



## LEBANON THIS WEEK

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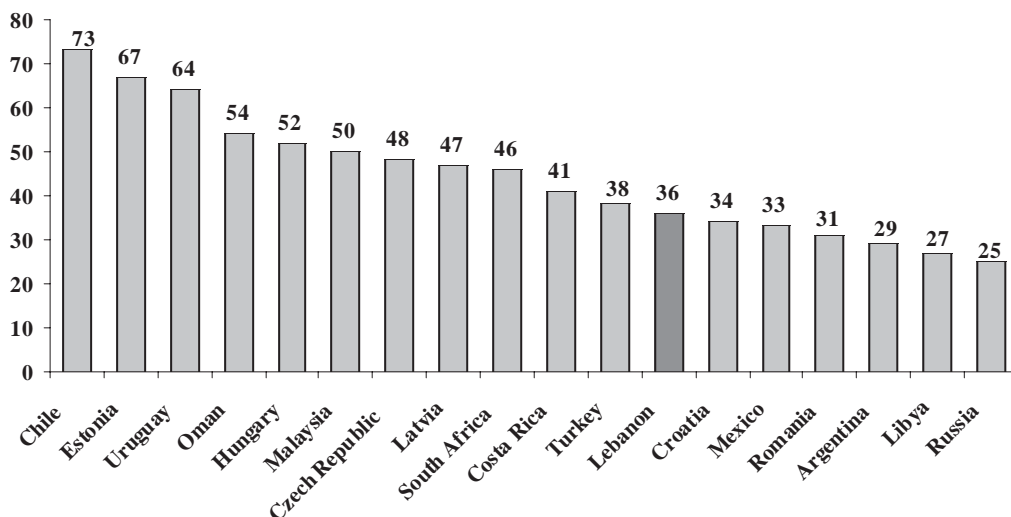
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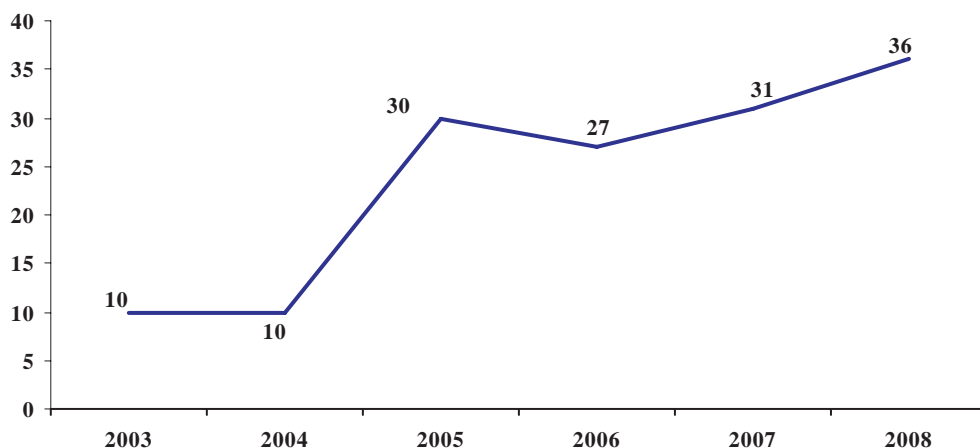
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### Charts of the Week

Index of Freedom from Corruption for Upper Middle-Income Countries in 2008 (%)



Index of Freedom from Corruption in Lebanon (%)



Source: Heritage Foundation/Wall Street Journal, 2008

### Quote to Note

“The banking sector remains liquid, profitable and extremely large relative to the size of the economy.”

*The Economist Intelligence Unit, on the resilience of the Lebanese banking sector in times of unrest.*

### Number of the Week

**3.6%:** Environmental damage in Lebanon, in percentage of GDP, caused by the July 2006 war, according to a new assessment by the World Bank.

## Economic Indicators

<b>\$m (unless otherwise mentioned)</b>	<b>May 2006</b>	<b>2006</b>	<b>May 2007</b>	<b>2007</b>	<b>April 2008</b>	<b>May 2008</b>	<b>% Change*</b>
Exports	285	2,282	233	2,816	279	267	14.59%
Imports	980	9,398	930	11,815	1,310	1,305	40.32%
Trade Balance	(695)	(7,116)	(697)	(8,999)	(1,031)	(1,038)	48.92%
Balance of Payments	414	2,795	174	2,036	73	(416)	(339.08%)
Checks Cleared in LBP	659	7,219	739	8,409	755	749	1.35%
Checks Cleared in FC	2,533	25,268	2,457	29,883	3,374	3,470	41.22%
Total Checks Cleared	3,192	32,487	3,196	38,292	4,129	4,219	32.00%
Budget Deficit/Surplus	41	(3,027)	(114)	(2,546)	(399)	(370)	224.56%
Primary Balance	299	(4)	187	731	(13)	(78)	(141.71%)
Airport Passengers	270,711	2,825,138	245,917	3,408,834	290,562	199,789	(18.76%)

<b>\$bn (unless otherwise mentioned)</b>	<b>May 2006</b>	<b>Dec.2006</b>	<b>May 2007</b>	<b>Dec.2007</b>	<b>April 2008</b>	<b>May 2008</b>	<b>% Change*</b>
BdL FX Reserves	12.65	10.21	9.91	9.78	11.39	11.92	20.28%
<i>In months of Imports</i>	<i>12.91</i>	<i>11.30</i>	<i>10.65</i>	<i>9.19</i>	<i>8.70</i>	<i>9.13</i>	<i>(14.28%)</i>
Public Debt	38.78	40.37	41.35	42.03	43.51	43.56	5.34%
Net Public Debt	35.34	37.42	38.91	39.03	39.96	40.12	3.10%
Bank Assets	72.35	74.27	75.97	82.25	85.63	86.20	13.46%
Bank Deposits to Private Sector	59.71	60.69	62.49	67.29	70.13	70.55	12.89%
Bank Loans to Private Sector	18.26	18.92	20.04	20.42	22.98	23.30	16.26%
Money Supply M2	17.15	15.57	16.23	16.47	17.85	18.44	13.61%
Money Supply M3	51.34	53.23	55.77	59.83	62.72	62.66	12.35%
LBP Lending Rate (%)	10.21	10.37	10.38	10.10	9.86	9.72	(66b.p.)
LBP Deposit Rate (%)	7.57	7.49	7.49	7.40	7.26	7.27	(22b.p.)
USD Lending Rate (%)	8.36	8.55	8.35	8.02	7.42	7.43	(92b.p.)
USD Deposit Rate (%)	4.37	4.76	4.91	4.69	3.67	3.61	(130b.p.)
%* Change in CPI**	2.53	7.04	3.86	5.92	12.20	12.99	(913b.p.)

\* Year-on-Year; \*\* Consumer Price Index

Note: b.p. i.e. basis point

Sources: ABL, BdL

## Capital Markets

<b>Most Traded Stocks on BSE</b>	<b>Last Price (\$)</b>	<b>% Change*</b>	<b>Total Volume</b>	<b>Weight in Market Capitalization</b>
Solidere "A"	36.01	(2.60%)	1,059,982	22.58%
Solidere "B"	36.19	(2.16%)	162,338	14.75%
Byblos Common	2.69	(1.47%)	78,970	3.66%
Byblos Priority	2.79	1.82%	18,850	3.60%
BLOM GDR	100.30	(0.69%)	11,580	4.65%
BLOM Listed	99.50	0.00%	57	13.42%
Audi GDR	93.90	(4.57%)	5,308	5.79%
Audi Listed	93.95	(1.26%)	8,214	19.39%
HOLCIM	21.48	(0.09%)	5,103	2.63%

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

<b>Sovereign Eurobonds</b>	<b>Coupon %</b>	<b>Mid Price \$</b>	<b>Mid Yield %</b>
Oct.2009	10.250	104.06	6.95
Dec.2009	7.000	100.13	6.99
Mar.2010	7.125	99.94	7.20
May 2011	7.875	100.13	7.78
Sep.2012	7.750	98.38	8.24
June 2013	8.625	102.00	8.18
Apr.2015	10.000	106.50	8.70
Jan.2016	8.500	100.00	8.50
May 2016	11.625	116.50	8.68
Apr.2021	8.250	96.75	8.67

Source: Byblos Capital Markets

	<b>This Week</b>	<b>Last Week</b>	<b>% Change</b>	<b>June 2008</b>	<b>June 2007</b>	<b>% Change</b>
<b>Total Shares Traded</b>	1,358,247	1,051,805	29.13%	5,263,747	3,075,252	71.16%
<b>Total Value Traded</b>	\$47,257,089	\$31,138,790	51.76%	\$167,096,917	\$36,701,322	355.29%
<b>Market Capitalization</b>	\$15.95bn	\$16.18bn	(1.47%)	\$16.23bn	\$8.47bn	91.54%

Source: Beirut Stock Exchange (BSE)



### **Public debt is Lebanon's biggest economic challenge, privatization of mobile licenses can reduce market debt by half**

In its first report about Lebanon since the Doha Accord, Citigroup indicated that the Lebanese economy has been surprisingly robust despite a series of political shocks since 2005, adding that there are unmistakable signs of improvement even though the political outlook remains uncertain. It considered that the formation of the new coalition Cabinet is a positive development despite the view that it will be unable to take important political and economic decisions. Given the resilience of the Lebanese economy, a degree of political calm will allow it to handle the challenge of rising commodity prices more easily compared to more stable emerging market economies.

Citigroup said the fact that Lebanon has managed to carry its heavy public debt burden without any London Club and Paris Club restructuring is quite an achievement. It considered that the high level of public debt is the biggest challenge facing the country, adding that the economy's below-potential growth in recent years and modest privatization record have not been supportive of a debt reduction strategy. However, Lebanon's debt exposure is not as concerning as the headline number suggests due to a committed investor base, robust deposit growth in the banking sector and foreign interest in the real estate sector, while the IMF is monitoring Lebanon's economy and is working on a soft approach to debt sustainability. It said that total net public debt was \$39.8bn as of March 2008, but the market Eurobond component is only \$13.8bn, of which \$11.2bn or 81% is held by Lebanese banks, which are comfortable with Lebanese political risk. Also, a large part of the remaining amount is held by Lebanese and Arab investors who are primarily interested in the above-market returns, and therefore hold the Eurobonds until maturity. In parallel, investors in Lebanese Eurobonds have remained remarkably loyal to Lebanese sovereign debt despite the country's inability to reduce its burden. It said the commitment to sovereign bonds can also be seen by the falling spread in US dollar lending, which suggests that even with lower yields on the bonds, interest remains strong. Further, as Lebanon's debt dynamics do not allow local interest rates to follow US rates, investors are inclined to remain in Lebanese assets to realize steady above market returns.

Citigroup said the exit strategy from the cycle of the public debt adopted by the government should be a source of comfort for non-Arab investors. Endorsed by the IMF as part of the Paris III program, the debt strategy entails a flow adjustment and not a stock change, which rules out a debt rescheduling through London Club and Paris Club deals. It added that Lebanese authorities have contained the growth of public debt in recent years and aim to bring the market debt gradually to sustainable levels by borrowing only to finance maturities, by narrowing the fiscal and trade deficits to ease financing pressures, and most importantly, using privatization proceeds to strictly reduce the stock of market Eurobonds. It stated that if the government is able to privatize the mobile phone licenses, the national carrier Middle East Airlines and Casino du Liban, the resulting revenues could improve Lebanon's debt dynamics quite suddenly. Also, the cell phone licenses alone could be sold for as much as \$7bn, which would allow the government to retire more than half of Lebanon's market debt in one shot.

### **Byblos Bank, BLOM Bank to lead-manage upcoming Eurobond issue**

The Ministry of Finance announced it has selected Byblos Bank and BLOM Bank to jointly lead-manage the upcoming Eurobond issue, along with Deutsche Bank. The ministry is expected to issue a 7-year \$500m Eurobond to meet its August 2008 maturing bond and refinance operations. Lebanon has mostly secured its financing needs for this year, whereas a total of \$2.1bn in Eurobonds mature. The ministry already replaced an \$869m bond that was due in March with a 2013 maturity. It also offered in April a voluntary debt exchange for the remaining Eurobonds that mature in 2008 for bonds maturing in 2014 with an 8.95% to 9.10% yield. A \$250m bond was due in May, \$250m matured in June and a \$750m issue is due in August.

### **High oil prices and weakening US dollar account for 70% of inflation rise in Lebanon**

The World Bank declared that high global oil prices and the weakening US dollar have contributed to the deterioration of Lebanon's trade account and to inflationary pressures. It estimated the total net price effect of these two factors to have resulted in a \$1.92bn increase in the trade deficit over the past 4 years, equivalent to about 6.1% of the trade deficit during the same period on average. It said the rise in oil prices have been reflected in the rising import bill. In addition, Lebanon's non-oil imports predominately originate from countries with appreciating currencies against the US dollar, while exports are mainly to Arab countries that peg their currencies to the US dollar, like Lebanon.

The World Bank estimated that imported goods account for more than one third of Lebanon's domestic absorption. Therefore, price changes for imported goods, including oil imports, have a significant impact on inflation. It said the combined impact of rising oil prices and exchange rate movements on inflation in 2007 accounted for over 70% of the inflation rise in Lebanon last year. It noted that the inflationary impact of oil prices has been checked by the cap that the government introduced on retail oil prices in May 2004, and that was maintained by diminishing excise taxation on oil products. It noted that if oil prices increase by 30% in 2008 and if such increase would be fully passed on to customers, it would contribute to a 1.5% increase in inflation. Similarly, a further 10% depreciation of the US dollar in 2008 would increase inflation by an additional 1.3 percentage points.

### Beirut is 80th most expensive city in the world, 7th most expensive in MENA region

The annual survey on the cost of living in 143 cities around the world by Mercer Human Resource Consulting ranked Beirut as the 80th most expensive city worldwide and 7th most expensive among 15 cities surveyed in the Middle East and North Africa in 2008. Beirut was the 63rd most expensive city in the world and 5th most expensive in the region in 2007, and was the 32nd costliest globally and 4th in the MENA region in the 2006 survey. The study measures the comparative cost of over 200 items in each location. These included the cost of housing, food, clothing and household goods, as well as transportation and entertainment. It compares the cost of high-end items that are important to expatriates and their employers such as upscale residential areas and entertainment venues. New York City served as the benchmark for other cities with a score of 100. The survey is conducted annually to help multinational companies determine compensation allowances for their expatriate workers.

On a global basis, Beirut ranked immediately behind Auckland in New Zealand, San Francisco and Honolulu, and was considered more expensive than Jakarta, Ljubljana in Slovenia and Chicago. Beirut received a score of 80.8 points, down 2.2% from 82.6 points in 2007. Its score came below the global average of 84.8 points but above the MENA and Arab averages of 79.9 points and 77.2 points, respectively.

Cost of Living Rankings and Scores			
City	Score	MENA Rank	Global Rank
Tel Aviv	105.5	1	14
Dubai	89.3	2	52
Algiers	85.9	3	45
Abu Dhabi	85.7	4	50
Limassol	84.6	5	68
Teheran	82.2	6	74
<b>Beirut</b>	<b>80.8</b>	<b>7</b>	<b>80</b>
Casablanca	80.7	8	81
Amman	79.6	9	88
Kuwait City	77.5	10	94
Cairo	75.9	11	101
Manama	71.1	12	112
Riyadh	68.7	13	119
Jeddah	66.8	14	126
Tunis	64.4	15	133

Source: Mercer Human Resource Consulting 2008

The survey said Beirut has shown an increase in prices, especially in accommodation for expatriates. But since Beirut is compared with New York City, in which the cost of living has increased greatly relative to Beirut, the score for the Lebanese capital declined from 82.6 points to 80.8 points. Also, Beirut's ranking declined by 17 spots in 2008, the second biggest drop in the region and the 19th biggest drop in the world. Mercer said the decrease in Beirut's ranking is related to the fact that cities using the euro have jumped up significantly in the rankings because of the strengthening of the euro against the US dollar, which have pushed other cities down in the ranking. The scores of 8 cities in the MENA region increased and 7 declined, while the rankings of 5 cities increased and 10 declined. Moscow is the world's most expensive city for the third consecutive year with a score of 134.4 points and Asuncion in Paraguay is the cheapest city with an index score of 52.5 points.

### Consumer Price Index up 6.2% in first half of 2008

The Central Administration of Statistics' Consumer Price Index indicates that inflation rose by nearly 6.2% in the first half of the year. Prices of transportation increased by 17.7%, followed by prices of water, electricity & fuels with a 14.6% rise, restaurants & hotels (14.3%), food & non-alcoholic beverages (7.5%), health care (5.1%) and housing (4.8%). Prices of clothing & footwear dropped by 6.3% in the first half of 2008, followed by a decline of 0.4% in the prices of communication. The Consumer Price Index rose by 1.7% in June 2008 from the previous month. Prices of water, electricity & fuels rose by 11.1%, constituting the biggest price rise among all categories in June on a monthly basis. They were followed by transportation with a 5.2% rise, housing (4.8%), restaurant & hotels (3.2%), health care (1.4%), and clothing & footwear (0.9%). In parallel, prices of food and non-alcoholic beverages declined by 2.5% in June.

### Fiscal deficit up 7.7% to \$1.32bn in first half of 2008

Figures released by the Finance Ministry show that the fiscal deficit reached \$1.32bn in the first half of 2008, up 7.7% from \$1.23bn in the same period last year. The deficit was equivalent to 27.7% of total budget and Treasury expenditures compared to 29.1% in the same period of 2007. Overall government expenditures reached \$4.77bn, up 13.3% year-on-year, while total revenues increased by 15.6% to \$3.45bn over the covered period. Tax revenues improved by 19.1% year-on-year to \$2.29bn, of which 34.3%, or \$786m, were in VAT receipts that posted a 24.1% annual rise. Tax revenues accounted for 72.5% of budgetary revenues and for 66.4% of total Treasury and budget receipts. The fiscal surplus reached 5.5% of expenditures in June 2008 compared to a deficit of 41.3% in May 2008 and a fiscal deficit of 49.4% in June 2007.

Debt servicing increased by 3.1% year-on-year to \$1.61bn, accounting for 34% of total expenditures and for 46% of budgetary spending. It absorbed 47% of overall revenues and 51% of budgetary receipts. Excluding debt servicing, the primary surplus reached \$1.39bn, or 39.7% of budget expenditures compared to a surplus of \$969m, or 28.6% a year earlier. The overall primary surplus reached \$429m, or 9% of total spending compared to a surplus of \$398m, or 9.5% of total expenditures, a year earlier.

### Construction permits up 25% in first half of 2008

Figures released by the Association of Engineers of Beirut & Tripoli show that construction permits reached 5.1 million square meters in the first half of 2008, up 25% from 4.1 million square meters in the same period last year. Construction permits totaled 1,042,816 square meters in June 2008, up 19.5% year-on-year from 872,778 square meters in June 2007. In parallel, cement deliveries reached 1.2 million tons in the first four months of the year, an increase of 9% from 1.1 million tons in the same period of 2007. Cement deliveries were driven by local demand in the construction sector and by exports. Cement deliveries increased by 10% year-on-year to 361,000 tons in April 2008.

### Tourist arrivals up 14.9% in first half of 2008

The number of incoming tourists to Lebanon totaled 473,574 in the first half of 2008, up 14.9% from the same period last year. Arab visitors accounted for 158,525, or 33.5% of total visitors in the year-to-June period compared to 154,507 tourists in the same period of 2007. They were followed by tourists from Europe with 28.2%, Asia with 15.9%, the Americas with 15.2%, Africa with 3.7% and Oceania with 3.3%. The number of tourists reached 136,853 in June 2008, constituting an increase of 97.5% from 69,903 in June 2007. Arabs accounted for 33.2% of total visitors in June 2008, followed by Europeans with 28% of total.

### Trade deficit up 34.3% to \$4.7bn year-to-May

Imports rose by 33.6% to \$6.1bn while exports grew by 30.8% to \$1.4bn in the first 5 months of 2008, leading to a trade deficit of \$4.7bn, up 34.3% year-on-year. The coverage ratio reached 23% in the first 5 months of 2008 compared to 24% in the same period last year. The trade deficit reached \$1.04bn in May 2008, up 48.6% from May 2007.

The United States was the main source of imports with \$824m or 13.5% of the total, followed by France with \$516m (8.4%), Italy with \$484m (7.9%) and China with \$465m (7.6%). Switzerland was the main export destination with \$174m or 12.3% of the total, followed by the UAE with \$127m (8.9%), Turkey with \$97m (6.8%) and Syria with \$89m (6.3%). Lebanon's main export was base metals at \$282m or 19.9% of total exports, followed by jewelry with \$257m (18.1%), machinery & appliances with \$212m (14.9%), chemical products with \$138m (9.7%), and food & beverages with \$121m (8.5%). Re-exports totaled \$67m in the first 5 months of 2008, up 4.2% from \$70m in the same period of 2007. 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.

### Customs receipts at \$362m in first 5 months of 2008

Figures released by the Higher Customs Council show that customs revenues reached \$362m in the first 5 months of 2008, down 4.2% from the same period last year. Customs revenues totaled \$79m in May 2008 compared to \$70m in April 2008 and \$63m in May 2007. The Port of Beirut continues to be the main point of customs revenues, accounting for 89% of the total, and was followed by the Hariri International Airport with 7.5%, the Port of Tripoli with 1.9% and the Masnaa crossing point with 1.7%. Overall customs receipts totaled \$172m when including revenues from the value-added tax that totaled \$93m in May 2008.

### World Bank loans disbursed to Lebanon total \$280m as at end-May 2008

Figures released by the World Bank indicate that the Bank's loan portfolio in Lebanon consists of 10 active projects for a total amount of \$416m, of which \$280m, or 67%, had been disbursed as at end-May 2008. The Bank added four new projects totaling \$121m in 2007 that cover the reforms of the energy sector, business environment and social protection; support and capacity building at the National Social Security Fund, the Health Ministry and the Social Affairs Ministry; capacity enhancement at the Energy Ministry, Electricité du Liban and the Higher Council for Privatization; as well as the maintenance and operation of water and wastewater facilities in the Bekaa region.

World Bank Loans to Lebanon as of May 31, 2008 (\$m)

Project Name	Approval Year	Loan Amount	Amount Disbursed	Closing Date
Education Development	2000	44.58	31.79	Dec. 2008
First Municipal Infrastructure	2000	80.00	70.47	June 2008
Baalbeck Water & Wastewater	2002	43.53	20.72	Sep. 2008
Urban Transport Development	2002	65.00	38.21	June 2009
Cultural Heritage & Urban Development	2003	31.50	13.40	Dec. 2009
Municipal Infrastructure	2006	30.00	2.80	Dec. 2009
West Bekaa Emergency Water Supply	2007	15.00	0.25	May 2010
Emergency Power Sector Reform Capacity Reinforcement	2007	5.00	1.46	June 2009
Reform Implementation Development Policy Loan	2007	100.00	100.00	Jan. 2009
Emergency Social Protection Implementation Support	2007	1.00	0.37	Apr. 2009
<b>Total</b>		<b>415.58</b>	<b>279.47</b>	

Source: World Bank Group

## Corporate Highlights

### Byblos Bank posts second biggest rise in Tier One capital and second highest jump in rankings among Lebanese banks included in top 1000 banks in the world

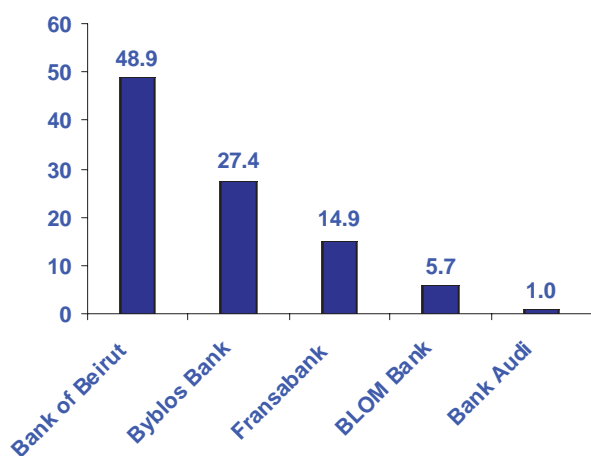
In its 2008 survey of the Top 1000 commercial banks in the world, *The Banker* magazine included 8 Lebanese banks on the list, up from 7 last year, none of which ranked in the top 25 banks in the Middle East. The rankings are based on Tier One capital at year-end 2007 as defined by the Basel Bank for International Settlements. *The Banker* said the definition is stricter than total shareholders' equity and covers only the core of a bank's strength, namely the shareholders' equity available to cover actual or potential losses.

Four Lebanese banks improved their ranking in the 2008 survey, with Byblos Bank jumping 72 places and posting the second biggest year-on-year improvement in the standings among its Lebanese peers and the 12th highest among Arab banks. Among the top 5 banks in the country, Byblos posted the biggest jump in the rankings and the highest rise in Tier One capital in 2007 despite a difficult year in Lebanon marred by political uncertainties and security problems.

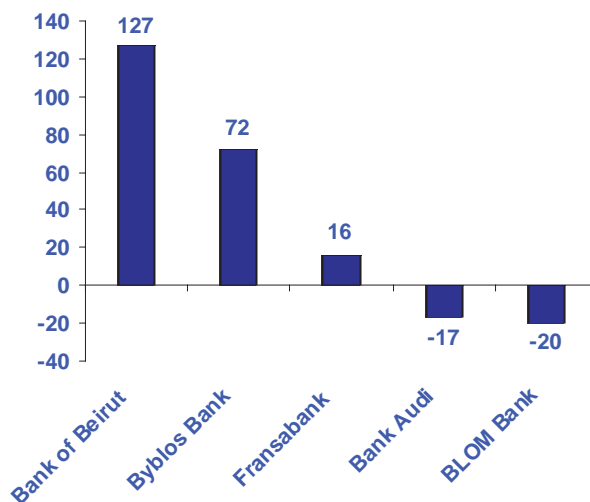
Bank of Beirut improved its ranking by 127th spots and came in 772nd place, Byblos Bank jumped 72 notches to 545th place, and Fransabank rose by 16 spots to 723rd place, while Bank Audi dropped by 17 places (336th) and BLOM Bank regressed by 20 spots (397th). The ranks of BankMed (765th) and Crédit Libanais (857th) were based on end-2005 and end-2006 figures respectively, therefore distorting their rankings, while Banque Libano-Française's jump of 266 spots to 728th place is attributed to the fact that the percentage change in its Tier One capital was from end-2004 rather than end-2006 figures, therefore artificially inflating the year-on-year rise in its rankings.

Among banks reporting end-2007 figures, Bank of Beirut posted the biggest annual increase in Tier One capital with a 48.9% increase, followed by Byblos Bank with 27.4%, Fransabank with 14.9% and BLOM Bank with 5.7%, while Bank Audi came in last place with just a 1% rise. The Tier One capital of Lebanese banks reporting end-2007 figures totaled \$4.88bn, with Bank Audi accounting for 31.8% of the total, followed by BLOM Bank with 25%, Byblos Bank with 15.6%, Fransabank (9.6%), Banque Libano-Française with 9.5% and Bank of Beirut with 8.5%.

Rise in Tier One Capital in 2007 (%)



Change in ranking among Top 1000 Banks in 2007



Source: *The Banker* magazine

### Byblos Bank raises \$200m from preferred shares offering

Byblos Bank, one of Lebanon's top 3 banks, raised \$200m through the offering of 2 million Series 2008 Preferred Shares. The preferred shares are non-cumulative, redeemable and subject to a call option by the Bank starting in 2013 and for each subsequent year. The issue price of the Series 2008 Preferred Shares is \$100 per share at a par value of LBP1,200 per share. Proceeds will be used for general funding purposes, including strengthening the Bank's capital structure, external growth, and development of investment banking activities, among others. Holders of the Series 2003 Preferred Shares had the priority to subscribe on a pro rata basis to the 2008 issue. Holders of the Series 2008 Preferred Shares will receive \$8 annually per share in dividends. The amount raised constitutes the largest issuance of preferred shares by a Lebanese bank so far in 2008.

## Corporate Highlights

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### **Association of banks signs labor agreement with bank employees union**

The Association of Banks in Lebanon and the Federation of Unions of Bank Employees signed a labor agreement covering the 2008-09 period. The agreement stipulates the establishment of a range for the salaries of managers and technicians according to new classifications, the increase of the lowest salaries, requirements of training and evaluation of employees, the revaluation of the various allowances (education, health, wedding, birth, etc), the increase of days off in case of birth or death of relatives, and the improvement of the computation of allowances granted for retirement. The Lebanese banking sector had 17,664 employees at end-2007, of which 62.5% are married and benefit from family allowances as well as health and education allowances. Out of total employees, 44% are women, 55.4% are aged less than 40, and 61% have a university degree. The regulations already existing in the labor agreement included transportation indemnities, the payment of 16 months of salary and regular increases in salaries.

### **Bank of Beirut distributes dividends for its funds**

The General Assembly on the Funds of Bank of Beirut sal approved the distribution of LBP1.3bn or \$857,380 in 2007 dividends for the Beirut Lira Fund, equivalent to LBP4,700, or \$3.1 in dividend per unit before tax, resulting in a 4.4% dividend yield per unit. The General Assembly also approved the distribution of \$1.14m, equivalent to \$3.5 in dividend per unit before tax for the Beirut Preferred Fund, leading to a 3.3% dividend yield per unit. Bank of Beirut's overall profits reached \$44.1m in 2007. The bank had assets of \$5.3bn and deposits of \$3.6bn at year-end 2007.

### **ADMIC goes to arbitration against Sultan Center**

ADMIC sal has requested arbitration from the International Chamber of Commerce of Paris against Kuwait's Sultan Center Food Products Co. KSC. Last April, Sultan Center-Lebanon signed an agreement with ADMIC sal to acquire for \$97m its Monoprix and Géant Casino supermarkets in Lebanon. But ADMIC considers that Sultan Center has not fulfilled its obligations over the agreed period and is claiming around \$50m in indemnities from the Kuwaiti group. Sultan Center also wants to withdraw the \$5m guaranty paid at the signature of the contract. ADMIC is Lebanon's largest retail chain and operates five Monoprix supermarkets in addition to one Géant Casino hypermarket and one BHV department store in the country. Sultan Center Food Products Co. is Kuwait's largest independent retailer.



## Ratio Highlights

	2006	2007	Change*	Q1-2008
Nominal GDP <sup>(1)</sup> (\$bn)	22.7	24.6		24.7
External Debt / GDP	89.9	86.4	(350)	87.1
Local Debt / GDP	88.1	84.6	(350)	87.4
Total Debt / GDP	178.4	171.0	(740)	174.8
Trade Balance / GDP	(31.3)	(36.6)	(530)	(10.6)
Exports / Imports	24.3	23.8	(50)	25.0
Budget Revenues / GDP	19.4	23.6	420	6.7
Budget Expenditures / GDP	30.8	33.9	310	8.9
Budget Balance / GDP	(11.5)	(10.3)	120	(2.2)
Primary Balance / GDP	0.4	2.9	250	1.1
BdL FX Reserves / M2	65.6	59.6	(600)	63.1
M3 / GDP	234.4	243.2	880	249.3
Bank Assets / GDP	327.2	334.4	720	344.7
Bank Deposits / GDP	267.4	273.5	610	279.7
Private Sector Loans / GDP	67.4	72.2	480	90.9
Dollarization of Deposits	76.2	77.3	110	76.7
Dollarization of Loans	84.0	84.3	30	87.2

\* Change in basis points 06/07

(1) Based on Ministry of Finance Estimations and assuming 0.5% growth over the first quarter of 2008

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	May 2007	Apr 2008	May 2008	Change*	Risk Level
Political Risk Rating	58.0	55.5	54.0	▼	High
Financial Risk Rating	31.5	31.5	31.5	↔	Moderate
Economic Risk Rating	29.0	28.5	28.5	▼	High
Composite Risk Rating	59.2	57.7	57.0	▼	High

Regional Average	May 2007	Apr 2008	May 2008	Change*	Risk Level
Political Risk Rating	66.1	65.5	65.5	▼	Moderate
Financial Risk Rating	41.5	40.9	41.3	▼	Very Low
Economic Risk Rating	40.1	40.3	40.1	↔	Very Low
Composite Risk Rating	73.8	73.3	73.4	▼	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	Stable			
Fitch	B-	B	Stable	B-		
S&P	CCC+	C	Stable	CCC+	C	Stable
Capital Intelligence	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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