Issue 10

Q1 2011

Quarterly Economic Bulletin

ECONOMIC SUMMARY: The Lebanese economy experienced a challenging first quarter in 2011. The dissolution of the national government and regional political instability beginning in December 2010 with the Tunisian revolution caused the economy to shrink during this quarter.

Institution	2011 Annual Real GDP Growth forecasts as released by the end of 2010	2011 Annual Real GDP Growth forecasts as released by the end of Q1 2011
International Monetary Fund	5%	no change
World Bank	7%	no change
Economic Intelligence Unit	5.8%	5.3%
Institute of International Finance	6%	4%
EFG Hermes	5%	no change
HSBC	6.4%	3.2%
Merrill Lynch	5.9%	6%
Standard Chartered Bank	6.5%	5.5%
Barclays Capital	6.5%	5.5%
AVERAGE	***6.01%***	***5.17%***

In fact, forecasts of the 2011 annual economic growth were reduced after Q1 2011. Estimates made over Q1 2011 averaged around 5% versus the 6% estimated before the outset of that quarter in the 2010 period. The table above displays estimates made by major international institutions and shows how their majority was revised downwards. The IMF, for instance, forecasted by the end of Q1 2011 that 2011 economic growth would reach 2.5% relative to the 5% it had estimated by October 2010. This low estimate compared to an average annual rate of 8% over the last four years is basically attributed to political uncertainty. This consequently ranks Lebanon as the fourth slowest growing economy in the MENA region in 2011 behind Tunisia (1.3%), Egypt(1%) and Iran (0%)

Signs of difficulties essentially appeared in the real, external and fiscal sectors.

Real sector economic indicators - which include those related to real estate and construction, tourism and transport services- registered negative growth rates in Q1 2011 relative to Q1 2010. Inflation also continued to follow an upward trend over this period.

The external sector also witnessed a decline, as reflected by the deterioration in the balance of payments, which posted a deficit for the first time since 2008. This deficit resulted from a decline in inflows of capital such that they were not sufficient to cover the widening trade deficit. Actually, inflation and the weakening foreign demand for Lebanese products also negatively impacted trade dynamics. Inflows of capital, which soared over the period of the global financial crisis, fell this time as a result of investor's uncertainty towards Lebanon's political situation.

Similarly, a relatively weak performance was exhibited on the fiscal front. Unlike in 2010, public debt in Q1 2011 deteriorated in both absolute terms and in relative terms following the slowdown in growth rates.

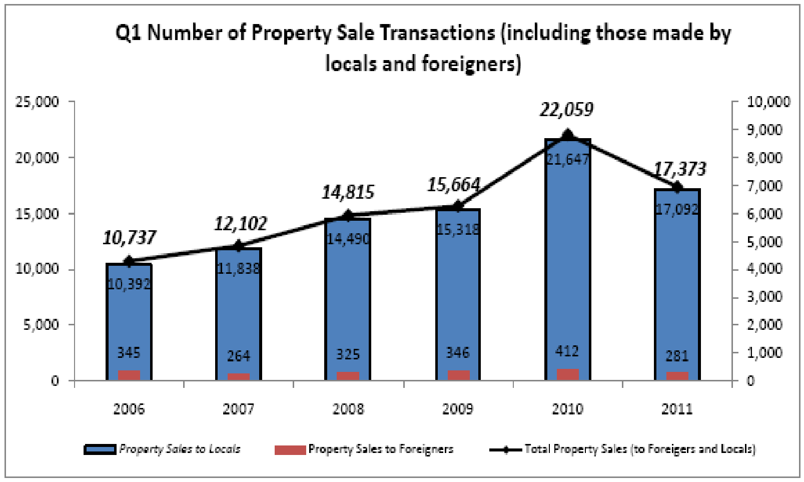
The financial sector was the main economic entity that displayed positive growth in Q1 2011, albeit at a slower pace than in the previous years.

I- The Real Sector

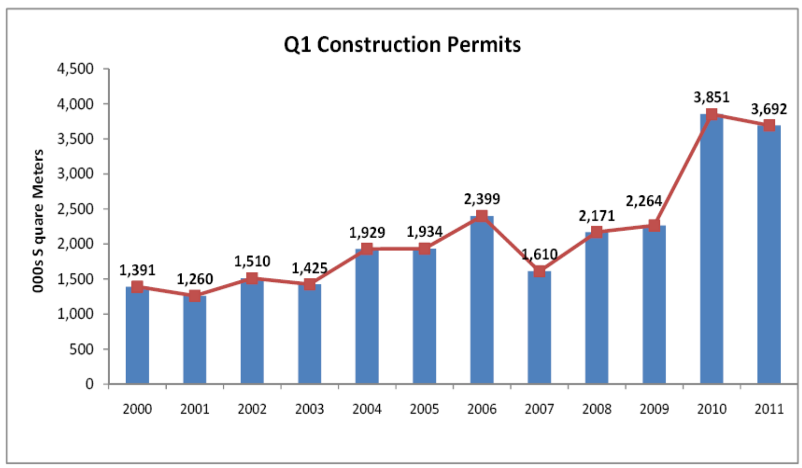
I- The Real Sector contracted in Q1 2011, due to the prevailing political tensions in the country and to the regional turmoil that is negatively impacting investor sentiment at large. Real estate, construction and transport of passengers deviated from their upward trend observed since 2007. The performance of these sectors was also affected by rising inflation, notably in basic infrastructure services and food and beverages.

1- Real Estate and Construction

In the first quarter of 2011, real estate and construction sector saw a slowdown in activities relative to the same period in 2010. This is noticeable in the year-on-year evolution of the related indicators, mainly from a demand perspective.



In Q1 2011, the number of **total property sales, which reflects demand for real estate, went down by 21.2%.** This was mainly due to the prevailing political tensions in the country and to the regional turmoil that is having a negative impact on both local and foreign investor confidence. Actually, sales to locals -which constitute 98% of total sales - registered a yearly drop by 21% by end Q1 2011; and sales transactions to foreigners registered an even greater yearly drop of 31.8%.



The decline in the demand for Lebanese property was further accompanied by **a fall in the value of real estate sales** in the first quarter of the year. The latter declined **by 14.5%** relative to Q1 2010, to reach US$ 1,808 million.

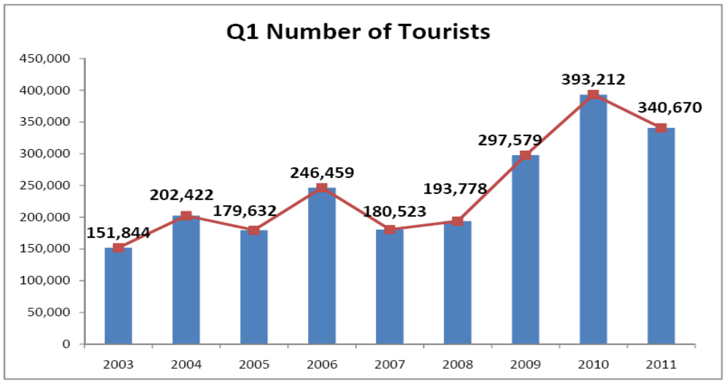
However, the Lebanese property market continued to witness a **positive trend in prices considering that the drop in the value of real estate sales was lower than the rise in the number of transactions.** The latter actually rose by 6.4% to reach over 53,500 transactions in the first three months of the year, which meant that the **average value of each property sale** grew by 8.6% in Q1 2011, to reach US$ 104,000.

In terms of the supply of new property developments, indicators show that there was a small decline of 4,1% in Q1 2010 in terms of the number of **new construction permits** and a strong rise of 23.5% in terms of the **number of new transactions**. The former fell following a severe slowdown of 17.6% in the month of March following strong activity in the first two months of the year. An explanation for this may be that investors felt more confident to invest in construction projects amid reasonable security within the country despite the political stalemate. However, their confidence in the country fell once it seemed that the situation could prolong following several failed attempts to form a government. Tons of cement deliveries, a second supply indicator of building activity, also saw a decline in Q1 2011 of 6.6%.

2- Tourism

Tourism activity experienced a slowdown in Q1 2011, following a breakdown in the domestic political situation and the ongoing regional instability. This is reflected in all related variables: number of tourists, tourist spending, hotel occupancy rates and revenues per average room.

According to the Ministry of Tourism and as the graph below shows, the **number of incoming tourists fell by 13.4%in Q1 2011** compared to Q1 2010. However, this figure remains 14.4%, 75.8% and 88.7% higher than the ones attained in 2009, 2008 and 2007 respectively. Also, as tabulated below, Arabs continue to represent the main tourists to Lebanon.



Breakdown of Tourists by Country of Origin

	End of Q1 2009	End of Q1 2010	End of Q1 2011
Arabs	41.3%	43.2%	33.4%
Europe	22.2%	22.5%	26.0%
Asia	20.0%	21.6%	25.2%
America	-	8.8%	9.6%
Africa	-	1.6%	3.2%
Oceania	-	2.2%	2.3%

According to Global Refund, the company that manages Lebanon's value added tax refunds system for tourists, the figure representing purchases by tourists in Lebanon whose VAT was claimed, otherwise known as **tourism spending**, is a reliable method of following tourist spending trends. As the below table illustrates, figures for the main spending players, which include tourists originating from Arab countries such as Saudi Arabia, Syria, UAE, Egypt and Kuwait, saw **a deterioration in Q1 2011** relative to the available figures for Q1 2010 and Q1 2009; hence reflecting a fall in tourism activity. For instance, Saudi Arabia, which represents approximately 19.5% of total tourists in Q1 2010-2011, saw a fall of 15% in Q1 2011 relative to Q1 2010 in terms of tourism spending.

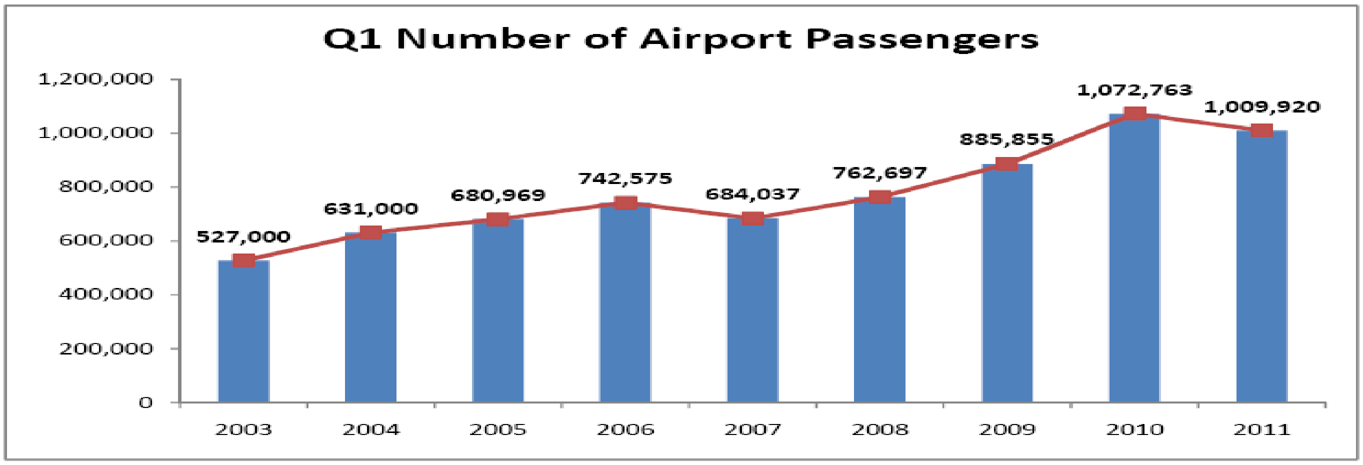
Countries	Average Ranking (%)	YTD % Change in Tourism Spending for Q1 2011	YTD % Change in Tourism Spending for Q1 2010	YTD % Change in Tourism Spending for Q1 2009
Saudi Arabia	19.5%	-15%	31%	63%
UAE	12.0%	3%	12%	16%
Kuwait	8.5%	-12%	-5%	67%
Syria	8.0%	6%	57%	125%
Egypt	7.5%	-31%	38%	79%
Jordan	-	-18%	25%	23%
Qatar	-	-24%	21%	74%

Furthermore, a report by Ernst and Young recently shows that Beirut witnessed a significant decline in its hotel indicators since the start of the year. **Hotel room yield saw a fall over the Q1 2011** period when compared to the same period in 2010, reflecting a fall in hotel profitability. This fall was the combined effect of **a drop in hotel occupancy rates in Beirut, which only reached 47%** in Q1 2011, relative to the 69% attained in Q1 2010 and to **a 17% fall in average room rates**, to reach US$ 206, over the same period.

It is worth mentioning that the travel and tourism (T&T) industry is a major component of the Lebanese economy. In fact, the World Travel and Tourism Council (WTTC) estimated that the T&T industry would directly contribute $3.77bn to the Lebanese economy in 2011 (equivalent to 9.5% of GDP), whilst direct industry employment will reach 122,000 (representing 9.1% of total employment in Lebanon this year). It added that, since T&T touches all sectors of the economy, both its direct and indirect impacts are even greater, and forecast it will generate $13.5bn, or 33.8% of overall economic activity in Lebanon in 2011, including 431,700 jobs, representing 32.2% of total employment in 2011. It added that the T&T industry's direct contribution to Lebanon's economic activity will rise to $5.8bn, or 9.7% of GDP in 2021, while the broader T&T economy will contribute $20.6bn, or 34.7% of GDP by 2021. Lebanon's T&T economy ranks in 15th place among 181 countries in terms of its contribution to GDP in 2011, while it ranks in 110th place worldwide in terms of its annualized growth rate over the 2011-2021 period.

Furthermore, the Ministry of Tourism unveiled three measures to strengthen the country's tourism sector and to support its profile as a tourism destination. The first measure consist of providing a detailed pricing structure of travel tickets when selling them, which would cover taxes and fees, in order to promote competition and transparency among travel agencies in Lebanon. This measure is expected to prevent price rounding, incorrect labeling and the use of inflated exchange rates. The ministry also requested the implementation of the 1963 law, which prevents minors from entering pubs and night clubs, as well as prohibits alcohol from being served to minors in restaurants. Finally, the ministry appointed Bureau Veritas Liban to undertake a classification of tourism establishments in Lebanon including hotels, tourist residences and restaurants, based on new standards and criteria.

3- Passenger Transport



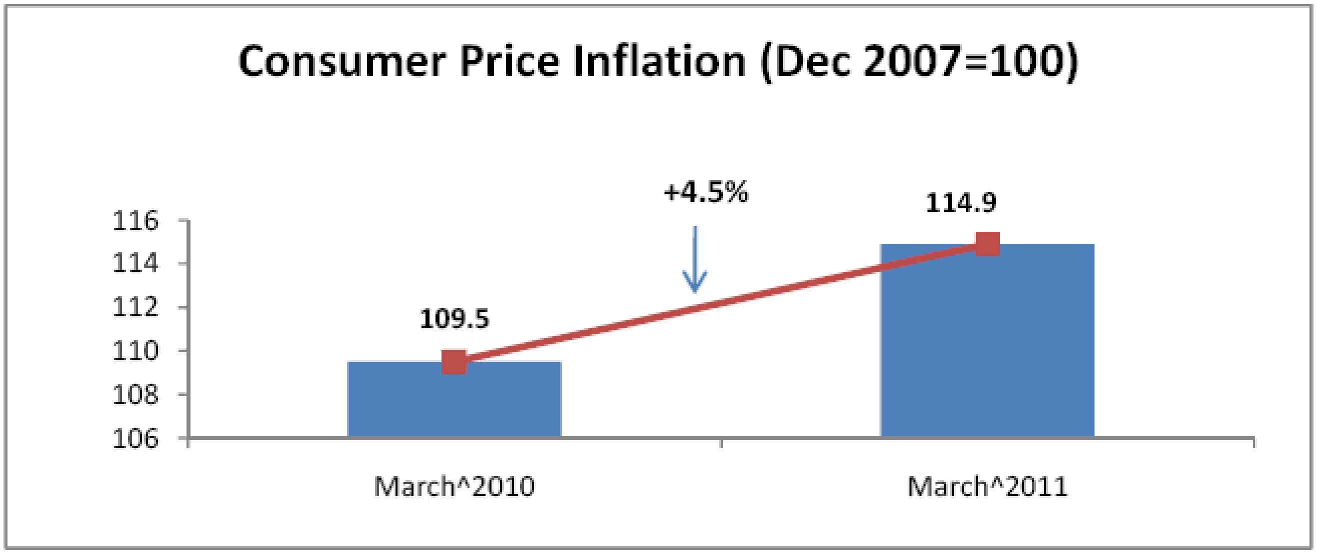
Transport of passengers also saw a weakening in Q1 2011, a reversal in the continuous positive trend that dominated in the previous years. The number of passengers passing through Rafic Hariri International Airport saw a year-on-year fall of 5.8%, from just over 1.073 million in Q1 2010 to 1.024 million in Q1 2011, as depicted by the statistics compiled at the airport. This decline was the result of a deterioration in both departing and arriving passengers, which saw 5.6% and 4.4% respective declines. The fall in the number of airport passengers follows the same rationale as the one behind the explanation in the reduction in the number of tourists. The decline in arrivals of passengers especially reflects how the political stalemate and the regional turmoil governing the first quarter of 2011, which have led to lower activity in Lebanon from foreign tourists, expatriates and businessmen, who zealously contribute to consumption and investment through their spending.

Transport of goods will be evaluated more thoroughly in the following section. However, the main modes of transportation are analyzed at this point. In terms of imports of goods, the most widely used points of entry for the first quarter of each year into Lebanon since 2007 are the Port of Beirut and the Beirut Rafic Hariri International Airport, which averaged 67% and 19% respectively in the last 5 years. In terms of exports of goods, the most widely used points of entry for the first quarter of each year into Lebanon has shifted from being the Port of Beirut— which averaged 36% in the years 2007 to 2008 relative to the 30% average attained by the Beirut Rafic Hariri International Airport in the same period— to the Beirut Rafic Hariri International Airport, which averaged 41% since 2008 relative to the 29% average attained by the Port of Beirut for the same period. This shows the importance of both maritime and air transport to the Lebanese economy and that that investment in both sectors should continue to grow in order to continue expanding trade in goods.

4- Inflation

Prices rose remarkably between end-Q1 2011 and end-Q1 2010. According to official estimates issued by the Central Administration of Statistics (CAS), **the Consumer Price Index (CPI) reached its peak by the end of Q1 2011, with a 14.9% rise in inflation since the new basket of goods was introduced in Dec 2007 and a rise of around 4.5% relative to the figures observed a year earlier.** The high percentage witnessed over this year period may be mainly attributed to the continued global inflation in commodity prices, which resulted in a rise in the following categories: a 23.4% rise in the price of clothing and footwear, a 12% rise in water, electricity and gas and a 7% rise in food and beverages.

As always, since most of Lebanon's inflation is either imported inflation in commodities or due to currency fluctuations, the global rise in commodity prices and exchange rates with the US$ have had a significant effect on the value of domestic goods and consequently imports and exports.



	Weights	% Change in CPI between March 2010 and March 2011
Food and Non-Alcoholic Beverages	19.9	7.0%
Alcohol Beverages and Tobacco	2.1	0.6%
Clothing and Footwear	6.2	23.4%
Housing, Water, Electricity, Gas and other Fuels		
Housing	16.2	25.7%
Water, Electricity, Gas and Other Fuels	9.5	12.0%
Furnishings, Household Equipment and Routine Household maintenance	3.9	0.9%
Health	6.8	-0.4%
Transportation	12.3	1.6%
Communication	4.8	0.0%
Recreation, Amusement and Culture	3.7	2.3%
Education	7.7	6.7%
Restaurants and Hotels	2.7	7.0%
Miscellaneous Goods and Services	4.2	2.1%
Consumer Price Index	100	4.9%

II- The External Sector

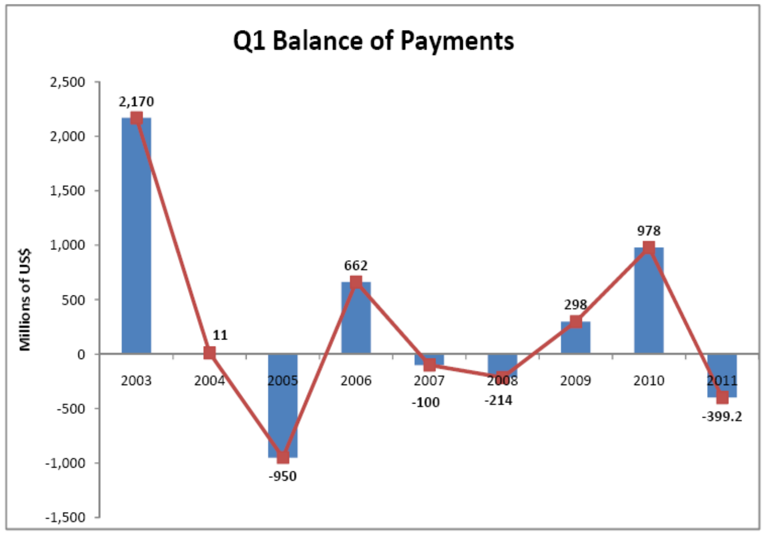
performed disappointingly during the first quarter of 2011 as capital inflows proved insufficient to cover the ever-growing trade deficit; hence resulting in a negative balance of payments. Although aggregate trade activity rose by 2.2% between end- Q1 2010 and end- Q1 2011, imports were the key component driving this expansion in the context of a fall in exports. This fact put a constraint on the performance of the sector, as the goods trade deficit consequently widened by 8%.

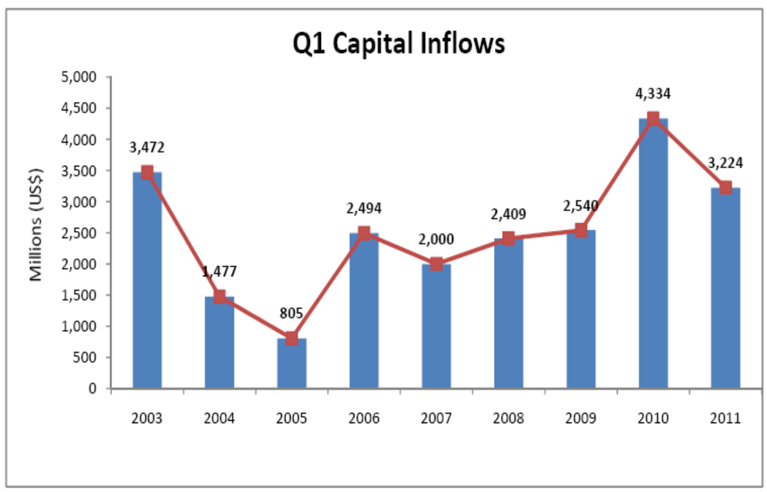
1- Balance of Payments, Capital Inflows, Imports and Exports

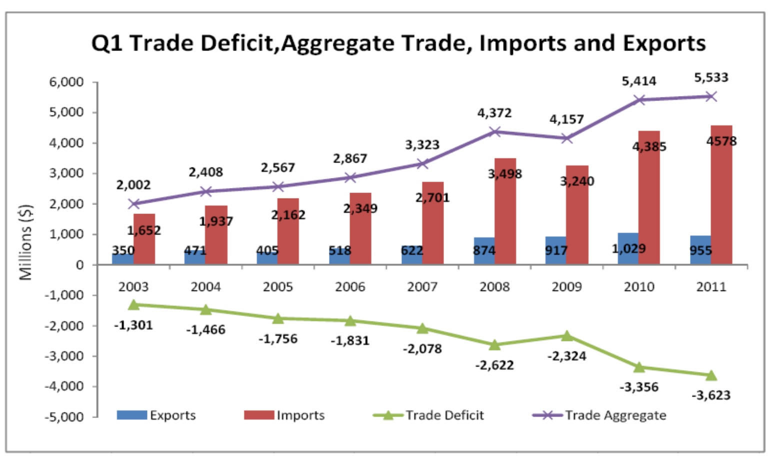
For the first time since 2008, the balance of payments registered a deficit in the first quarter of the year, falling from US$ 978 million in Q1 2010 to US$ -399.2 in Q1 2011, that is, a 140% decline. This comes following the combined effects of a sharp downturn in capital inflows and a rise in the trade deficit.

In Q1 2011, capital inflows fell by 25.6% relative to the same period in 2010, reaching US$ 3223.8 million. Unlike the period characterized by the global financial crisis, whereby Lebanon was considered a safe haven for Lebanese emigrants and Arab nationals to pour their money into the sound banking system, Lebanon's political stalemate, that endured throughout the first quarter of 2011, diverted deposits and investments into more politically secure markets. These include Europe and the countries in the Arab region that were not swept by the revolutionary wave dominating the area, such as Qatar and the U.A.E.

The balance of payments was also worsened in Q1 2011 relative to the previous year following the 8% year-on-year increase in trade deficit, to reach US$ 3,623 million. This increase was the result of a rise in imports together with a fall in exports. Imports rose by 4.4% in Q1 2011 relative to Q1 2010, to reach US$ 4,578 million indicating an improvement in aggregate consumption. In fact, imports of consumer goods rose by 10.7% while those of investment goods fell by 3.3%. Exports, on the other hand, fell by 7.2% to reach US$955 million by the end of Q1 2011. This decrease indicates a fall in the demand for Lebanese products abroad, mainly due to the regional turmoil affecting some countries in the Middle East and North Africa at present.







2- Maritime Transport Services

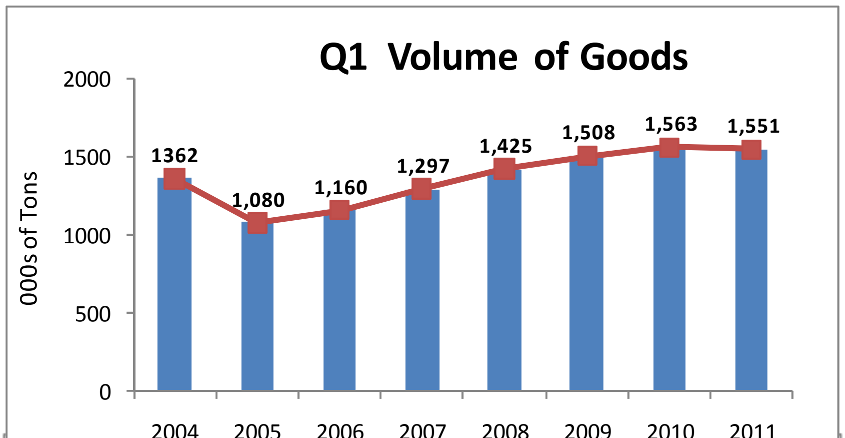
In terms of main maritime transport services, Beirut Port activities showed some slowdown in trading activity in Q1 2011 relative to the first quarter of previous years. Figures representing the volume of goods transported, the total number of containers at the port and the amount of revenues generated by the port show that, in each case, activity decreased in Q1 2011. This is probably due to the regional volatility that has acted as a barrier to trading activity.

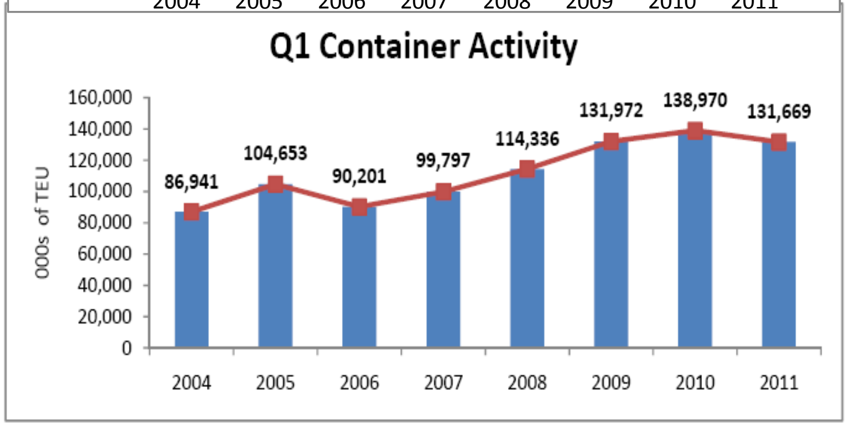
Throughout Q1 2011, total tons of goods transported (incoming and outgoing) fell by a slight 0.77% relative to the same period in the previous year. The volume of containers (loaded and unloaded) quantified in TEU- a measure of capacity in container transportation otherwise known as Twenty Foot Equivalent Unit– witnessed a visible decline of 38% in Q1 2011 relative to the previous year. Accordingly, total revenues generated by the port decreased by 4%.

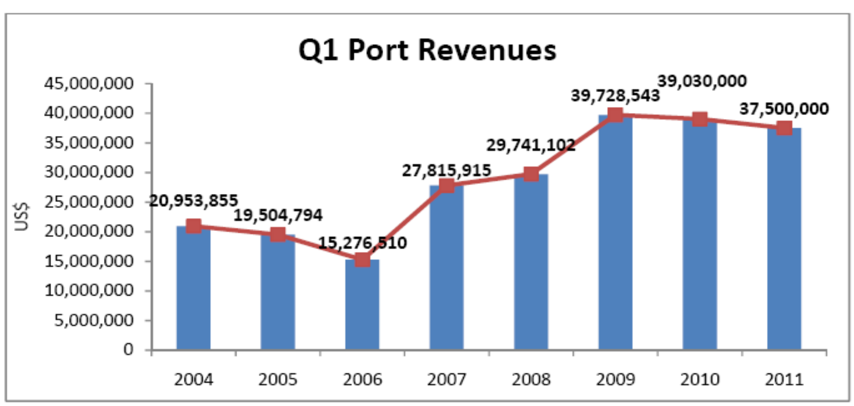
In addition, data obtained from Customs shows that the value of goods in transit reached US$91 million in Q1 2011 relative to the US$88 million attained in Q1 2010, that is, rose by 3.4%. The weight of the goods in transit also witnessed a 77.6% rise. The rise in weight being much larger than the rise in value indicates a lower value per kilogram in transits at the port from US$2.04/Kg in Q1 2010 to US$1.19/Kg in Q1 2011.

In fact, goods in Lebanon are mainly transported via maritime and air channels for both imports and exports. In the last 5 years, 66.2% of imports and 30.4% of exports were made through the sea whereas 19.2% of imports and 36.4% of exports were made through air. This will be examined in further detail in the following section .

BEIRUT PORT ACTIVITY







III-The FISCAL Sector performance in Q1 2011 was weak as reflected in the evolution of the fiscal deficit and the public debt, in both absolute and relative terms.

in Millions of LBP	Q1 2010	Q1 2011	%
Budget Revenues	2,914,295	2,549,565	-12.5%
Budget Spending	3,142,474	4,153,610	32.2%
Primary Budget Surplus	710,106	-167,403	-123.6%
Treasury Revenue	169,746	178,410	5.1%
Treasury Spending	297,795	229,230	-23.0%
Total Expenditures	3,945,336	4,382,840	11.1%
Total Revenues	3,084,041	2,727,975	-11.5%
Total Fiscal Deficit	-861,295	-1,654,865	92.1%
Total Primary Surplus	582,056	-218,223	-137.5%

Q1 2011 relative to Q1 2010:

VAT revenues fell by 1%.

Custom Revenues fell by 7%

1- Fiscal Deficit

The fiscal deficit significantly rose by 92% in Q1 2011 relative to Q1 2010, following a large decrease in the same period of the previous year. Actually, the overall quarterly fiscal trend has been irregular in the last 5 years, with substantial yearly increases in the deficit witnessed in Q1 2007 and Q1 2009, reaching 64% and 92% respectively. On the other hand, the fiscal deficit in Q1 2008 and Q1 2010 fell by around 10% and 50% respectively.

The soar in the deficit in both Q1 2007 and Q1 2009 was due to several factors. First, it resulted from the rise in global commodity prices, which led to a climb in EdL transfers in parallel with the hike in oil prices. Increases in current expenditures also triggered this rise in deficit, which resulted from the rise in bonus salaries and health allowances of armed forces and transfers to the NSSF in 2007 , as well as the rise in basic, retirement, Lebanese university salaries that were inflated in accordance with Law 63 by end-2008.

The fall in the fiscal deficit observed in Q1 2008 was the result of an improvement in all types of revenues following the strong performance of the economy, which offset the increase in expenditures. Similarly, the fall witnessed in Q1 2010 came following a strong performance in revenues relative to expenditures that fell as a result of the reduction in the global price of commodities resulting in lower transfers to EdL.

In the first quarter of 2011, public finances deteriorated following a significantly higher increase in total expenditures relative total revenues. Total expenditures rose by LBP 438 billion or 11% to reach LBP 4,383 billion (US$ 2,900 million) in Q1 2011 while total revenues fell LBP 356 billion or 12%, to reach LBP 3,945 billion (US$ 2,617 million) in the same period. This led to the ratio of total deficit to expenditures to soar from 21.8% in Q1 2010 to 37.8% in Q1 2011.

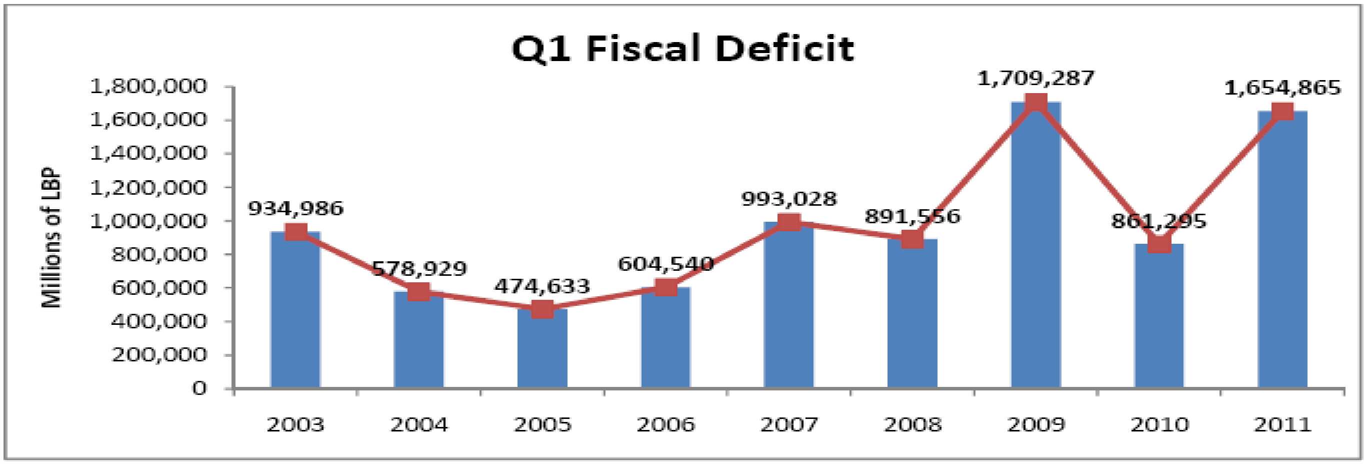
On the **revenues side**, the fall in total revenues was attributed to the deterioration in the budget revenue (tax and non tax revenues), which saw a 12.5% fall in Q1 2011 compared to Q1 2010. This fall in budget revenues was due to a 46% and 4% drop in non-tax and tax revenues respectively. **Tax revenues** saw a year on year drop due to a decline the following items:

A) **Taxes on International Trade** which include custom duties (-7%), excise on gasoline (-32%)and cars (-24%). The former comes despite a rise in imports, which is explained by lower effective custom duties. The second comes as a result of the government's decision to reduce the price of gasoline by LBP5,000/ 20L while the latter is due to a slowdown in the car market.

B) **Domestic Taxes on goods and services** such as VAT(-1%), Passenger departure tax (-26%), which fell due to the reduction in the number of passengers passing through Rafic Hariri International Airport and car registration fees (-15%), due to the market plummet in the car industry.

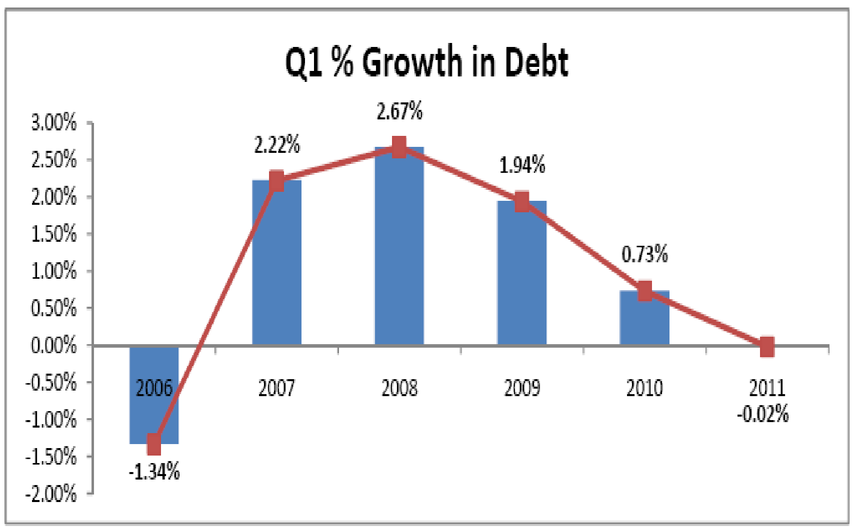
The year on year **taxes on profits, capital gains, wages, salaries and income** as well as those on **property** improved by 7% and 5% respectively in Q1 2011, but could not make up for the losses on the items described above. **Non tax revenues** also fell 46% in 2010, mainly due to the absence in the transfer from the telecoms surplus and rent . Treasury revenues however, increased 5%.

On the **spending side**, the rise in total expenditures came as a result of an increase in budgetary spending, which 11.1% more than the figure obtained a year earlier. Such a rise in spending was due to a rise salaries, wages and other related items, which mainly rose as a result of the army's wage bill, capital expenditures- such as maintenance and construction projects– as well as expenses for public institutions. Furthermore, foreign debt principal repayment increased by 31% while interest payments however, saw a 2% drop.



2-Gross Public Debt

Gross Public Debt has continued to rise throughout Q1 2011, as it reached LBP 79,279 billion (US$ 52.8 billion) by end-Q1 2011 relative to the LBP 77,588 billion (US$ 51.7 billion) attained by end-Q1 2010, that is an increase of 2.18%.



The 2.18% increase in Gross Public Debt is primarily due to a 4.8% increase in local domestic debt, which grew by LBP 2,188 billion (US$ 1.45 billion) over this period. Former expenditures were financed through an increase in borrowing, which was mainly carried out by the Central Bank in the form of REPOs and loans to EdL to finance fuel purchases as well as through the financing of T-Bills. These increased by 40.1% and 5% respectively by the end of Q1 2011 relative to the end of Q1 2010. Local commercial banks saw a 8.5% drop in financing. Foreign currency debt, on the other hand, fell by a meager 1.6% for the same period, whereby bilateral and multilateral debt rose by 4.6% whilst Paris II and Paris III loans shrunk by a respective 13.1% and 3.3% over this period. Market issued Eurobonds together with the interest accumulated on such bonds however saw a 2.17% rise and an 8% fall respectively over the similar period.

Taking account of the small 1.4% fall in public sector deposits for the same period, the Net Public Debt becomes LBP 68,773 Billion (US$ 45.6 Billion).

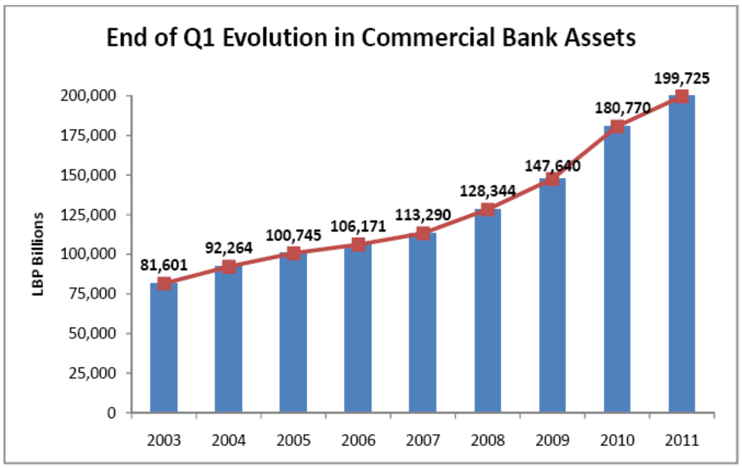
Despite the deterioration in absolute terms, Debt : GDP ratio saw improvements in Q1 2011. In light of the fact that 2011 Official National Account forecasts for Nominal GDP and GDP growth rates are still unavailable, we use the most recent IMF 2011 forecast of 2.5% to compute the Debt: GDP ratio, which reached 137% over Q1 2011.

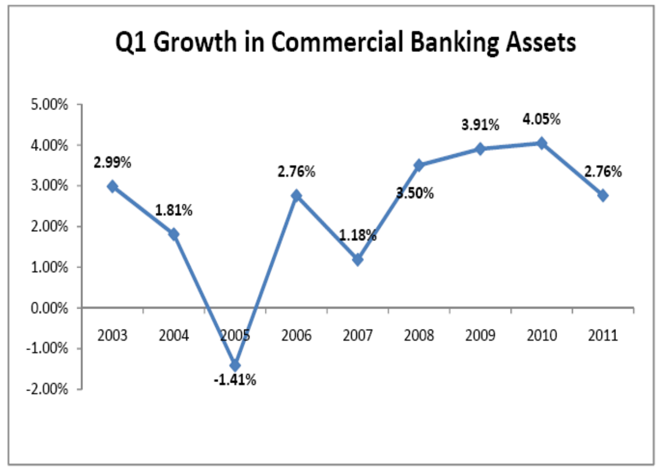
IV- The Financial Sector

IV- The Financial Sector displayed a slowdown in its performance in 2011, albeit continued growth in the last year. Banking and Financial indicators such as **Commercial Bank Assets**, **Liquidity**– as shown via the inflow in **Deposits**- and the **Money Supply** clearly demonstrate this trend, as growth rates fell despite a positive evolution in absolute numbers. The Beirut stock exchange also saw a slowdown by the end of Q1 2011.

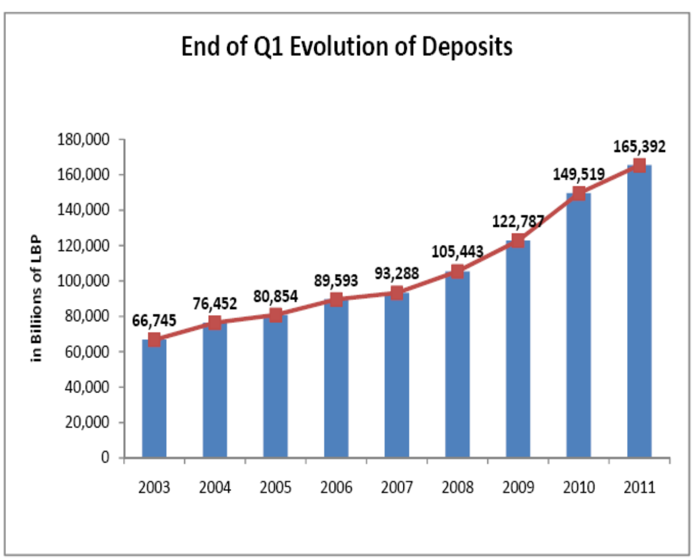
1- Banking and Financial Institutions

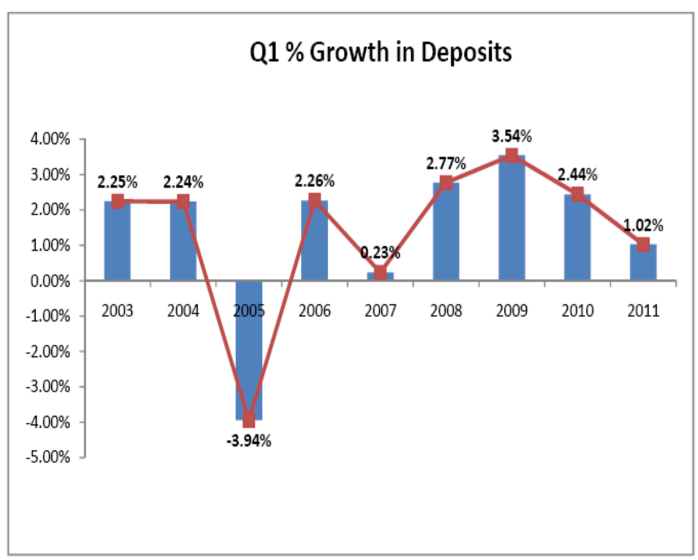
Commercial bank assets continued to grow in Q1 2011, reaching LBP 199,725 Billion (US$ 132,5 Billion) by the end of the period, indicating a year on year growth rate of 10.5%. In Q1 2011, commercial banks assets increased by LBP 7,029 Billion (US$ 4.7 Billion) relative to the LBP 5,370 Billion (US$ 3.6 Billion) attained in the same period a year earlier. That is, commercial bank witnessed a slowdown in growth in Q1 2011 relative to the same period in 2010, as assets grew by 2.7% in the former relative to the 4.1% that was reached in the latter period.

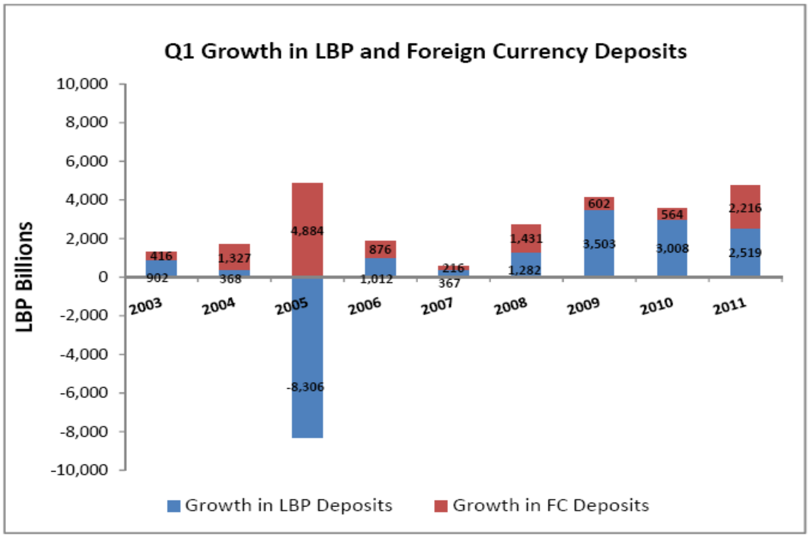




The evolution in **Customer deposits** continued to move in an upward direction, increasing by 10.6% year on year to reach LBP 165,392 Billion (US$ 109.7 Billion) by the end of Q1 2011. Similarly however, Q1 deposits witnessed a slowdown in growth following a 1.02% increase in Q1 2011 relative to the 2.4% increase attained in Q1 2010. In the presence of the political stalemate in the country as well as the regional tensions, Lebanese banks could not attract deposits at similar rates of the previous years, which mostly took the direction of European markets, or even UAE and Qatar in the Arab world, which did not experience a revolution.



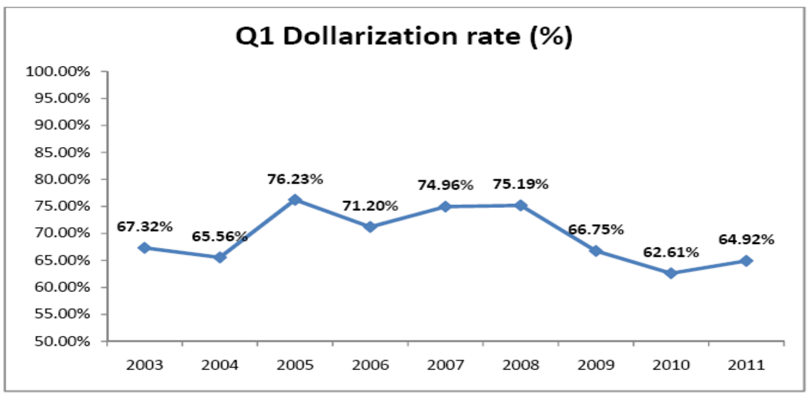




Lebanese Pound deposits witnessed a fall in their growth relative to the increase observed in **Foreign Currency Deposits** growth over the Q1 2011 period relative to Q1 2010. As the graph aside shows, the former fell by LBP 489 Billion (US$ 324 Million), or 16.3%, while the latter rose by LBP 1,652 Billion (US$ 1.1 Billion), or 290%, in Q1 2011 relative to the same period in the previous year. The reduction in the growth of Lebanese pound deposits relative to the increase in the growth of FC deposits came about following considerable LBP-FC conversions during Q1 2011 on the back of an increase in political discords and delays in the cabinet formation.

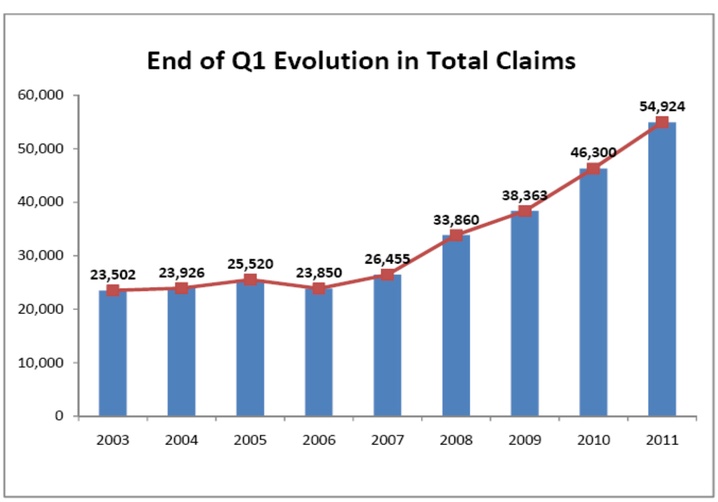
Type of Deposit	Q1 2011 Growth	Q1 2010 Growth
Resident Private (83% of Total Deposits)	1.23%	3.63%
Non Resident Private (16% of Total Deposits)	-0.79%	-3.03%
Public (1% of Total Deposits)	12.16%	-0.62%

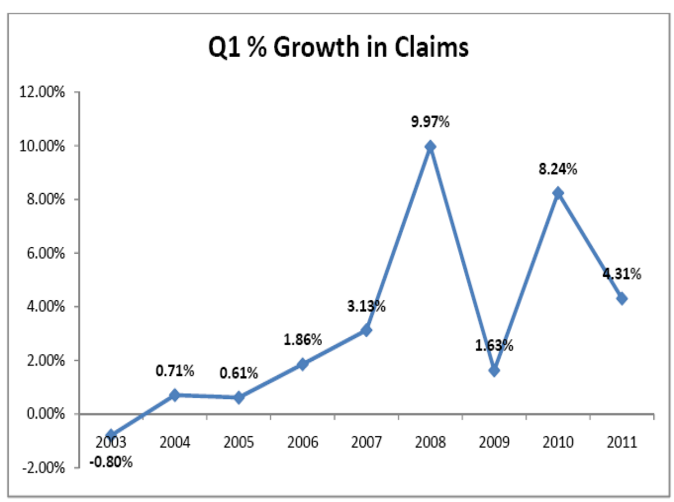
Furthermore, the opposite table shows that over the same period in 2011, the **Public sector** was the category with the greatest percentage increase in deposits (12.16%), followed by the **resident private sector** deposits (1.23%). **Non-resident private sector** deposits however fell by 0.8%.



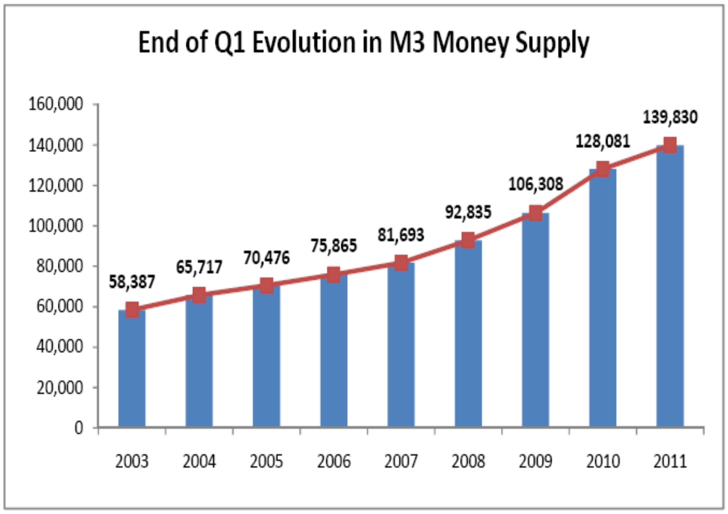
This fall in the growth of LBP deposits relative to the growth of FC deposits in Q1 2011 has consequently led to a rise in dollarization rates in the Lebanese Banking system. According to the total deposits and deposits in LBP obtained from the central bank, **dollarization rates** have recorded their highest level for the first time since Q1 2008, reaching 64.9% by the end of Q1 2011.

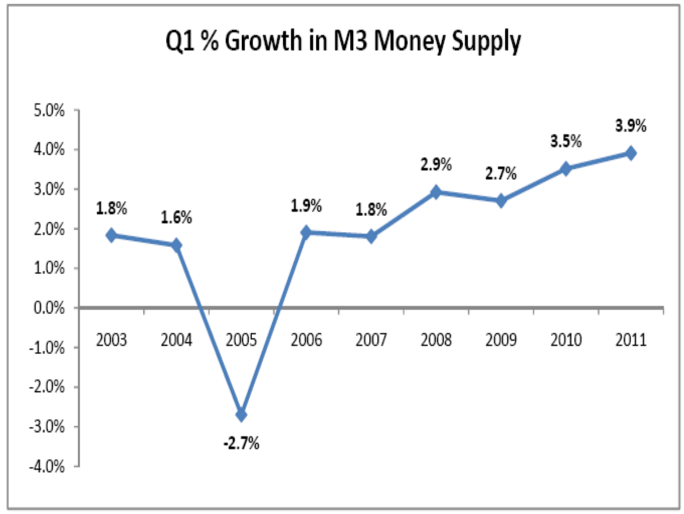
Regarding the uses side of the consolidated balance sheet, data compiled by the Association of Banks in Lebanon shows that over Q1 2011, **Claims (lending) to the private sector** reached LBP 54,924 Billion (US$ 36.4 Billion), representing a year on year rise of 18.6%. Growth in total claims by Q1 2011 reached LBP 2,268 Billion (US$ 1.5 Billion) compared to LBP 3,526 Billion (US$ 2.3 Billion) attained over the same period in Q1 2010.



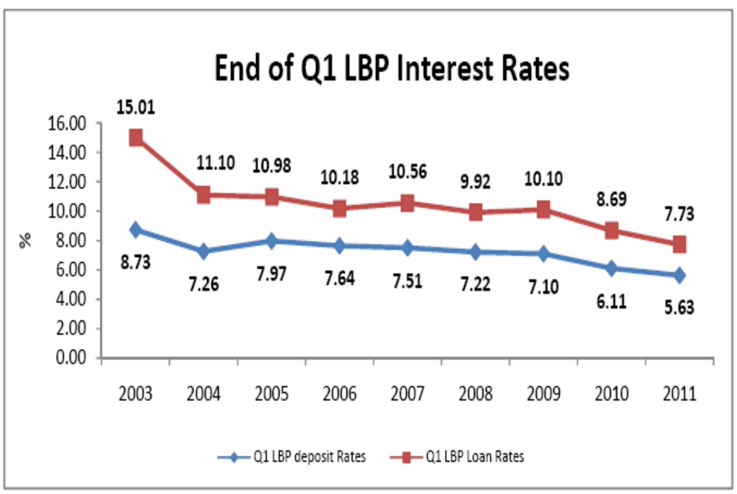


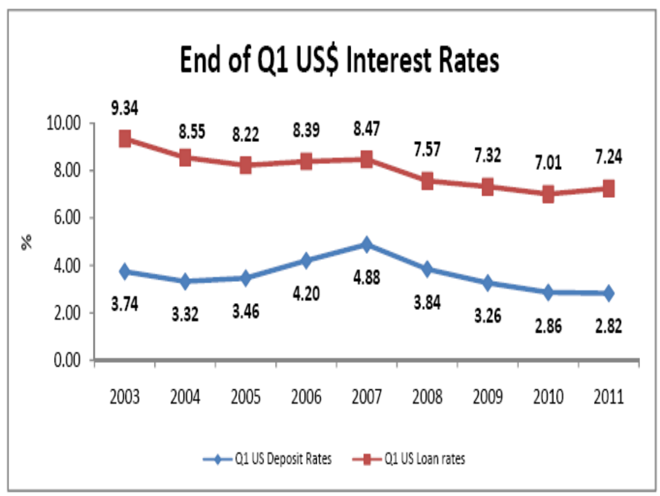
The stock of money and quasi money (M3) grew to reach LBP 139,830 Billion (US$ 92.8 Billion) by the end of Q1 2011. However, growth in M3 attained LBP 920 Million (US$ 610 Million) in Q1 2011, a fall of 79% when compared to Q1 2010. This fall in the growth rates in M3 is the result of a contraction in the following components: a) the growth of net foreign assets (excluding gold), b) net claims of the public sector and c) net bank lending to the private sector relative to Q1 2010.





Interest rates continued to follow the downward trend on both LBP denominated and USD denominated deposits. In Q1 2011, they respectively decreased to 5.63% and 2.82% from the 6.11% and 2.86% observed in Q1 2010. Similarly, interest rates on LBP denominated loans by the end of Q1 2011 fell to 7.73% from the 8.64% observed in the same period a year earlier. Interest rates on USD denominated loans however increased from 7.01% to 7.24% for the first time since Q1 2007.





Furthermore, interest rates on LBP instruments remained the same by the end of Q1 2011 on both 45 and 60 day certificates of deposits issued by BdL. Interest rates on 45 Day and 60 Day certificated remained unchanged at 3.57% and 3.85% respectively. The yields on T-Bills were further cut by the end of Q1 2011 to the following rates: 3.93% for three month bills, 4.5% for six month bills, 4.79% for one year bills, 5.41% for two year bills, 6.03% for three year bills and 6.18% for five year bills. As the table on page 13 shows, interest rates have fallen consistently year after year since the beginning of the decade for Certificates of Deposits and Treasury Bills.

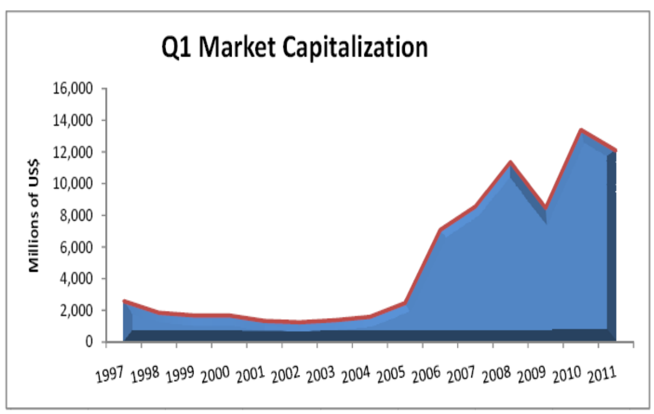
	Q1 45 day CD	Q1 60 day CD	Q1 T-Bills				
			3 Months	6 Months	12 Months	24 months	36 months
2003	5	5.5	6.96	8.18	9.13	9.41	-
2004	4.4	4.89	5.29	6.4	6.76	7.95	8.85
2005	4.4	4.89	5.22	7.24	7.75	8.68	9.56
2006	4.4	4.89	5.22	7.24	7.75	8.68	9.54
2007	4.4	4.89	5.22	7.24	7.75	8.68	9.54
2008	4.4	4.89	5.22	7.24	7.75	8.68	9.54
2009	4.4	4.89	5.07	6.96	7.27	8.12	9.04
2010	3.57	3.85	4.44	5.5	5.58	6.13	6.98
2011	3.57	3.85	3.93	4.5	4.79	5.41	6.03

The **total value of checks cleared** in the banking system, an indicator of overall spending patterns in the economy, fell to USD 16,819 Million (LBP and FC combined) in Q1 2011, from the USD 16,902 Million observed in Q1 2010– a meager fall of 0.5%. The number of checks cleared rose to 3.09 million from the 3.06 Million attained in Q1 2010, equivalent to a 0.8% rise. This has consequently led to a 1.3% decrease in the average value of cleared checks in Q1 2011.

	Q1 Value of cleared checks (US$)	Q1 Number of cleared checks	Average Q1 Value of Cleared Checks (US$)
2006	8,633,836,767	1,803,937	4,786
2007	8,606,934,741	2,575,393	3,342
2008	11,306,121,704	2,675,416	4,226
2009	12,193,578,996	2,888,287	4,222
2010	16,902,731,320	3,066,849	5,511
2011	16,819,000,000	3,092,963	5,438

2- Beirut Stock Exchange

The performance of the Beirut Stock Exchange (BSE) is measured by looking at its market capitalization. This measures the dollar value of this entity by accounting for the value and volume of the stocks listed. The local political stalemate and regional political turmoil has put downward pressure on the BSE's equity prices. The BSE market capitalization by March 2011 was consequently down 9.7%, reaching US$ 12,090 Million relative to the US$13,399 Million attained a year earlier. This indicates slower rates of activity and hence, economic growth.



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The MOET Annual Bulletin hopes to keep its readers up-to-date on Lebanon's economic climate.

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SOURCES:

- **Growth:** Estimates based on figures from IMF ("IMF Regional Economic Outlook", October 2010), World Bank (Byblos Bank LTW 179), IIF (Audi Week 4 2011), EIU (Audi Week 11 2011), EFG Hermes (Audi Week 10 2011), HSBC (Byblos Bank LTW Report 209), Merrill Lynch (Byblos Bank LTW 204), Standard Chartered (Audi Week 13 2011), Barclays Bank (Byblos Bank LTW 208).

Economic Highlights:

1)Real Sector

- **Area of Construction Permits and Number of Transactions**: Order of Architects and Engineers of Beirut and Tripoli: http://ordre04.oeanet.org and www.mouhandess.org.lb
- **Cement Deliveries**: Banque du Liban: http://www.bdl.gov.lb/edata/elements.asp?Table=t51-12
- **Real estate sales, value of sales and number of properties**: Directorate of Real Estate– Ministry of Finance

- **Inflation: Estimates based on figures from March 2011**

⇒ The Central Administration for Statistics: www.cas.gov.lb

- **Airport Activity**:

⇒ Banque du Liban: http://www.bdl.gov.lb/edata/subseries.asp?SIID=1

⇒ Rafic Hariri International Airport statistics

- **Tourism**

⇒ Ministry of Economy and Trade DataFiles.

⇒ LTW 199, 201 and Audi LWM Week 5 2011

⇒ Tourism Spending and Number of Refund Transactions: Global Refund Lebanon S.A.L.

⇒ UNWTO: Audi Bank LWM report– Week 11 2011

- **Balance of Payments**

⇒ Yearly 2010: Audi Bank LWM report– Week 7 2011

⇒ Yearly 2000-2010: Ministry of Economy and Trade DataFiles.

- **Capital Flows**

⇒ Yearly 2000-2010: Ministry of Economy and Trade DataFiles.

2) External Sector

- **Monthly and Yearly Trade Deficit, Exports and Imports:**

  Ministry of Finance: http://www.finance.gov.lb/Data+and+Statistics/Trade+Data/

  World Bank, (11/11/2010), "World Bank estimates remittances into Lebanon at $8.2 billion in 2010": http://www.zawya.com/story.cfm/sidDS11112010_dsart38(3)/World%20Bank%20estimates%20remittances%20into%20Lebanon%20at%20$8.2%20billion%20in%202010

- **Port Activity and Revenues:** www.portdebeyrouth.com/statistics.asp?x=1

3) Fiscal Sector

- **Fiscal Performance Indicators:**

  Ministry of Finance: http://www.finance.gov.lb/Data+and+statistics/Fiscal+Performance/

- **Public Debt:**

  Ministry of Finance- Public Finance Monitors: http://www.finance.gov.lb/Reports+and+Publications

4) Monetary and Banking sector

- **Monetary survey: BDL:** http://www.bdl.gov.lb/edata/elements.asp?Table=q_BDL_SID2
- **Commercial Bank Assets: BDL:** http://www.bdl.gov.lb/edata/elements.asp?Table=q_BDLa_SID4
- **Commercial Bank Deposits– by type of deposit:** BDL: http://www.bdl.gov.lb/edata/subseries.asp?SIID=4
- **Commercial Bank Deposits– by currency of deposit:** BDL: http://www.bdl.gov.lb/edata/subseries.asp?SIID=6
- **Claims on private sector:** BDL: http://www.bdl.gov.lb/edata/subseries.asp?SIID=4

  ABL: http://www.abl.org.lb/Library/Files/Files/Economic%20Letter%20December%202009.pdf
- **Interest Rates: BDL:** http://www.bdl.gov.lb/edata/subseries.asp?SIID=7
- **Cleared Checks: BDL:** http://www.bdl.gov.lb/edata/subseries.asp?SIID=1