a year earlier, while the same rate in US dollars was 4.56%, down from 4.76% at the end of 2006.

Loans to the private sector amounted to \$20.4 billion, up 20% year-on-year compared to a rise of 9.5% in 2006. The dollarization rate in private sector lending reached 86.4% compared to 85.6% a year earlier. The average lending rate in Lebanese pounds was 10.1% in December 2007 compared to 10.37% a year earlier, while the same average in US dollars 8.02% compared to 8.55% at the end of 2006. Claims on the public sector stood at \$21.5 billion, up 3.9% year-on-year, and accounted for 51.3% of the banking sector's total loans.

The ratio of loans to deposits in foreign currencies stood at 33.9%, well below the Central Bank's limit of 70%, and up from 31.5% a year earlier. In parallel, the same ratio in Lebanese pounds was 18.8% compared to 17.6% a year earlier. The ratio of total private sector loans to deposits stood at 30.4%, down from 28% a year earlier. The banks' aggregate capital base stood at \$6.26 billion, up 8.3% from \$5.78bn at the end of 2006 Core capital totaled \$5.9bn compared to \$5.6bn a year earlier.

Ratio Highlights

	2005	2006	2007	Change*
Nominal GDP ⁽¹⁾ (\$bn)	21.5	22.7	24.6	
External Debt / GDP	89.3	89.9	86.4	(350)
Local Debt / GDP	89.8	88.1	84.6	(350)
Total Debt / GDP	179.1	178.4	171.0	(740)
Trade Balance / GDP	(34.9)	(31.3)	(36.6)	(530)
Exports / Imports	20.1	24.3	23.8	(50)
Revenues / GDP	22.8	19.4	23.6	420
Expenditures / GDP	31.6	30.8	33.9	310
Budget Balance / GDP	(8.8)	(11.5)	(10.3)	120
Primary Balance / GDP	2.3	0.4	2.9	250
BdL FX Reserves / M2	60.7	65.6	59.6	(600)
M3 / GDP	229.8	234.4	243.2	880
Bank Assets / GDP	318.8	327.2	334.4	720
Bank Deposits / GDP	265.1	267.4	273.5	610
Private Sector Loans / GDP	67.3	67.4	72.2	480
Dollarization of Deposits	73.1	76.2	77.3	110
Dollarization of Loans	84.5	84.0	84.3	30

* Change in basis points 06/07

(1) Based on Ministry of Finance Estimations

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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