BLOMINVEST BANK SAL

Your Investment Reference

THE LEBANON BRIEF

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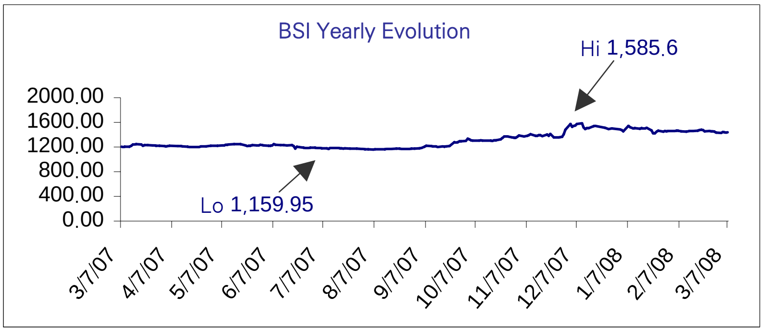
FINANCIAL MARKETS

Equity Market

Stock Market

	07/03/08	29/02/08	% Change
BLOM Stock Index †	1,437.47	1436.02	0.10%
Total Volume Traded	626,470	535,067	17.10%
Total Value Traded	9,660,432	8,625,433	12.00%

†22 January 1996 = 1000



With little change in the political deadlock, activity on the Beirut Stock Exchange (BSE) mirrored the previous week's modest trading. The BLOM Stock Index (BSI) gained a single point to close at 1437.47 declining 4.28% year to date. Total volume reached 626,470 shares representing $9.6M of traded value, gaining 17% and 12% respectively over previous week's close. Total trading was equally split between real estate and banking sector shares. Out of the 31 listed shares, fifteen underwent trading this week, where six increased, four stabilized and five declined.

Banking Sector

	Mkt	07/03/08	29/02/08	% Change
BLOM (GDR)	BSE	$89.00	$88.00	1.14%
BLOM Listed	BSE	$81.55	$81.55	0.00%
BLOM (GDR)	LSE	$89.50	$87.6	2.16%
Audi (GDR)	BSE	$72.15	$72.00	0.21%
Audi Listed	BSE	$70.00	$70.00	0.00%
Audi (GDR)	LSE	72.10	$73.00	(1.23%)
Byblos (C)	BSE	$2.17	$2.24	(3.12%)
Byblos Priority	BSE	$2.22	$2.25	(1.33%)
Bank of Beirut (C)	BSE	$12.74	$12.83	(0.70%)
BLC (C)	BSE	$8.00	$8.00	0.00%
Fransabank (B)	OTC	$25.00	$32.00	(21.87%)
BEMO (C)	BSE	$4.00	$4.00	0.00%

Similar to last week, banking sector shares remained active. BLOM GDR rose 1.36% to $89 on a total of 6,407 shares valued at $569,203; whereas the bank's listed shares stabilized at $81.55 on a single trade of 1,167 stocks valued at $95,182. BLOM preferred 2004 stocks increased 0.2% to end the week at $101.20 on a total of 16,335 stocks valued at $1.6M. Bank Audi witnessed trading in two of its shares Audi GDR and Audi preferred 'D', where the former increased 0.21% to close at $72.15 with a total volume of 6,290 shares amounting to $453,545, while the latter stabilized at $105.50 with 2,500 stocks at $263,751. Continuing in the banking sector, Byblos bank common shares decreased 3.12% to $2.17, where 309,600 shares with a value of $680,075 exchanged hands this week. The bank's priority stocks followed suit declining 1.33% to $2.22 on a total of 31,400 shares amounting to $69,938. Lastly, Byblos preferred stocks increased 0.87% to $104.00 on a single trade of 914 shares at $95,056. Concluding the banking sector, Bank of Beirut common shares decreased 0.7% to $12.74 on a total of 11,500 stocks summing to $146,475.

Banks' Pref. Shares

	Mkt	07/03/08	29/02/09	% Change
Banks' Preferred Shares Index †		103.42	103.23	0.18%
BLOM Preferred 2002	BSE	$102.00	$102.00	0.00%
BLOM Preferred 2004	BSE	$101.00	$101.00	0.00%
BLOM Preferred 2005	BSE	$101.20	$101.20	0.00%
BEMO Preferred 2006	BSE	$102.00	$102.00	0.00%
Audi Pref. C	BSE	$27.25	$27.25	0.00%
Audi Pref. D	BSE	$105.50	$105.50	0.00%
Byblos Preferred	BSE	$104.00	$103.10	0.87%
Bank of Beirut Pref. B	BSE	$11.50	$11.50	0.00%
Bank of Beirut Pref. C	BSE	$24.85	$24.85	0.00%
Bank of Beirut Pref. D	BSE	$25.00	$25.00	0.00%

† 25 August 2006 = 100

The Bank's Preferred Shares Index gained 0.18% to 103.42.

On the London Stock Exchange BLOM GDR increased 2.16% to $89.50, whereas Audi GDR decreased 1.23% to $72.10.

Real Estate

	Mkt	07/03/08	29/02/08	Change
Solidere (A)	BSE	$20.75	$20.54	1.02%
Solidere (B)	BSE	$20.74	$20.87	(0.62%)
Solidere (GDR)	LSE	$20.31	$20.93	(2.96%)

In the real estate sector, Solidere shares 'A' and 'B' moved in opposite directions, as the former increased 1.02$ to $20.75 while the latter declined 0.62% to $20.74. Total 'A' shares amounted to 185,583 with a value of $3.8M, whereas 'B' summed to 44,362 stocks at $915,742. On the London Stock Exchange, Solidere shares decreased 2.96% to $20.31

Manufacturing Sector

	Mkt	07/03/08	29/02/08	Change
HOLCIM Liban	BSE	$19.90	$19.42	2.47%
Ciments Blancs (B)	BSE	$1.90	$1.90	0.00%
Ciments Blancs (N)	BSE	$1.40	$1.40	0.00%
Uniceramic (A)	BSE	$0.45	$0.45	0.00%
Uniceramic (C)	BSE	$1.70	$1.70	0.00%

Industrial sector shares witnessed trading in Holcim shares which increased 2.47% to $19.92 on a total of 1,354 stocks valued at $26,903.

Funds

	Mkt	07/03/08	29/02/08	Change
Beirut Global Income	BSE	$102.00	$102.00	0.00%
Beirut Preferred Fund	BSE	$100.50	$100.50	0.00%
Beirut Lira Fund	BSE	LP101,700	LP101,700	0.00%
Beirut Golden Income	BSE	LP102,000	LP102,500	(0.48%)
BLOM Cedars Balanced Fund Tranche “A”	-----	$4945.33	$4953.13	(0.16%)
BLOM Cedars Balanced Fund Tranche “B”	-----	$4945.33	$4953.13	(0.16%)

Three of Bank of Beirut's listed funds underwent trading this week. Dollar denominated Beirut Global Income and Beirut Preferred Fund both stabilized at $102.00 and $100.50 respectively, where the former underwent trading in 3,168 shares at $323,136 and the latter realized trading in 4,440 stocks valued at $446,220. LP denominated Beirut Golden income decreased 0.48% to LP102,000 on 1,450 shares with a value of LP148M.

Retail Sector

	Mkt	07/03/08	29/02/08	Change
RYMCO	BSE	$1.35	$1.35	0.00%
ABC (New)	OTC	$16.50	$16.50	0.00%

The retail sector remained inactive this week.

Tourism Sector

	Mkt	07/03/08	29/02/08	Change
Casino Du Liban	OTC	$280.00	$280.00	0.00%
SGHL	OTC	$6.50	$6.50	0.00%

The tourism sector remained inactive this week

In short, the marginal change in activity on the Beirut Stock Exchange (BSE) kept the BLOM Stock Index on a stagnant pace. This reflected the weary mood of investors that was mainly driven by the political impasse shrouding the socio-economic climate of the country. That said, all investors - speculative or otherwise - are banking on the emergence of a positive settlement in the upcoming Arab summit.

Foreign Exchange Market

Lebanese ForEx Market

	07/03/08	29/02/08	% Change
LP / Dollar	1507.5	1,507.5	0.00%
LP / Euro	2321.40	2291.25	1.31%
LP / Swiss Franc	1477.51	1437.22	2.80%
LP / Sterling	3035.65	2988.17	1.58%

The Lebanese interbank trading with respect to the greenback started the week with LP/$1512.25-75 on the supply side driven by the high margins of Lebanese money market rates. However, towards the end of the week, demand increased on the US dollar lifting its bid/ask price to LP/$1513.5-1514.25 even though this did not necessitate an intervention by the Central Bank of Lebanon.

International ForEx Market

	07/03/08	29/02/08	% Change
Dollar / Euro	1.5410	1.5189	1.45
Dollar / Sterling	2.0138	1.9847	1.46
Swiss Franc/Dollar	1.0215	1.0465	(2.3)
Yen / Dollar	102.18	104.13	(1.87%)
NEER Index*	89.69	89.98	(0.32%)

*Nominal Effective Exchange Rate; Base Year Jan 2006=100

On foreign markets, slow growth driven by negative factory orders and increasing unemployment figures led the US central bank governor to call for mortgage forgiveness and is paving the way for US Fed rate cuts. This was bolstered by the European Central Bank's decision to keep its lending rate unchanged at 4%. These factors drove the Euro to register a new high against the dollar at 1.5410, an uplift of 1.45% from last week's closing of 1.5189 .Locally, the Lebanese Pound depreciated against the euro reflecting the dollar downtrend and declined by 1.31% from last week's 2291.25 to reach 2321.4 .

Consequently, the Nominal Effective Exchange Rate (NEER) this week closed at 89.69 down 0.32% from last week .

Money & Treasury Bills Markets

Money Market Rates

	07/03/08	29/02/08	Change bps.
Interbank Average†	3.50%	3.50%	0
BDL 45-day CD	4.40%	4.40%	0
BDL 60-day CD	4.89%	4.89%	0

Treasury Yields

	07/03/08	29/02/08	Change bps.
3-M TB yield	5.22%	5.22%	0
6-M TB yield	7.24%	7.24%	0
12-M TB yield	7.19%	7.19%	0
24-M TB coupon	8.50%	8.50%	0
36-M TB coupon	9.32%	9.32%	0
60-M TB coupon	11.5%	11.5%	0

The overnight interbank rate remained stable at 3.5% as liquidity remained evident in the money markets. Broad Liquidity as measured by the aggregate M3 increased by LP209B to 91,704B, witnessing an increase by LP167B in LP deposits and by LP100B in FC deposits and rising by 13.46% y-o-y. The CDs market remained idle with no activity this week.

The February 28th TB auction resulted in LP291.904B ($194M) surplus of purchase subscriptions over maturities, with nominal subscriptions amounting to LP339.562B ($225M) in medium and long term papers. Subscriptions in 36-M papers dominated the subscription accounting for 93.40% of total subscriptions while 12-M and 24-M papers constituted the remaining 3.9% and 2.65% respectively. As has been the case previously, this surplus shows banks' appeal to the higher yields presented by these papers. It also shows as far as the cumulative for the month of February, where total subscriptions reached LP2,473B exceeding maturities of LP1,915B by a surplus of LP558.4B split into a deficit of LP12.8B in short-term TBs and a surplus of LP571.2 long term. The weighted effective yield closed at 9.51% up 10 bps. Concerning yields on outstanding TBs, there were no surprises as they remained unchanged across all maturities.

Eurobond Market

Eurobonds Index and Yield

	07/03/08	29/02/08	% Change
BLOM Bond Index †	97.47	97.47	0.00%
Bonds' Weighted Offer Yield	7.86%	7.83%	3bps

†7 April 2004 = 100; includes sovereign bonds listed on the Beirut Stock Exchange

Lebanese Government Eurobonds

Maturity-Coupon	Currency	07/03/08 Mid-Price	29/02/08 Mid-Price	Weekly Change %	Mid-Yield
2008, Jun - 7.375%	USD	99.975	99.975	0.00%	6.52
2008, Aug - 10.125%	USD	101.000	101.150	(0.15%)	6.22
2009, May - 7.250%	EUR	101.000	101.000	0.00%	5.44
2009, Oct - 10.250%	USD	103.125	103.125	0.00%	7.49
2009, Nov - 6.790%	USD	100.250	100.250	0.00%	7.67
2009, Dec - 7.000%	USD	97.625	97.625	0.00%	8.08
2010, Mar - 7.125%	USD	97.500	97.500	0.00%	8.10
2011, Mar - 9.375%	LBP	98.250	98.250	0.00%	9.56
2011, May - 7.875%	USD	98.250	98.250	0.00%	8.23
2011, Aug - 7.500%	USD	97.375	97.375	0.00%	8.10
2012, Apr - 5.875%	EUR	96.375	96.375	0.00%	6.66
2012, Sep - 7.750%	USD	96.500	96.500	0.00%	8.57
2013, Jun - 8.625%	USD	99.250	99.378	(0.13%)	8.62
2014, Apr - 7.375%	USD	93.375	93.375	0.00%	8.66
2016, May -11.625%	USD	114.750	115.250	(0.43%)	8.91
2016, Jan - 8.500%	USD	97.380	97.625	(0.25%)	8.83
2021, Apr - 8.250%	USD	94.125	94.375	(0.26%)	8.90

Lebanese Corporate Eurobonds

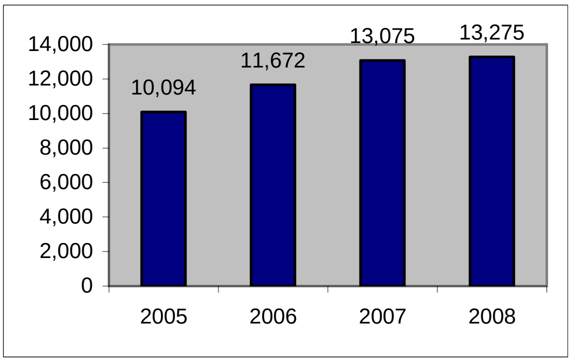
Issuer	Maturity-Coupon	07/03/08 Mid-Price	29/02/08 Mid-Price	Weekly Change	Mid-Yield %
Audi	2010, May -10.750%	106.500	106.500	0.00%	6.93
Byblos	2012, Jun - 9.000%	99.75	99.750	0.00%	8.83
Credit Libanais	2008, Sep - 6.875%	94.125	94.375	(0.26%)	7.40
BankMed	2010, July - 7.625%	98.000	98.000	0.00%	8.09
BankMed	2012, Dec - 7.625%	96.315	96.315	0.00%	8.23

The Eurobond market remained largely immobile this week, as the details of the new Eurobond issue come to light. This emerged late on Friday March 7th, when it was revealed that the issue was for $875M with a maturity of 5 years and interest and yield of 9.125% and 9.25% respectively -implying a spread of over 600bps. Most subscriptions came from local banks with a few from foreign investment funds. Accordingly, prices slightly decreased as a result of investors waiting for further details on the new issue and abstaining from active trading in the market. As such, the weighted offer yield rose 3 bps to 7.86%. The average offer spread rose as a result by 20bps to 559bps but more so because of lower benchmark rates on the US 10-yr treasury bonds due to lower expected rates by the Fed next week.

The unchanged political situation and its attendant risk factors kept the credit default swaps (CDS) unchanged from that of last week at 530-600bps. The CDS spread is the premium paid by investors buying protection from default, and increases with the country's default risk. The high premium on Lebanese CDS have stayed close to those of other emerging markets with similar risk profile such as Venezuela at 610-630bps, but noticeably higher than other emerging regional markets like Turkey at 269-272bps.

ECONOMIC STATISTICS & INDICATORS

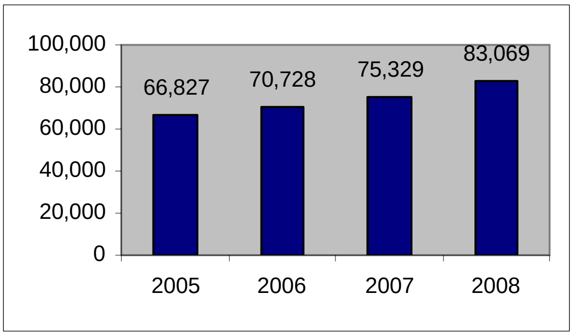
BDL Net Foreign Assets By Feb. ($M)



BDL Foreign Assets Increase $522M By Feb.2008

The Central Bank of Lebanon (BDL) issued its bi-monthly balance sheet for the end of February 2008, which revealed a rise of $540M in the value of gold reserves , mainly driven by the recent surge in gold prices which reached $969/ounce. Furthermore, assets in foreign currency increased $522M to $13.2B , covering close to 13 months of imports and 79% of LP liquidity. In addition, loans to the public sector rose by $1M to reach $267M. On the liabilities side, currency in circulation increased $8M as BDL injected more liquidity into the market to cover wages of the public sector. Deposits of the financial sector increased by $239M to $23.4B due to the inflow of foreign funds whereas public sector deposits rose $229M to $2.5B. The overall balance sheet totaled $34.5B increasing $1B from mid-February.

Commercial Banks Total Assets By Jan. ($M)



Commercial Banks' Assets Increase13% By Jan. 2008

Commercial banks' consolidated balance sheet revealed a 13% yearly increase from $73. 4B in January 2007, to $83B in 2008. This was mainly driven by the $5.7B rise in foreign assets caused by inflows of foreign deposits. As to claims to the private sector they rose by a sizable $2.8B while those of the public sector increased by $804M. On the liabilities side, besides the increase in resident private sector deposits by $5.8B, non-resident financial sector deposits also increased by $1.5B, both stimulated by better interest margins on the dollar. On a monthly basis, total assets increased by 1% in the amount of $814M between Dec. 2007 and Jan. 2008

Exports and Imports in Jan. ($M)

Exports Increase 39% in Jan. 2008

According to the January 2008 figures released by the Customs Directorate, Lebanese Exports increased 39% to $262M compared to a 25% increase in imports that reached $1.1B from the same period last year. As for export destinations, Switzerland headed the list with 26%, followed by Turkey and Iraq at 7% each. Precious metals like gold constituted the majority of Lebanese exports with $81M, followed by articles of base metal at $41M and mechanical appliances at $32M. With respect to imports, USA topped the list of exporting countries to Lebanon with 13%, followed by Italy and China at 9% each. Mineral products continued to represent the bulk of imported materials at $310M followed by Electrical goods at $121M and transport equipment at $97M. Customs revenues for January fell 13% to LP107B, whereas VAT revenue increased 12% to LP125B. Combined revenues for the same period fell 1% from last year's LP234B. 80% of the governments LP231B customs collections were generated at Beirut Port, followed by 8% for the airport and 5% for Tripoli port.

ECONOMIC AND FINANCIAL NEWS

BDL Macro Expectations

	2008	2007
Non Performing Loans	$3.7B	$5.2B
Foreign Debt	$44B	$42B
LP/$	1,507	1,507

BDL Governor Forecasts Bank Assets to Reach $ 100 B in 2008

Lebanon's central bank governor, Mr. Ryad Salameh, highlighted the main macroeconomic indicators of 2007. According to him, the purchasing power of Lebanese dropped by an average of 12% in Q IV-07, and inflation increased to 8% on higher oil prices and the appreciation of the Euro. However, the increase in gold prices wrote off $ 4 B of the public debt. On the other hand, banking assets grew to $ 97 B in 2007 and are expected to reach at least $ 100 B this year. Arab deposits in the Central Bank totaled $ 2 B and remittances from Lebanese expatriates reached $ 5.5 B. The governor also mentioned that foreign capital flight in the billions could not have happened because it would have been reflected in large deficits in BOP, which was not the case.

NSSF 2008 Projections (LP B)

	Payments	Revenues
Maternity/Health	522.5	423
Family Compensation	265.2	186.8
End of service Indemnity	194.2	385.8

NSSF Publishes 2008 Financial Projections

In a study put out by the Director General of the National Social Security Fund (NSSF), preliminary estimates for 2008 show that the Fund will experience a surplus of LP 13 B from total revenues of LP 995 B and total payments of LP 982 B, after taking into account government contributions of LP 172 B. Health and maternity payments will undergo a deficit of LP 99.5 B, and so will family compensation at LP 78.4 B; but end of service indemnities will show a surplus of LP 191.6 B. Taxi drivers will constitute the membership (at 40 thousand) with the largest deficits in maternity/health and family compensation. Total membership will reach 466.4 thousand with more than one million beneficiary.

Monitor Estimates for Lebanon 2008

Current Account (%GDP)	-9.3
CPI Growth (%)	5.0
Foreign Reserves ($B)	14.0
Business Environment Rating	50.9*

*Out of 100

Middle East and Africa (MEA) Monitor Estimates Real GDP Growth at 2.4% in 2007

MEA Monitor estimates that real GDP grew by 2.4% in 2007, and that the GDP deflator grew by 5.8%. This implies a growth in nominal GDP of 8.2% to a total of $24.6 B. The increase was the result of a rise in government expenditures by 15.6%, and an increase in exports by 23.4%. Also, foreign aid – which totaled close to $1.2 B – and government spending fed into higher investment. Only personal consumption saw a decline due to higher consumer prices at close to 8-9%. The Monitor predicts more of the same in 2008, fuelled by domestic momentum from government expenditures and exports (at more than 10% and 20% respectively), a resilient banking sector, and more construction potential, but mitigated by a negative political outlook, a deteriorating global backdrop, and a mixed picture regarding economic policy.

CORPORATE DEVELOPMENTS

EIB Paris III Pledges (€M)

EIB Pledges	(▪ M)
Total Pledges	833
Private sector pledges	545
Signed	368
Received	195

Bank Audi Financials($B)	2007	2006
Total Assets	17.24	14.17
Total Loans	5.00	3.2

European Investment Bank signs €60M Credit Line with Audi Saradar Group

The Euro-Mediterranean Investment and Partnership program, part of the European Investment Bank (EIB), signed a ▪ 60M credit line with Bank Audi Saradar Group. The credit line constitutes part of EIB's pledge during the Paris III Donor Conference to fund and support reform and construction projects in Lebanon. Bank Audi-Saradar Group will provide 10-year loans to finance these projects in addition to private sectors projects in the industrial ,services, tourism, health and education sectors. The loans extended through the credit line should not exceed 50% of the cost of the project and 80% of EU funding.

Combined Medgulf SAL/BSC Income Statement 06/05 ($M)

	2006	2005
Net Premium	230	212
Net Revenues	251	187
Net Underwriting Income	69	54
Net Income	33	22

Insurance Premiums Increase 8%

The Lebanese Insurance sector, estimated at $700M, has defied all political odds and registered a 8% increase in 2007 to $482.7M on insurance premiums excluding life insurance. Medgulf Insurance headed the list with $70.8M on insurance premiums followed by Bankers Insurance at $48.5M, AXA Middle East at $32.8M and Allianz-SNA at $29.9M. On the other hand, Fidelity Insurance recorded the highest growth rate at 15.7%. Worth noting that there are 48 insurance companies and a further six specializing in life insurance.

Fransabank Main Financial Highlights

($M)	2007	2006
Total Share Holder Equity	433	518
Total Assets	5,245	7,282
Share Price (OTC)	$30.5	$32.50

Fransabank Increases Capital by $70M

According to the decisions of Frabsabank's extraordinary shareholders' meeting of 4 June, 2007, the bank has increased its capital from LP315B to LP420B ($278.5M). The increase came through the issuing of 5,250,000 common shares of LP20,000 each. The shares will be distributed to shareholders with a ratio of one new share for every three already held stocks. The new issue took effect as of 03 March totaling 21M nominal shares that are not listed on regular stock exchange markets.

WPP and THG Company Highlights

2006	Revenues	Staff	Stock
THG	$100M	1,200	n/a
WPP	$11.8B	77,686	$60

WPP Acquires 60% Stake of THG

World's second media company, UK based WPP, has acquired 60% of The Holding Group (THG), a regional communications company with headquarters in Dubai and Beirut. THG operates through leading companies in the region that include Team Y&R, Asda'a, Intermarkets, Mediaedge:cia, Polaris and Wunderman. The Group has significant operations in the United Arab Emirates, Saudi Arabia, Lebanon, Kuwait, Morocco, Jordan, Qatar and Oman. Worth noting that the new deal is considered the biggest of its kind in the Middle East advertising sector

FOCUS IN BRIEF

Nominal and Real Effective Exchange Rates: Application to Lebanon

$(million)	2005	2006	2007
X	1,880	2,282	2,816
M	9,340	9,398	11,815
NEER	100	96.06	91.18
REER	100	96.84	----

Exchange rate changes have always played an important role in determining capital flows, where domestic interest rates are expected to equal foreign rates plus changes in exchange rates (or via the interest rate parity condition), and trade flows through their effect on domestic currency prices and quantities of both exports X and imports M (or via the workings of the Marshal-Lerner condition). These effects are more pronounced in developing countries where financial instruments to hedge for exchange rate changes – like future contracts – are unavailable or not well developed.

But when we talk about exchange rate changes, what exchange rate do we have in mind? There is first the *nominal bilateral rate,* which is the quoted price of one unit of a given foreign currency in terms of domestic currency, but since a country has more than one partner to trade with, it becomes more useful to speak of the *nominal effective exchange rate (NEER),* which is an average multilateral exchange rate of the domestic country's currency versus those of its major trading partners. However, since competitiveness and attractiveness of tradable goods and services depend also on prices besides exchange rates, it becomes better still to speak of the *real exchange rate*, which is simply the nominal bilateral rate adjusted for the difference in domestic prices and prices in the given foreign country. Again, because of the multilateral dimension of trade activities, the best and complete measure is then the *real effective exchange rate (REER),* which is the real rate expressed as a multilateral average.

How are the two crucial rates NEER and REER calculated? NEER is usually calculated as an index, which is represented as a weighted average of the bilateral exchange rates of major trading partners, relative to a base year. Or:

$$NEER_t = 100 * \{W_{1t} R_{1t} + W_{2t}R_{2t} + \ldots\ldots\ldots\ldots W_{nt}R_{nt}\}$$

Where:
rit = is the exchange rate vis-a-vis country i (i = 1, 2, …..n) at time t, where r is defined as the foreign currency units needed to buy one unit of the domestic currency (an increase in r is synonomous to an appreciation of the domestic currency).
Rit = rit/rio = an index of the exchange rate vis-a-vis country i at time t relative to the base year at time 0.
Wit = weights for the average of Rit, and each weight is equal to the share of trade, X+M, with country i in the total trade of the domestic country (usually country partners comprising 80% or more of total trade are included). Each weight reflects the importance of individual exchange rate changes on NEER.

Note that an index is used in the case of Rit because it is incorrect to calculate the multilateral exchange rate as an average of different rates expressed in different currencies – in other words, an index neutralizes the heterogeneity of averaging over different units of different exchange rates.

As to REER, it has to reflect the competitiveness and purchasing power of the domestic currency vis-a-vis those of its foreign trading partners. As a result:

$$REER_t = 100 * \{W_{1t}R_{1t}(P_t/P_{1t}) + W_{2t}R_{2t}(P_t/P_{2t}) + \ldots\ldots W_{nt}R_{nt}(P_t/P_{nt})\}$$

Where:
Pt/Pit = index of the ratio of domestic prices to the prices in country i at time t, and the same base year at that of Rit is used for domestic and foreign prices (the consumer price index is usually used as a measure, but the GDP deflator or unit labor costs could be used as well).

Preliminary results for Lebanon relate fully to the calculation of NEER. The calculations take the beginning of 2006 -- or end of 2005 -- as the base year, and include 25 countries (with the EU listed as one "country") as trading partners. The table above can be utilized to come up with two interesting, though crude, conclusions. First, between 2005 and 2006, NEER decreased by 4%, and this was corroborated with an increase in exports by 21.4% and hardly any changes in imports; and between 2006 and 2007, NEER declined by a further 5%, and exports increased by 23% but this time around imports also increased by 25.7%, perhaps mostly as a result of rising oil prices. So the preliminary evidence points to a stimulating effect of exchange rate depreciations on exports.

Second, between 2005 and 2007, NEER fell by 9% and it is estimated that inflation reached a cumulative of 15%. Assuming a pass-through effect (from exchange rate changes to import prices) of 50%, and given that imports constitute close to 50% of Lebanese GDP, then this implies that exchange rate depreciations were responsible for 2.25% of higher prices or 15% of the recorded inflation during the period.

Of course, the above conclusions are still crude, and the first one can be made more rigorous once REER is fully taken into account. But the importance of effective exchange rates to trade performance can not be underestimated.

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