

## Ministry Highlights

The Ministry of Economy and Trade continued to undertake a number of initiatives throughout 2010 in order to boost the Lebanese economy, enhance consumer protection, encourage job creation and to meet its commitments under international agreements. These initiatives include:

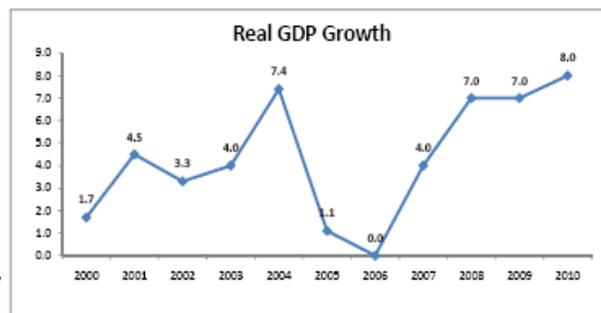
1. Drafting and enacting laws that aim to encourage investment, promote intellectual property, protect the Lebanese producers and consumers as well as negotiating trade relations.
2. Undertaking several measures towards ensuring the production of quality goods and advancing the system by which general consumer complaints are addressed.
3. Extending the activities for promoting small and medium sized enterprises.



REPUBLIC OF LEBANON  
MINISTRY OF ECONOMY & TRADE

## Economic Highlights

1. Following signs of regional and national reconciliations by end of 2009, Lebanon's economy was relatively stable throughout 2010. Despite inflationary pressures, economic performance continued to stand out in several sectors, notably in real estate, tourism and banking. *Government officials confirmed figures by international organizations like the International Monetary Fund and the World Bank estimating Lebanon's economic growth rate at around 7%-8% in 2010. However, the increase in prices had an adverse effect on trade.*
2. *Most real sector indicators registered positive growth in 2010*, supporting the buoyant economic performance. The number of *construction permits* approved to contractors rose by 25.8%, which demonstrates the *rise in the supply of real estate that is essentially fuelled by demand*. Demand for real estate continued to rise, as property sales climbed 12.7%. Similarly, *tourism witnessed a year-on-year jump of 17.2% in 2010*. These sectors, unlike trade, were not directly affected by inflation, which reached 4.6% in 2010, mainly driven by a rise in global cotton yarn, oil and food prices.
3. Albeit a fall in capital inflows, which reached US\$17 billion in 2010, and a rise in the trade deficit, which attained US\$13.7 billion by the end of the year, the *external sector continued to perform well as the balance of payments remained in surplus. The balance of payments registered a surplus of US\$3.3 billion by end-2010*, which is low compared with the record surplus of US\$7.9 billion in 2009, but surely exceeds the average of previous years.
4. *Fiscal performance has been maintained in 2010* as efforts to keep revenues and expenditures moving in par and reduce the debt-to-GDP ratio continued. Actually, *fiscal deficit slightly fell by 1.3% by end-2010* relative to the figure attained by end-2009; and *debt-to-GDP ratio fell to around 134%* by year end despite the small 2.93% annual rise in gross public debt measured in absolute terms.
5. *The Lebanese environment could benefit from improvements in the legislative framework when it comes to enforcing business contracts and closing a business*. In terms of the *World Bank's 2011 Ease of Doing Business rankings*, Lebanon was positioned at #113 (out of 183) in the world between April 2009 and May 2010. This compares to rankings of #109 (out of 183) between April 2008 and April 2009 and #101 (out of 181) between April 2007 and April 2008. Within MENA, Lebanon ranked #12 (out of 18) between April 2009 and April 2010 compared to #12 and #11 between April 2008 and 2009 and April 2007 and 2008 respectively. Although *rankings have worsened, Lebanon made improvements in its credit information system by allowing banks online access to the public registry's ports. It also continued to decrease the cost of starting a business.*



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# MINISTRY HIGHLIGHTS

The Ministry of Economy and Trade (MoET) is responsible for the planning, coordination and implementation of all economic matters and national needs in Lebanon. It aims to monitor developments and formulate national policies to enhance and facilitate trade, resolve stockpiling needs, protect the Lebanese consumer and create new jobs all the while, ensuring economic balance through planning, coordination and implementation.

Among the many initiatives MoET is committed to following, its commitments within the Paris III framework are comprised of creating new legal and administrative institutions to help realize the overall goals of economic reform and structural adjustment negotiated in the Paris III meetings. A number of programs throughout the years have been authorized and implemented in this regard, encompassing just about every department within the ministry and generally appearing under the four following initiatives:

- a. To improve the Business Environment
- b. To improve Intellectual Property Rights
- c. To promote Trade
- d. To improve the Investment Climate

## Ministry Activities and Achievements in 2010

### I. WTO Accession

Lebanon Applied for WTO accession in January 1998 (Council of Ministers' Decision 26 dated 4/5/1998). A Working Party was then established in April 1999, which was chaired by H.E. Mrs. Laurence Dubois Destrizais (France). The Working Party is formed by all WTO Member Countries who are interested in Lebanon's Accession to the WTO, which stands at around 30-40 members.

In October 2000, the Government Adopted an Accession Master Plan for the implementation of the WTO Accession, in which the Ministry of Economy and Trade was designated to lead this process. A WTO unit was set up in May 2001 and was allocated the necessary human resources of lawyers and trade specialists. Since then, seven Working Party meetings have taken place in Geneva, whereby the Working Party examined Lebanon's replies to the questions posed by WTO Members based on the information provided in the memorandum (MFTR).

In 2010, the WTO unit continued to be involved in the revision of the offers being negotiated with its trading partners so that they were more favorable for both parties. In terms of legal enactments, the following are expected by 2010:

| Law                                   | WTO Agreement(s)                         | Status of the Law   | Expected Date of Enactment |
|---------------------------------------|--|---|----------------------------|
| International Trade and Licensing Law | Agreement on Import Licensing Procedures | Currently pending approval by last Parliamentary Committee (Administration and Justice) before being sent to General Parliamentary Assembly for ratification. | December 2011              |
| General Food Law                      | Agreement on SPS                         | Draft Law was approved by Council of Ministers on 12 June 2006 and was transferred to Parliamentary Committees.   | December 2011              |

|   |                          |  |  |
|---|--------------------------|--|--|
| Law on Technical Regulation and Conformity Assessment Procedures (revised version)  | Agreement on TBT         | Revised Draft sent to Council of Ministers July 2009.  | December 2011  |
| Law on Standards, (revised version)   | Agreement on TBT         | Revised Draft sent to Council of Ministers July 2009.  | December 2011  |
| Law on Animal Quarantine  | Agreement on SPS         | Law already approved by the Agriculture Parliamentary Committee on November 5, 2003  | December 2011  |
| Removal of NSSF Certificate requirement for importing/exporting activity of established traders   | None                     | The draft decree cancelling article 65.2 of NSSF Decree 13955 dated 26/9/1963 thus removing the requirement to produce the clearance certificate from NSSF for import/export activity is currently in Parliament   | December 2011  |
| Amendments to the Budget Law to unify/ transform the <i>ad valorem</i> fees for services rendered   | Article VIII of the GATT | Approved by Minister of Finance (letter 2106 dated 12 November 2005). Table 9 of draft Budget law 2008 has been amended cancelling import license fees.<br>The budget Law 2008 was approved by Council of Ministers on 27/10/2007 and sent to Parliament for ratification.   | December 2011  |
| Competition Law   | None                     | Draft approved by the Council of Ministers and sent to parliament on the Oct 27, 2009  | December 2011  |
| Additional IPR legislation to modernize Law No. 2385/24 "Laws and Systems of Commercial and Industrial Property".<br><ul style="list-style-type: none"> <li>• The Law on Trade-marks (TM)</li> <li>• The law on Geographical Indications (GIs)</li> <li>• The Law on Unfair Competition (UC)</li> <li>• The Law on Industrial Designs (ID)</li> </ul> | TRIPS                    | The Draft Law on TM was approved by the Council of Ministers and sent to Parliament Oct.27, 2007.<br><br>The draft law on GIs was approved by the Council of Ministers and sent to Parliament May 21, 2007.<br><br>The draft Law on UC was sent on 31 March 2006 to the Ministry of Public Health for completion and comments.<br><br>The draft Law on IDs was approved by the Council of Ministers and sent to Parliament Oct.27, 2007. | December 2011<br><br>December 2011<br><br>December 2011<br><br>December 2011 |

## **II. Trade**

### **1. Trade Agreements and Information**

In 2010, the Ministry of Economy and Trade was entrusted with the following tasks related to trade negotiations:

- Following up on the work of regional joint committees (Meetings between the Euro-Mediterranean Ministers of Trade and the Economic and Trade Council of the neighborhood which includes Turkey, Syria, Lebanon and Jordan.)
- Signing the Economic Integration Agreement for the establishment of a Quadripartite High Level Corporation Council (HLCC) between Lebanon, Turkey, Jordan and Syria. The HLCC will be based on the existing bilat-

eral agreements and practices on free trade and visa exemption but will also seek to increase and diversify investments among the four countries through joint projects and in a variety of fields, such as transportation and energy.

- Following up on the work of the joint commissions arising from the trade and economic agreements in the year 2009 (Iran, Turkey, Syria, Brazil, Mexico, Switzerland, Germany, Italy, Canada, Ukraine, Bulgaria, Russian Bloc).
- Finalized and signed in October 2010 the Association Free Trade Agreement with Turkey, which aims to increase bilateral trade and expand private sector cooperation between the two countries.
- Following up on the initiation of the trade negotiations with Mercosur- the economic and political agreement between Brazil, Argentina, Uruguay, Paraguay.
- Following up on all the matters related to the Neighborhood policy action plan emanating from the partnership agreement with the European Union.
- Following up on activities and programs related to trade facilitation and export development with local, regional and international organizations: National Committee to facilitate transport and trade, European Union, World Bank, ESCWA, and the concerned United Nations organizations.

## **2. Trade Legislations and Regulations**

With regards to the accomplishments of the **Trade Remedies Investigative Authority (TRIA)**, the Authority was active in reviewing and investigating three petitions in 2009 from Lebanese industry, which is claiming injury from certain imports. Petitions normally go through the following general stages:

Preliminary review -> Case Initiation -> Preliminary Determination -> Final Determination

In 2010, the Trade Remedies Investigative Authority (TRIA), in close collaboration with its technical arm the Trade Remedies Unit (TRU), was active in reviewing and investigating four petitions from Lebanese industries that are claiming injury due to surges in imported products. Two petitions reached the stage of Final Determination. Two other petitions were initiated in 2010, one of which is now beyond the preliminary determination stage. These are summarized in the tables below:

| <b>Petition submitted by/on</b>                          | <b>Focus of petition</b>  | <b>Case Initiation (Date of Publication in Official Gazette)</b> | <b>Preliminary Determination</b>  | <b>Final Determination</b>  |
|--|---|--|---|---|
| Petco SAL<br><b>16 April 2009</b>                        | Imports of PET pre-forms (used for making plastic bottles and other containers) | <b>16 April 2009</b>   | TRIA concluded preliminary phase with positive finding to impose provisional measures.<br><br><b>9 October 2009</b>                     | Investigation concluded with recommendation for the imposition of safeguard measures for one year. This has been sent to the Council of Ministers.<br><br><b>22 December 2010</b> |
| Federation of Chambers of Commerce<br><b>27 May 2009</b> | Imports of wooden furniture used in bedrooms                                    | <b>27 May 2009</b>   | TRIA concluded preliminary phase with positive finding to impose provisional measures<br><br><b>12 October 2009</b>                     | Investigation terminated due to lack of evidence required for final safeguard measures.<br><br><b>7 October 2010</b>  |
| OPP SAL<br><b>16 July 2009</b>                           | Imports of copybooks  | <b>January 2010</b>  | TRIA extended preliminary determination phase to further investigate the situation of domestic industry.<br><br><b>17 December 2010</b> | TRIA decision expected in 2011  |
| Sidem SAL<br><b>07 October 2010</b>                      | Imports of aluminum rods and profiles.  | <b>17 December 2010 (Minister's Decision)</b>                    | TRIA decision expected in 2011  | TRIA decision expected in 2011  |

With regards to technical assistance, the TRIA has requested technical assistance for the Trade Remedies Unit, the Authority's technical body, from the US-AID WTO Project at the MoET for enhancing the **investigation process**. The Government has signed two agreements on technical assistance with **Egypt** and **Jordan** to obtain training.

Similarly, the TRIA has identified a consultant with expertise in financial analysis and auditing to help build the capacity of TRU staff in these fields.

With regards to laws in motion, Laws issued in 2010 include:

- Recruitment of consumer protection inspectors (issued by law no79 dated 6/3/2010)  
Aims to recruit permanent inspector; the Ministry's Consumer Protection Directorate (CPD) has vastly expanded its capacity by adding nearly 200 inspectors, including senior-level technical experts. CPD can now respond to consumer complaints on product quality (including defective and expired goods) and inadequate services (such as at restaurants), amongst other issues, more quickly and decisively than before.
- WIPO Internet treaties (WCT)& (WPPT)
  - 1) Intellectual Property Conventions (WIPO Copyright Treaty (WCT) (issued by law no78 dated 6/3/2010)  
Two subject matters to be protected by copyright,
    - (i) Computer programs, whatever may be the mode or form of their expression, and
    - (ii) Compilations of data or other material ("databases")
  - 2) WIPO Performances and Phonograms Treaty (WPPT) (issued by law no77 dated 6/3/2010)  
The treaty deals with intellectual property rights of two kinds of beneficiaries:
    - (i) Performers (actors, singers, musicians, etc.), and
    - (ii) Producers of phonograms (the persons or legal entities who or which take the initiative and have the responsibility for the fixation of the sounds).
- EFTA protocols (issued by law no 82 dated 6/3/2010)  
Aims to add annexes and protocols to law no 732 dated 15/5/2006, EFTA agreement signed on 24/6/2004, the main objective is to apply FTA protocols and customs duties
- The agriculture convention between Lebanon & Norway (issued by law no 103 dated 6/3/2010).  
Aims to apply annex no 1 of the agriculture convention between Lebanon & Norway
- Alcoholic beverages (Jan2010), which may now be registered as exclusive agencies.

Meanwhile, Draft Laws submitted to Parliament include:

- Technical regulations  
This draft law identifies the procedures to adopt technical regulations and the conformity assessment of a product to these regulations. The draft law also lays down the responsibilities of economic operators that place products on the market. The draft Technical Regulations and Conformity Assessment Law also foresees the establishment of a National Committee on Technical Regulations, composed of representatives from both the public and private sectors. Their mandate will include the studying and approving of proposed technical regulations submitted by relevant ministries.
- Standardization  
The standardization draft law amends the existing 1962 law with the purpose of implementing national standardization and adhering to the basic principles of standardization. This draft law sets forth:
  - i. The principles and major objectives of national standards;
  - ii. The procedures for drafting, adopting, implementing, revising, publishing and withdrawing national standards;
  - iii. The provisions related to the activities, responsibilities and financial resources of LIBNOR- the Lebanese Standards Institution.
  - iv. The issuance of the Lebanese Conformity Mark;
  - v. The establishment of the WTO/TBT National Enquiry Point at LIBNOR.

The following Draft Laws remain to be discussed by Parliament Committees:

- Amendments of code de commerce to improve the business environment

- Food Safety Law

The newly drafted legal framework, i.e. the draft Food Safety Law, will ensure an integrated approach to ensuring the soundness of the food supply chain. It will further elaborate a clear definition of the rights, duties and responsibilities of all stakeholders. Under the new legal framework, the competent authority (the Lebanese Food Safety Authority, LFSA) is envisioned to ensure that controls are conducted in conformance with the multidisciplinary principle i.e. specificity of control and inspection, ensuring the implementation, wherever possible, of the "one establishment - one inspector" principle.

Accordingly, Lebanon's emerging new food chain safety policy should integrate all segments of the food chain into a uniform system--"from farm to fork". Consumers should become better informed so that they may take responsibility for the safe storage and handling of food in their own homes. Based on these principles, a reorganization of the food chain will consequently attain compliance with international standards aimed at reducing the risk of food-borne disease. It will also help protect consumer rights in this area, and facilitate unhindered trade in food on domestic and international markets, all of which lead to promoting socio-economic development.

- Export Promotion Board

Aims to facilitate trade and enhance trade competitiveness in order to improve export market opportunities, aimed at private sector.

MoET also co-drafted the Whistleblower law and attend many parliament committees to discuss draft laws related to investment or consumer protection such as:

- Nutritional supplement

- Smoking restriction

### **III. Economic, Agriculture and Development Projects**

In 2010, the Economic Research Unit (ERU) at MoET accomplished the following:

- MoET has continued to manage all matters related to the administration of the **Lebanon Recovery Fund (LRF)**.

The LRF is a Multi-Donor Trust Fund (MDTF) that was initially established at the request of the Government of Lebanon following the July war in 2006 to enable donors to pool their resources and rapidly provide funds to recovery and development projects focusing on conflict and conflict prone areas. The 2010 achievements include:

1. Monitoring the implementation of the 25 projects and working towards enhancing coordination between various stakeholders and projects especially those targeting common/related areas of intervention:

- ♦ In this respect, an LRF workshop - the 1<sup>st</sup> of its kind- was held on 08/09/2010 at the UN House for implementing organizations and relevant counterparts to share Achievements and Lessons Learned.
- ♦ A dedicated Monitoring and Evaluation Unit was setup at the Ministry of Economy and Trade and started operation in July 2010.
- ♦ Multiple meetings and field visits, as well as thorough review of related reports have been conducted

2. Improving the Fund operation through:

- ♦ Further standardization of procedures related to reporting (Extension Requests, Independent Evaluation Requirement...)
- ♦ Increasing Visibility (use of logos of LRF and donors by all projects, continuous update of the MDTF Gateway and MoET website contents related to LRF...)

3. Launching the Future Strategy of the Fund and its Resource Mobilization process:

- ♦ Organizing the LRF Donors' Conference "Achievements and Future Outlook of the Lebanon Recovery Fund" on 28/09/2010 at the Grand Sérail. The objectives of the conference were to brief current and potential donors on the achievements of LRF projects, as well as discuss the future outlook of the Fund.

- ♦ Issuing and distributing the LRF Factsheets and LRF flyers in both English and Arabic
- ♦ Agreeing on a donor strategy/action plan for 2011, in light of the 2010 conference.

- Organized a Workshop for the Consumer Protection Department at the Ministry.

In collaboration with the UNDP WTO Unit and UN-ESCWA, ERU organized an Economics for Manager Workshop entitled "Linking Consumer Protection to National Economic Policy in Lebanon" which was held on November 8-10. The aim of the workshop was to strengthen the ability of 34 newly recruited inspectors in MOET, by familiarizing them with consumer protection structure and laws in Lebanon and new emerging issues related to consumer protection in Lebanon and to enhance their capacity of national economic policy in Lebanon as it relates to their profession.

- Participated in arrangements for launching the project "Upgrading Lebanon's Economic Analytical Capacity":

In collaboration with the UNDP WTO Unit, ERU has been following up on the implementation of and actively participating in the two-year project "Upgrading Lebanon's Economic Analytical Capacity" jointly conducted with the Lebanese Economic Association and funded by the International Development Research Centre. The project aims at empowering Ministry officials with a set of necessary economic analysis skills to actively engage in tackling inflation.

- Maintained working relationship with international and multilateral organizations:

1. ERU has been providing support to international delegations and missions of IMF and WB. It also supported the participation of the Ministry within the Lebanese delegation to the Annual Meetings of the World Bank Group and the International Monetary Fund held in October 2010 in Washington D.C.
2. ERU has also been following up on related matters connected to Minister's duties as MIGA-Multilateral Investment Guarantee Agency- governor and World Bank alternate-governor.

- Undertook Research Studies and Supplied Preparatory Material to Support:

1. The Minister's meetings with international organizations and foreign delegations
2. H.E.'s interviews and speeches
3. Updating the contents of the website of the Ministry

- Regularly issued and disseminated economic publications:

1. Quarterly Bulletin of domestic economic developments in First Quarter of 2010
2. Semi-Annual Bulletin of domestic economic developments in First Half of 2010
3. Quarterly Bulletin of domestic economic developments in Third Quarter of 2010
4. Thematic Newsletter entitled "Tourism in Lebanon"
5. Thematic Newsletter entitled "The Tobacco Industry: A Dangerous Livelihood"
6. Thematic Newsletter entitled "The Many Faces of The Lebanese Wine Industry"

- Continuously Updated and Enriched the Contents of the ERU Statistical Database of Economic Indicators which contains time series grouped by sector including:

1. Macroeconomic Indicators (National Accounts)
2. Monetary and Banking Data
3. Trade Data (export, import, deficit...)
4. Real Sector Data (tourism, airport, industry...)
5. Fiscal Data

- Responded to various economic, trade and social inquiries originating from graduate students, university professors, investors, companies, law firms, other ministries, foreign embassies...

- ERU actively participated in various economic events (conferences, workshops, round tables, discussion forums, trainings....) and provided training to a number of interns at the Unit

#### **IV. Consumer Protection**

The Consumer Protection Directorate is responsible for the following issues in the Lebanese market:

- Monitoring the safety of food for human consumption as well as their weight and prices.
- Combating monopoly and illegal speculation.
- Enhancing competition and following-up on matters related to commercial advertisement as well as checking their 'acceptability'.
- Controlling the quality of fuel and calibrating weights and measurements.
- Preparing draft legislation related to consumer protection.
- Surveillance over various shops and businesses.
- Examining customs declaration and carrying out the necessary legal action according to the directorate jurisdiction.
- Control of jewelry; the imported and the locally manufactured ones.

The most important achievements of the Consumer Protection Directorate in 2010 are:

- Conducting 11,467 monitoring visits to a variety markets and sectors in Lebanon. These visits included 50,191 commercial enterprises and required taking 11,324 samples of food and consumer goods (both imported under the customs data, or in the market, during routine surveillance) for analysis.
- Issuing 400 fines officially transferred to the Public Procurement, and 284 reports for destroying invalid goods or goods that do not conform to the specifications based on the decision of the public procurement; as well as taking the necessary measures to supervise the operations and destruction process.
- The underlining of repair warrants and meter installations were made for the benefit of 337 stations following many complaints from citizens and patrols, which were then renamed after the completion of repairs and the correction in measurements.
- Receiving a total of 1,346 complaints throughout the year, either through the hotline (1739), directly through the Directorate or to the regional offices located in the provinces (Mouhafazat). These complaints have been followed up and investigated by the Consumer Protection Directorate's inspectors and 87% of the complaints have been completed. Those remaining continue to be followed up.
- Launching a comprehensive campaign for the Lebanese consumer by broadcasting warning and awareness ads to the citizens and via various appearances of information by staff in charge, especially on the occasion of International Consumer Day on 15/03/2010. In addition, a group of experts and inspectors from the Directorate raised an awareness campaign for 120 schools in Beirut and Mount Lebanon and are planning to continue with this campaign in 2011 to include all areas of Lebanon.
- Issuing an electronic bulletin that includes several guidelines and guidance articles that concern the consumer in order to educate them of their rights. Three bulletins have been issued in 2010 and have received much acclaim and popularity among all social circles.
- Recruiting and training 120 assistant inspectors on different theoretical and practical topics before being relocated to vacant positions according to the needs in Beirut and other provinces. The training material was organized and presented by various inspectors, experts and heads of departments in the Directorate.
- Contributing to the development of a mechanism aimed at building an information database that includes the price of more than 600 items adopted by the ministry in order to form a basket of food commodities and consumer goods. This was done by collecting the price of these commodities on a weekly basis by the Directorate's experts.
- Actively contributing to the development of Lebanese standards through the permanent participation at the various technical committees at LIBNOR (Lebanese Standards Institution).

- Launching a workshop to work on the creation and development of the Geographical Information System (GIS) in the Ministry.
- Contributing to the establishment of a rapid alert system on hazardous substances (for the Mediterranean countries) to the Mediterranean countries in collaboration with the European Union.
- Participating in several national and sectoral committees, seminars and conferences on consumer protection in coordination with official and private bodies.
- Developing a comprehensive action plan for the 2011 year, which focuses mainly on the basic themes of the Directorate's work (organization, training, research, development, evaluation and coordination) which will be highlighted in that year according to a specific timetable.

## **V. Small and Medium Sized Enterprises**

The SME Unit at the UNDP Project at the Ministry of Economy and Trade, is committed to economic reforms and has been taking initiatives to improve the business environment and prepare SMEs go international through various activities mainly:

### **1) The Monitoring and Evaluation of the Business Development Centers:**

The three Business Development Centers (BDCs) across Lebanon - Berytech, BIAT, and SouthBIC - are helping to improve and build the competitiveness and capacity of start ups, existing SMEs and entrepreneurs through an array of business support services. Since the start of the SME Unit, the BDCs have had over 2500 contacts, resulting in 1650 meetings and 650 significant interventions. Moreover, the BDCs created 640 job vacancies distributed as follows: Berytech 320 jobs, BIAT 250 jobs, and SouthBIC 70 jobs.

### **2) The Monitoring and Evaluation of Kafalat:**

Enhancing access to finance through a partnership with Kafalat by providing up to 64 million Euros of credit guarantees to start ups and existing SMEs. By the end of 2010, projects guaranteed under the Kafalat "Plus" scheme reached a total number of 1404, the total loans amounted to US\$169.4 Million and the average loan amount was US\$120,640. Mount Lebanon accounted for 43.1% of guarantees, followed by the South & Nabatieh with 21.5%, Bekaa with 17.7% the North with 12.4%, and Beirut with 5.3%. The agriculture sector accounted for 43.4% of total guarantees, followed by industry with 38.7%, tourism with 14.7%, handicraft with 1.7% and specialized technologies with 1.6%.

### **3) The Implementation and Monitoring of the Second EU Funding Project:**

In 2010, the SME Support Unit was in the process of finalizing the SME component related documentations for the second EU funded project, in order to launch with other stakeholders the programme titled "Reinforcement of the Private Sector Competitiveness in Lebanon". The program aims at contributing to increase the competitiveness of the Lebanese economy by supporting the following priority actions:

- Improvement of the business environment and promoting the capacity of the private sector to grow and develop.
- Assist the BDCs to reinforce their capacity to provide support and incubate enterprises and start ups to further grow and develop.
- Establishment of Kafalat's Seed Capital Guarantee Scheme.

To this end, the SME Support Unit finalized BIAT and Berytech Grant Proposals, and is monitoring the implementation of their set activities. Moreover, the SME Unit is working on finalizing SouthBIC Grant Proposal. In this respect, it is vital to highlight the BIAT and Berytech objectives and their proposed activities.

#### **a) BIAT:**

The second EU funding aims at providing technical and financial resources: (a) to sustain BIAT, which provides entrepreneurs with services to enable them to start a new business, and (b) to expand and develop an existing business. BIAT specifically addresses two interrelated components which are:

- *Business development services* through an integrated network of specialized SME service providers and
- *Finance*, where financial institutions will be directed towards providing additional finance for SME development through loan applications provided with BIAT's assistance.

BIAT's business plan covers services, which are needed by entrepreneurs, and methods to ensure its sustainability that will enable it to provide these services on a long-term basis. Moreover, BIAT activities specifically focus on the needs expressed by the target groups in terms of training, business support services, community services and space for growth. Accordingly, the main proposed activities are sustaining BIAT's four types of services (space for productive activities, business support services, training and Community services and events).

#### **b) Berytech**

Berytech's general objective is to support dynamic private sector development in Lebanon, hence growth and employment, through supporting SME's, innovation and start-ups. Moreover, its specific objective is to support the continued operation and further development of the business development centre, Berytech, notably in the fields of Health and Cinema/Media. To this end, Berytech's foreseen results for the second financing phase are that:

- SME's continue to receive support services, counseling and training as well as virtual incubation.
- The Media and Image Industry significantly strengthen.
- Innovative business opportunities in the Health Cluster are identified and that new businesses created.

#### **4) Raising Awareness**

The SME Support Unit is raising awareness on the achievements of the Unit, BDCs, and Kafalat. Thus, publishing and providing information to the Ministry's Bulletin, Paris III, Millennium Development Goals Report, and UN ...

Moreover, the SME Support Unit and the Economic Unit launched in early 2010 the "MIGA's Guarantee Facilities and Lebanon's Investment Opportunities Conference". The conference was in collaboration with World Bank/Multilateral Investment Guarantee Agency (MIGA) and its purpose was to inform local and international investors and other interested stakeholders about Lebanon's membership in MIGA and the related services they may benefit from. To this end, the SME Unit is always highlighting the importance of MIGA guarantee facilities, and advising SMEs to benefit from this opportunity.

#### **5) Euro-Med Charter:**

The SME Support Unit is following up with the Ministry of Industry on the recent progress regarding the Euro-Med Charter. Accordingly, along with other stakeholders, it is providing information and comments on the 77 policy indicators of the Charter.

#### **6) Competitions and Awards:**

The Ministry of Economy and Trade is sponsoring and raising awareness on the Entrepreneurs competitions and awards. In 2010, the Ministry sponsored the All-world network competition and the MENA 100 Business plan, which aims to enhance the entrepreneur's environment.

## 7) Meeting with Donors:

The SME Unit is focusing on enhancing the business environment. Accordingly, it has organized and continued to organize meetings with various donors to promote and develop SMEs. In 2010, this included:

- Meetings with the different donors to discuss future ways of cooperation. A proposal to initiate a project centered on Microfinance and to amend the Cooperative Law was drafted.
- Meetings with the Municipality of Tyre regarding the establishment of a satellite BDC in the area.
- Meetings with Chamber of Commerce in Zahle regarding the establishment of a satellite BDC in the area.
- Meetings with consultants to update the study "SME Business and Market Review".

## VI. Intellectual Property Rights

Intellectual property has become a significant instrument for economic development in economies that are built on innovation and creativity. Following the enforcement of intellectual property protection laws in Lebanon, MoET - along with other relevant ministries and departments - is shaping practical strategies to combat counterfeiting and piracy, which aim to protect consumers and public health and to encourage national production. Furthermore, IPP Office carries out activities such as:

- The Revocation of Trademark, an Industrial design , a Patent of copyright
- The Registration of property Transfer /Report on a Trademark, an industrial design, or a copyright
- The Modification of the Name of the Owner of the Trademark, the owner of an industrial design, the owner of the Patent
- Changing the address of an owner of a trademark or industrial design or patent or a copyright.
- The Merging of the companies that own a trademark or industrial design or patent or a copyright
- Surveying the list of goods covered by the landmark.

⇒ In total, the number of these transactions reached 3,500 in 2010.

The activity of the IPR Department in 2010 consisted of the following transactions being registered:

1. 6,800 Trademarks
2. 345 Patents
3. 111 Registered Fees and Industrial Designs
4. 193 Copyrights
5. 205 Registered intellectual and artistic works
6. 79 Customs files, which involved conducting the necessary research, communicating results with the concerned parties and transferring the public prosecutor.

Furthermore, the following activities were undertaken by the IPP office in 2010:

- Preparations for the adoption of the Industrial Property Automation System (IPAS) of World Intellectual Property Organization, which is considered one of the best systems at the global level.
- Preparations for the adoption of the World Intellectual Property Organization (WIPO) system related to archiving (WIPO SCAN) which will help in solving the archiving problems in the IPP Office.
- A workshop entitled "Enforcement of Intellectual Property Laws" in collaboration with the World Intellectual Property Organization (WIPO) took place on the 9<sup>th</sup> and 10<sup>th</sup> of December in the Economic and Social Council. Many representatives from ministries and concerned stakeholders from the private sector and civil society participated in the workshop.
- Providing training, in coordination with Microsoft Corporation, to a number of new staff members who worked previously in the Consumer Protection Directorate.
- A workshop entitled "Integrating Intellectual Property within the Development Plans: The WIPO Development Agenda Perspective" was held on the 17<sup>th</sup> and 18<sup>th</sup> of May in the Economic and Social Council.

- Working on amending the intellectual property laws that are transferred to the parliament, and that are processed and worked on with experts from the World Intellectual Property Organization.
- Working with a patent and pharmaceutical expert from the World Intellectual Property Organization and coordinating with the Ministry of Health for the amendment of the patent law in terms of solving some outstanding problems in the field of pharmaceutical in terms of registration of medicines and protection of undisclosed information and to embed or insert of flexibilities foreseen in the TRIPS and international agreements into the Lebanese Patent Law. The visit included a high-level work meeting in the presence of the Minister of Economy and Trade and the Minister of Public Health for the purpose of coordination and policy-making.
- Preparations for the meeting with the experts from the USPTO United states patent and trademark office for discussing the ways of cooperation and coordination between the IPP Office and USPTO.
- Report on the status of in favor of the United Nations Economic Social and Cultural Organization (UNESCO).
- Report on the exceptions and limitations on the Protection of Literary and Artistic Property law for the benefit of the World Intellectual Property Organization (WIPO).
- Report on the compulsory licenses within the patent law for the benefit of the World Intellectual Property Organization (WIPO).
- Organizing a meeting related to pharmaceuticals with experts from Jordan.
- Preparation and participation in the Lebanese- Syrian Economic sub-committee meeting.
- Updating the page of Intellectual Property Right Department on the Ministry's website.
- Participating in the twentieth session of the standing committee on copyright and related rights that took place in Switzerland, Geneva between the 21<sup>st</sup> and the 24<sup>th</sup> of June, 2010.

## **VII. Insurance Control Commission Unit**

In 2010, the Insurance Control Commission Unit made a number of developments:

- Following ICC several warnings to AUG regarding its financial, governance and market conduct conditions requesting from it to comply with relevant insurance regulations, the company's license was suspended on 15/05/2010 as a first measure, and then it was withdrawn on 22/10/2010.
- Preparation to establish a call center to receive citizens' complaints in an efficient and reliable way during 2011.
- Preparation to modify some of the decrees, more specifically those related to insurance brokers.
- In January 2010, a special section of citizens' complaints against insurance companies and brokers was organized.
- Several insurance companies and brokers have been fined for violating the insurance law .They have been working illegally in the insurance brokerage field. This violation threatens the interests of the insured.
- Continuous Follow-up of the joint projects with the Ministry of Interior and Municipalities , the Ministry of Labor and the Ministry of Finance to adjust the irregularities in the market and thus to protect the insured.
- IAIS regional seminar, In April 2010 Lebanon hosted the 9<sup>th</sup> regional seminar on effective supervision of solvency and market conduct which was attended by 31 participants from all over the Arabic and North African countries
- By Mid 2010 we started working on the correction and reviewing of the first part of the Core Curriculum for insurance supervisors put forward by IAIS as a teaching material to be used worldwide and in all languages and commissioned to Lebanese translators for translation to Arabic.
- Towards the end of 2010 the work on building and designing the Insurance Control Commission website was completed and all information about the insurance sector can now be viewed on [www.isc.gov.lb](http://www.isc.gov.lb)

- In November 2010 the secretariat of the Arab Forum of Insurance Regulatory Commissions was transferred from Jordan to Lebanon in anticipation of the Lebanese ICC Head taking over the Chairmanship of the AFIRC due in April 2011 and becoming member of the IAIS Executive Committee.

## **VIII. Information Technology**

2010 was an exciting and innovating year at the Ministry of Economy and Trade's IT department. The team has initiated and participated in many workshops, projects, and seminars. Below is a list of the most reflecting achievements:

- The direct participation and management of the IT sector in Lebanon through membership in the ministerial committee responsible for the IT sector and the e-government Focus Group. The latter is the coordination body for e-government to advise respective ministers within the ICT Inter-Ministerial committee.
- Coordinating with the Office of the Minister of State for Administrative Reform (OMSAR) in order to develop a blueprint for electronic interoperability between the Ministry of Economy and Trade and all other Ministries.
- Follow up with the Office of the Minister of State for Administrative Reform (OMSAR) to develop online applications on the current paper applications used by the Ministry of Economy and Trade Departments as well as working with them on the unification of government forms.
- The completion of Revision regarding the final draft of Electronic Transactions' law in the sub-committee of the joint parliamentarian committees on 24/09/2010.
- Launching the Consumer Protection GIS project with handheld GPS devices that add more accuracy and promptness to field operations.
- Started the work on the Ministry's new website and logo.
- Bought new servers to replace the existing server hardware.
- Training the employees as part of the human resource capacity building.

## **IX. Quality Programme**

The EU funded Quality Programme at the Ministry of Economy and Trade is working towards strengthening quality Management, capabilities and infrastructure in Lebanon. The following activities and achievements took place in 2010:

- Pursuing the implementation of the quality management system within the Quality Unit at the Ministry of Economy and Trade, according to the ISO 9001:2008 standards and the preparation for the internal and external annual audits.
- Continuous coordination between the Quality Unit and all other quality-concerned stakeholders in Lebanon, especially the Lebanese standard Institute (LIBNOR).
- Finalizing the following drafting of laws and decrees related to the Quality Unit:
  1. Metrology draft law,
  2. Quality infrastructure draft decree,
  3. Technical regulations and conformity assessment procedures draft law
- Each was followed-up with the relevant ministries and other related institutions. Both the metrology and technical regulations draft laws have been approved by the Council of Ministers and transferred to the Parliament for discussion and enactment.
- Following-up on all coordination procedures with the 16 laboratories supported by the Quality Programme to ensure their proper functioning and progress towards international accreditation.

- Following-up on the preparation for the third phase of the Quality Programme with the European Union Commission to Lebanon and PAO (the Project Administration Office at the Presidency of the Council of Ministers) , as a prelude to the follow-up on the activities of the programme launched at earlier stages and the implementation of the financing agreement between the Lebanese Presidency of the Council of Ministers and the European Commission Delegation, in support to the project of strengthening the competitiveness of the private sector in Lebanon.
- Continuing the work on the development and implementation of the Lebanese Quality Management Model and the Lebanese Excellence Award process and to prepare for the launch of the second round of the award. Among the activities accomplished are:
  1. Upgrading the Lebanese Quality Management Model (LQMM) and the development of the requirements and conditions of participation in the Lebanese Excellence Award (LEA) and its entry into force.
  2. The training of newly selected technical assessors.
  3. Upgrading and calibrating the knowledge of the resident assessors who participated in the previous sessions.
  4. Printing of new manuals, brochures, and Booklets for LQMM and LEA.
- Cooperating with the EU expert, Mr. Jean Raux, as a follow up on the third phase of the Quality Programme (including meetings with relevant people at the European Commission Delegation, the Director of Consumer Protection Directorate and the beneficiaries of the programme), to further pursue the planning for the programme's activities in the third phase.
- Meeting with the Russian delegation and discussing various topics of quality, in preparation for the Memorandum Of Understanding (MOU) between the Russian Foundation for quality and conformity assessment and the Quality Programme at the Ministry of Economy and Trade in Lebanon
- Meeting with the Syrian Delegation in Damascus, in preparation for the Memorandum Of Understanding between Quality Programmes in Lebanon and Syria.
- Preparing for the field trip carried out by His Excellency the Minister of Economy and Trade and the Head of the European Commission Delegation to Lebanon, to visit Ministry of Agriculture's LARI-Fanar and Saint Joseph University laboratories and to assess the results emanating from the Quality Programme's support to them, so as to obtain international accreditation (ISO 17025) and to apply the international quality standards.
- Preparing for the establishment of the Arab Conference on Quality and Excellence.
- Participation of some members of the Quality Unit team in the following activities:
  1. Meetings related to organic agriculture in Lebanon
  2. The technical committees of the Lebanese Standards Institution (LIBNOR) related to water quality, quality systems and medical laboratories.
  3. Local, regional and international training seminars and conferences related to quality as well as coordinating the participation of members of the Consumer Protection Directorate and the Ministry of Agriculture in training sessions with the European Union abroad.
  4. A trip to Prague, through the European Union TAIEX instrument, to check their experience in preparing for negotiations and reviewing the Convention on conformity assessment and acceptance of industrial goods with the European Union.
  5. The HORECA 2010 annual exhibition for the fifth time in a row (from the 27<sup>th</sup> to the 30<sup>th</sup> of April, 2010) and distributing leaflets, brochures, and quality booklets, as well as some promotional and visibility materials, noting that the handbook on the exhibition included the opening speech of H.E. Minister of Economy and Trade.
- Delivering the following presentations for enhancing the knowledge of others on the Quality Program:
  1. A Presentation on Quality issues at Genetically Modified Organisms (GMO's) conference at American University of Science and Technology (AUST), May 26, 2010.

# Economic Highlights

The Lebanese economy was relatively stable throughout 2010. The real sector -which essentially includes real estate and construction, tourism and transport services- continued to perform well and was a principal driving force to the positive trend in economic growth. The external sector also fared well as reflected by the balance of payments surplus resulting from capital inflows sufficient to cover the trade deficit, which was negatively impacted by inflation. Although public debt continued to deteriorate in absolute terms following minor improvements in the fiscal deficit, a fall in the debt-to-GDP ratio materialized over the years due to the high rates of economic growth. The financial sector was the main economic entity that displayed a slowdown in performance in 2010 following a five-year positive trend.

**I. The Real Sector** has continued to perform well with all indicators having registered positive growth rates in 2010 with respect to the previous year.

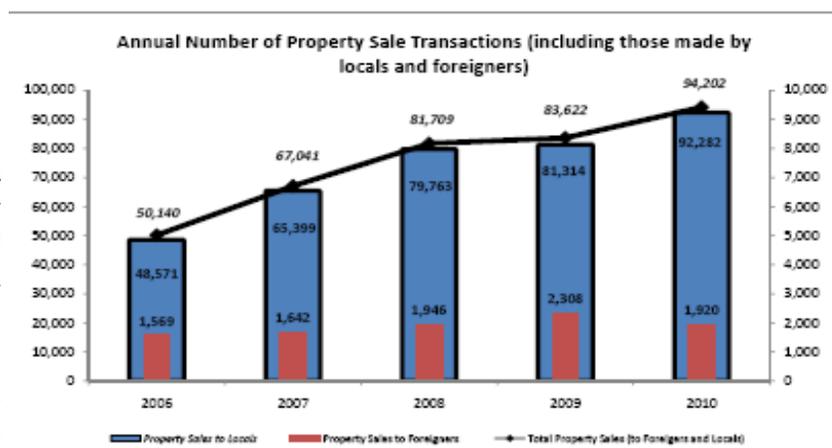
## 1. Real Estate and Construction

In 2010, the real estate and construction sector maintained the strong performance it witnessed over the last 5 years, especially from a sales and supply perspective. This came about despite the political bickering that occurred over this period, as both continued to witness a positive trend and to register encouraging results throughout.

Between 2006 and 2010, property sale transactions went up by 88%. This was mainly due to the increase in demand for property in Lebanon following the global financial crisis that emerged by the end of 2007 and the relative confidence by investors in the Lebanese economy. Transactions made by foreigners however saw a 16.8% fall in the last year. This decrease in foreign transactions indicates the recovery of regional property markets following the crisis to foreign investors.

The Lebanese property market also continued to witness a positive trend in prices. This was reflected in the consecutive increase in the average value of transactions, that is, the ratio of real estate transactions—to—number of transactions, in which the former rose by 36% over 2010 while the latter only rose by 17.5%.

In terms of the supply of new property developments, the number of new construction permits reached a record in 2010 while it doubled between 2006 to 2010. Again, the rise in the supply of new permits was a response to the high demand for property in the relatively safe haven of the Lebanese economy following the crisis. Tons of cement deliveries, a second supply indicator of building activity, also managed to outperform the levels attained in 2009, rising by 6.7% in 2010. The fact that the price of cement has also remained unchanged at US\$ 88 per ton throughout 2010 suggests more stability in the construction sector and in the overall real sector.



## 2. Services and Transport

In 2010, the service and transport sectors witnessed continued improvements in their indicators, as they maintained the upward trend observed since the July 2006 war as well as managing to surpass the record figures attained in 2009. This was especially true for tourism activity, the transport of passengers and goods and for the essential indicators that depict improvements in the telecom, healthcare and education sectors.

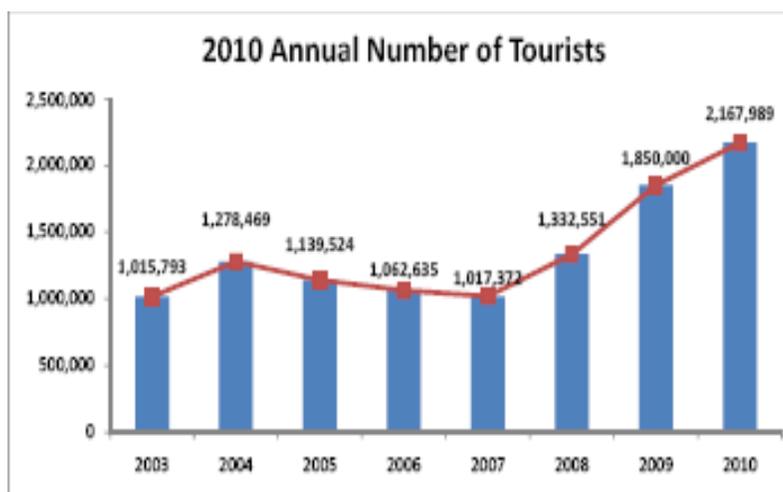
### 2a- Tourism Activity

In 2010, tourism activity witnessed record figures and demonstrate a reversal in fortune following the Doha accords in May 2008, which led to recurring record figures since the lows attained in 2007 following the aftermath of the July 2006 war. The components that reflect tourism activity include the number of tourists, tourist spending on hotels and apartments, hotel occupancy rates and revenues per average room (RevPAR).

As the graph below shows, the number of incoming tourists has seen a vast progress made in the figures attained for 2010 compared to previous years. Since 2007— which registered the lowest tourism figure since Hariri's death, the July 2006 war and the global financial recession— tourism figures have increased by 113%. In 2010 alone, they attained the highest recorded number reached in history following the previous record realized in 2009 and 1974. This boom in the tourism sector came about following political stability and assurance in the security conditions after the Doha agreements in May 2008 and the general elections in June 2009.

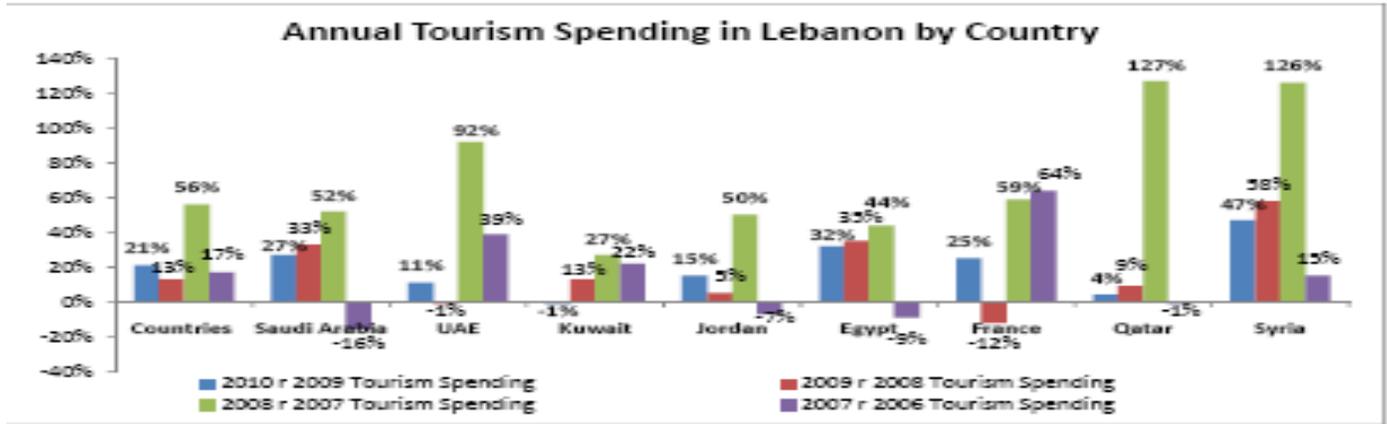
The United Nations World Tourism Organization (UNWTO) also released estimates on global figures for tourist arrivals in 2010, and it indicated that Lebanon posted the 22nd highest growth rate in the number of tourists, with a 17.6% rise from the previous year.

Furthermore, the World Travel and Tourism Council showed that many indicators saw positive rates of growth in 2010 relative to 2009 figures. For instance, the broadest measure of the economic contribution of the Travel & Tourism sector in Lebanon, otherwise known as Economy GDP, rose by 10.1% in 2010. Direct industry GDP, which measures the value added of the traditional Travel & Tourism industries excluding all indirect effects generated, increased by 11.2%. Capital investment in the tourism sector however, fell by 7.4%.



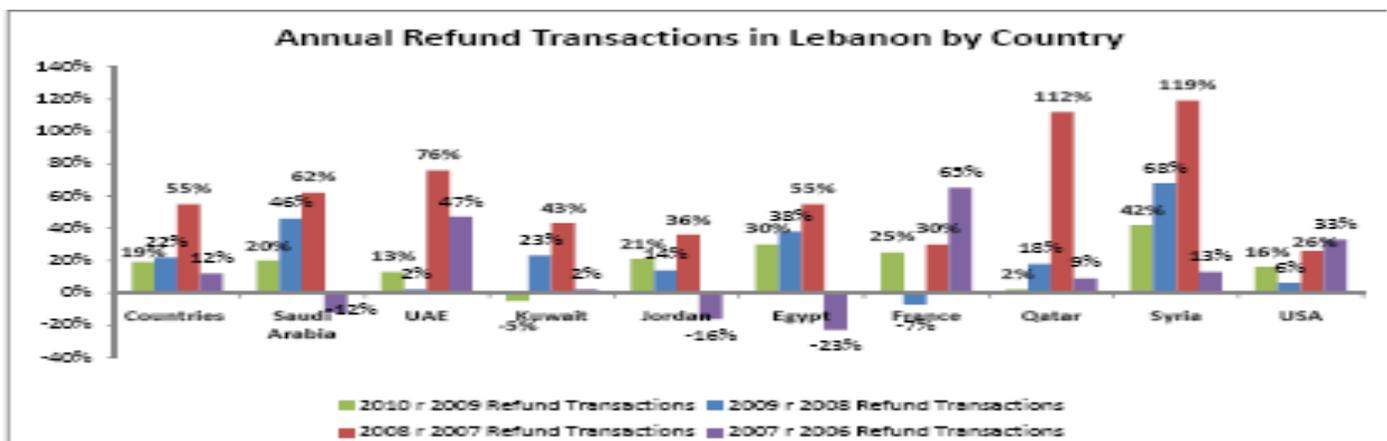
| Lebanon  | 2008  | 2009  | 2010  | 2011   |
|--|-------|-------|-------|--------|
| <b>Travel &amp; Tourism Economy GDP</b>            |       |       |       |        |
| 2000 US\$ bn                                       | 7.044 | 8.877 | 9.78  | 10.382 |
| Real growth (%)                                    | 14.9  | 26    | 10.1  | 6.1    |
| <b>Travel &amp; Tourism Direct Industry GDP</b>    |       |       |       |        |
| 2000 US\$ bn                                       | 2.387 | 3.117 | 3.468 | 3.696  |
| Real growth (%)                                    | 15.4  | 30.5  | 11.2  | 6.5    |
| <b>Travel &amp; Tourism Economy Employment</b>     |       |       |       |        |
| Real growth (%)                                    | 8.7   | 22.9  | 7     | 3      |
| <b>Government Travel &amp; Tourism Expenditure</b> |       |       |       |        |
| 2000 US\$ bn                                       | 0.299 | 0.315 | 0.325 | 0.325  |
| Real growth (%)                                    | 3.7   | 5.3   | 3.1   | -0.1   |
| <b>Capital Investment</b>                          |       |       |       |        |
| 2000 US\$ bn                                       | 0.578 | 0.573 | 0.53  | 0.525  |
| Real growth (%)                                    | 18    | -0.8  | -7.4  | -0.9   |

The strong influx of tourists and the advantages they bring to an economy can also be observed through their spending pattern. Data collected from Global Refund provides an insight into tourist spending and shows that the absolute annual tourism spending figures have continuously increased since 2006. The year to date spending evolution for 2010 relative to 2009 rose by 21%. This fairs well compared to the 13% witnessed a year earlier in 2009 whereas the relative increase reached 56% and 17% in 2008 and 2007 respectively. The chart below depicts the aggregate increase in spending by tourists in Lebanon together with those observed according to their country of origin for 2010.



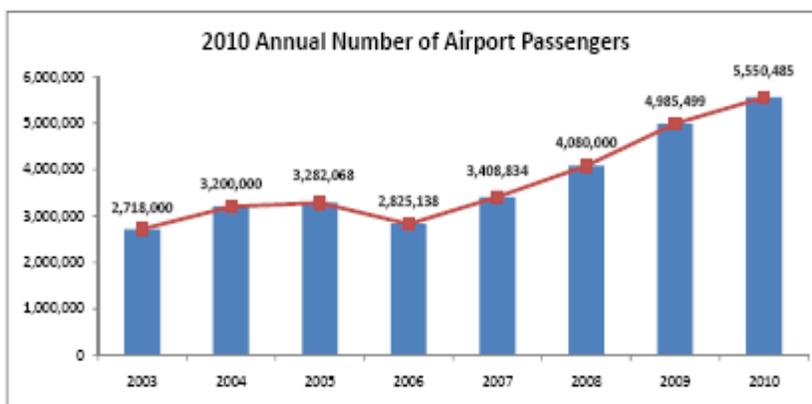
Furthermore, the positive spillovers of tourism, can be shown throughout the number of tax free purchases in 2010, a method often portrayed as illustrating the amount of spending by tourists. Global refund, the firm that reimburses VAT to tourists at Lebanese border points, revealed that these tax free purchases reported a year on year increase of 19% in 2010 relative to 2009. Although the year on year increase was less significant than in 2009- which reached 22%- an increase still indicates a rise in tourist activity and spending, and therefore highlights the strengthening of this sector in the last year. This further compares to the 55% and 12% increase observed in 2008 and 2007 respectively.

Similarly, hotel occupancy rates in Lebanon reported an average of 68% in 2010, down by 5% from the 73% registered in 2009. Furthermore, the average rate per room at hotels in Beirut increased and reached US\$257 in 2010, up 3.2% from the US\$249 attained in the previous year. The improvements made are in line with the rise in the number of tourists visiting Lebanon in 2010, thus demonstrating the strength of the Lebanese hospitality sector and its resilience to the global and regional crisis.



## 2b- Transport

The transport sector in Lebanon for passengers and goods also saw improvements in 2010 and following the positive trend witnessed in the previous years. In terms of passengers, the number of passengers passing through Beirut Rafic Hariri International Airport as a whole increased in 2010 year relative to 2009. This increase was the result of a rise in all three components that make up the number of passengers, namely the number of arrivals, departures and transits, which saw a 10.7%, 11.9% and 23.9% increase respectively. The rise in the number of airport passengers follows the rationale behind the explanation in the rise in the number of tourists. This increase in passengers further reflects a high amount of activity in Lebanon from foreign tourists, expatriates and businessmen, who in one way or another, add value to consumption and investment through their spending.

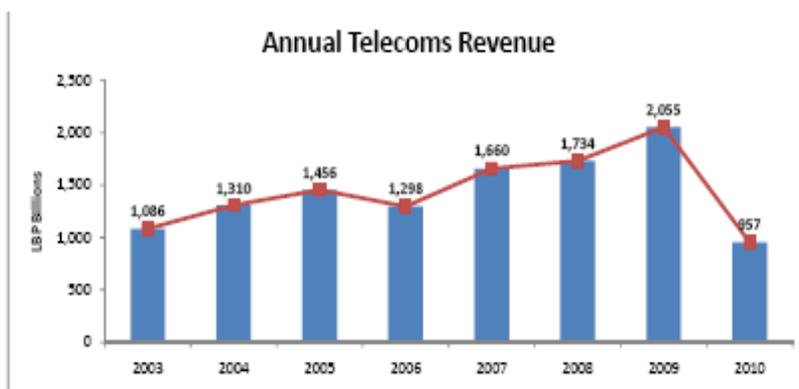


In terms of the transport of goods, this will be evaluated more thoroughly in the next section. However, a brief look at the table below depicts the breakdown of the most widely used points of entry of goods into Lebanon since 2007. As the percentages below show, imports (M) of goods into Lebanon are mainly attained via maritime followed by air transport. Following a similar pattern for imports of goods into Lebanon, exports of goods on the other hand in the last 2 years are dominated by air transport. 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.

|                      | 2007 |     | 2008 |     | 2009 |     | 2010 |     |
|----------------------|------|-----|------|-----|------|-----|------|-----|
|                      | M    | X   | M    | X   | M    | X   | M    | X   |
| Port of Beirut (Sea) | 61%  | 37% | 71%  | 34% | 66%  | 27% | 65%  | 33% |
| R.H.I. Airport (Air) | 17%  | 29% | 16%  | 26% | 20%  | 42% | 19%  | 39% |
| Masnaa (Land)        | 6%   | 20% | 5%   | 19% | 5%   | 18% | 6%   | 15% |
| Tripoli (Land)       | 3%   | 6%  | 6%   | 12% | 6%   | 5%  | 6%   | 6%  |
| Abboudieh (Land)     | 1%   | 3%  | 0%   | 7%  | 1%   | 8%  | 1%   | 7%  |
| Arida (Land)         | 0%   | 1%  | 0%   | 2%  | 0%   | 1%  | 0%   | 0%  |

## 2c- Telecoms

Telecoms has been a major source of revenue for the fiscal budget and has been on an upward trend since 2003, except in 2006 in the period of the July 2006 war. This increase should have continued followed through in 2010, following essential steps the government took in April 2009 to reduce tariffs and increasing the maximum number of subscribers for each operator, but did not materialize as a result of differences in opinion between the Ministry of Telecommunication and the Ministry of Finance, which prevented the transfer of those funds. It should be kept in mind however that such a barrier does not reflect the true value of the telecom revenues in 2010 and, as such, is most probably a lot higher.



Nevertheless, the developments in the sector have encouraged the growth in telecoms and consequently, growth to the economy. Lowering tariffs and increasing subscriptions in April 2009 had a startling effect on subscriber growth: rates increased by 40.4% by the end of Q2 2009 relative to end of 2008 and 63.5% by the end of 2009 relative to the same period. This compares to a 9.1% and 20.4% increase in cellular line growth in 2007 and 2008 respectively. In addition to this, projects to improve the dissemination of broadband services and a project launched by the Ministry of Telecommunication to upgrade telecommunication networks to 3G are expected to increase the speed of internet usage in the

## 2d- Healthcare and Education

Lebanon was once known as the hospital and educational center of the Middle East. First, it is a terrific destination for healthcare as the country enjoys a good climate and has the necessary infrastructure in the form of well equipped hospitals and skilled and specialized doctors to accommodate foreigners. This sector has further shown signs of growth in the last year. One indicator that illustrates growth in the healthcare sector is the pharmaceutical market. In 2010, Lebanon's pharmaceutical market was calculated to have been worth around LBP1,445bn (US\$960mn), having posted a 10.6% year-on-year relative to the LBP 1,307bn (US\$870mn) attained in 2009.

In terms of education, the cost of education rose since the increase in the minimum wage in May 2008. This has consequently led to a fall in the number of students enrolled in both public and free private schools, reaching 427,761 in 2007-2008 from the 450,784 attained in 2006-2007.

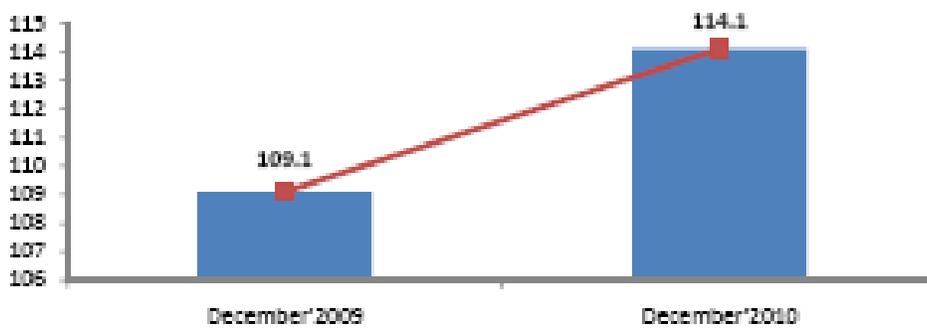
## 3. Inflation

According to official estimations as indicated by the Consumer Price Index (CPI) issued by the Central Administration of Statistics (CAS), the CPI reached its peak by the end of 2010, indicating a 14.1% rise in inflation since the new basket of goods was introduced in Dec 2007 and a rise of around 4.6% relative to the figures observed a year earlier. The high percentage witnessed over this period was mainly due to the inflation in food prices and fuel in the 2008-2009 period while in 2010, the biggest increase in prices was seen in clothing and footwear, in water electricity and gas, in food prices and in education as they increased by 20.3%, 8.1%, 6.8% and 6.3% respectively.

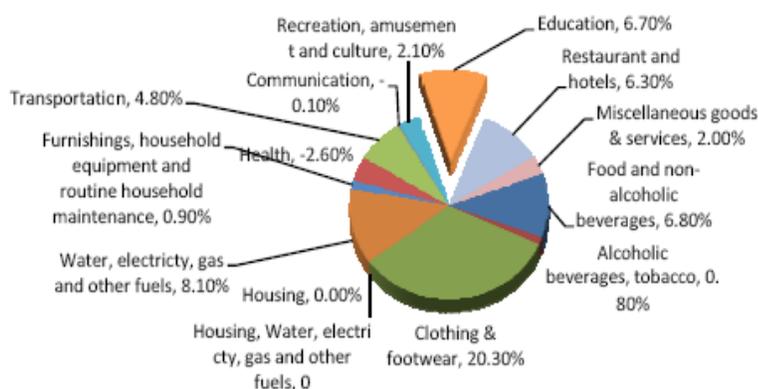
It is important to note that most of Lebanon's inflation is either imported inflation in commodities or due to currency fluctuations. Global changes in commodity prices and exchange rates with the US\$ as a result have a significant effect on the value of domestic goods and consequently imports and exports. The increase in the price of apparel in 2010 is therefore explained by

cotton yarn crops been severely hit following the severe floods in Pakistan and bad weather in India and China, which are three of the world's major producers of cotton. Similarly, the steady increase in global prices of food and energy has put pressure on the price of domestic food and household energy. The rise in the price of education rose despite a drop in educational books and supplies following a hike in tuition fees and increases in the price of school transportation. Given that the greater share of Lebanon's imports are from Europe and with the overall weakening of the dollar against the Euro in 2010, inflation at the domestic level has consequently been on the rise.

Consumer Price Inflation (Dec 2007=100)



Inflation in 2010 relative to 2009



**II. The External Sector** fared well in 2010 as reflected by the balance of payments surplus following sufficient capital inflows to cover the trade deficit negatively impacted by inflation. Although aggregate trade activity rose by 12.6% throughout 2010, imports continued to be the key component driving this expansion. This fact has also put a constraint on the performance of the sector, as the goods trade deficit consequently rose by 7.5%. In terms of the trade in goods, the main point of entry remains the Port of Beirut.

**2a- Balance of Payments and Capital Inflows**

Between 2006 and 2010, the balance of payments figures rose by 182%, reaching their peak in 2009 and then, falling back 57.8% by the end of 2010. This sharp year on year fall in the surplus was clarified through the figures recorded by capital inflows and the trade deficit, whereby the continued influx in the former was more than able to cover the deficit in the latter.

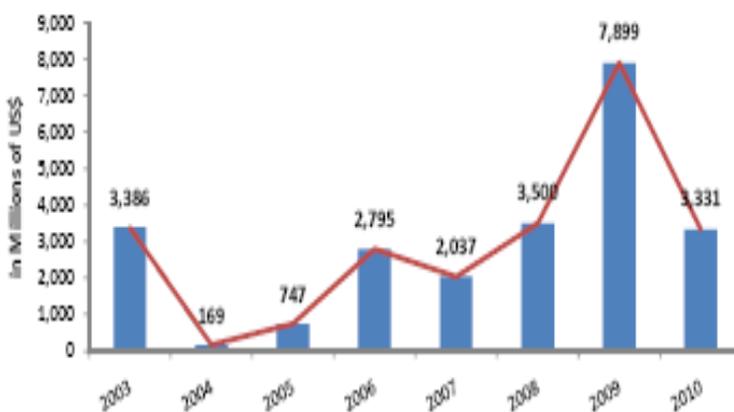
The balance of payments saw a revival following the political resolution witnessed in Lebanon in 2008 and the economic revival that ensued thereafter. Moreover, given that the financial crisis and its repercussions were still ongoing throughout 2009, Lebanese emigrants and Arab foreign national continued to pour their money into the sound Lebanese banking system, thus resulting in an ever greater influx of foreign assets and the high base registered for that year. In 2010 however, a 17.5% downturn was seen in capital inflows.

Capital inflows mainly come in the form of bank deposits, remittances, transfers from tourists and foreign direct investments. Some of these elements may help explain this decline. First, commercial bank deposits make up the bulk of capital inflows, which witnessed a fall following a revival of the economies in the region. Furthermore, the World Bank estimated Foreign Direct Investment (FDI) in Lebanon at \$US 4.65 Billion in 2010, constituting a decline of 3.2% from the \$US 4.8 Billion attained a year earlier.

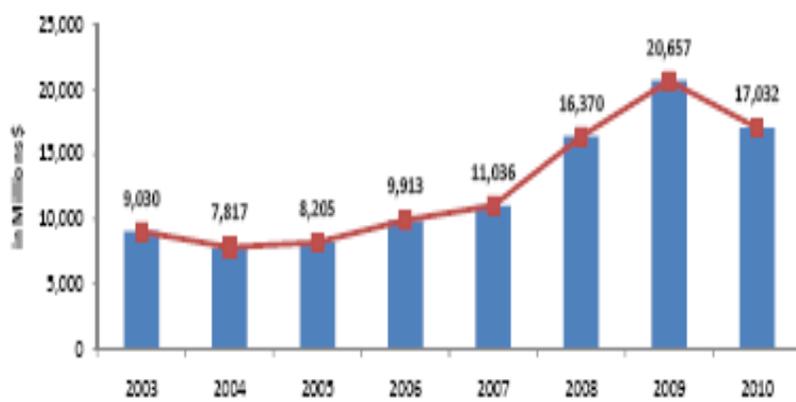
Another component of capital inflows- remittances—however, was estimated by the World Bank to have increased to \$US 8.4 Billion in 2010, relative to the \$US 7.6 Billion attained in 2009. In the update of its 2010

edition of the "Migration and Remittances FactBook," the World Bank said that this figure was equivalent to 22% of total remittances for the region and that in 2011, they would continue to grow by 8%, on the back of a recovery in the MENA region and globally. This increase however was not enough to make up for the fall in the remaining elements.

**Annual Balance of Payments**



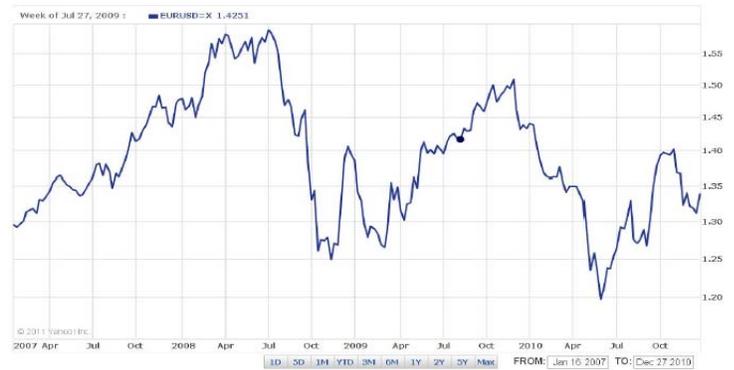
**Annual Capital Inflows**



Oil Price (\$US/per Barrel)

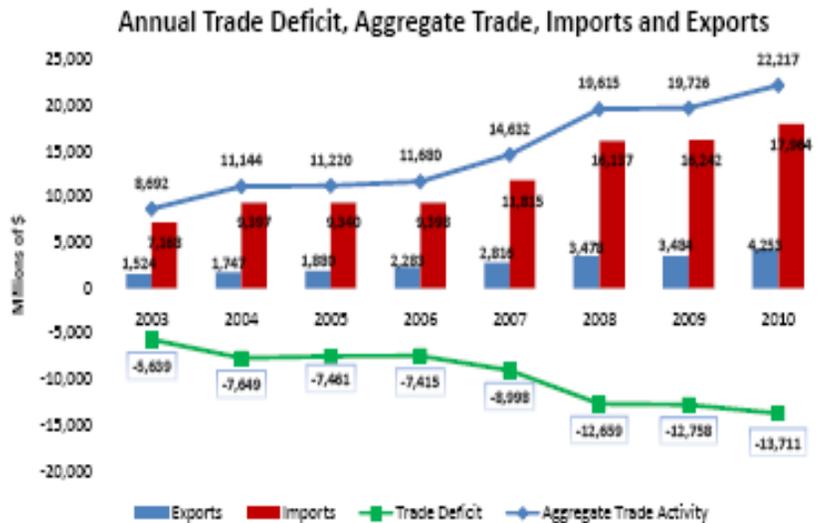


\$/Euro Exchange rate



**2b- Trade**

Rigid domestic demand continued to influence the trade sector in Lebanon as aggregate trade maintained its year on year performance, with a rise in both export and import values in 2010. Exports rose by 22.1% while imports witnessed a 10.6% increase such that the trade deficit widened by 7.5%. This pattern represents the general outline of the trade sector in the preceding years, especially in the period characterized by the global financial crisis. At the local level, this rise in aggregate trade represents a continuing rise in domestic demand and illustrates Lebanon's resistance to the financial crisis at a time when global demand was experiencing a downturn.



The increase in imports on the other hand in the last 4 years is due to the rise in the price of oil in global markets and the overall depreciation of the US\$ to the Euro. The rise, albeit small, in Exports during this period also shows how the crisis had a negative effect on regional economies through the fall in external demand for local products.

In 2010, the 12.6% rise in trade aggregate activity comes as a result of the gradual recovery from the global crisis witnessed in the region and due to the continued strong economic performance of the Lebanese economy. Export values rose to US\$4,253 Million by December 2010 while import values grew to reach US\$17,964 Million. However, considering that the value of imports outstripped the value of exports by the end of the year, merchandise trade therefore continues to pose a constraint on the overall performance of the external sector. Over the 2010 period, the trend in exports and imports was as follows: exports saw a 12.3%, 25.2% and 23% respective rise in the first, second and third quarter of 2010 relative to the same period in 2009. This positive change continued into the fourth quarter despite the heightening in political tensions as they registered a 22.1% rise. Imports similarly saw a continuous year on year rise in percentages, as they registered a 35.3%, 9.6%, 10% and 10.6% increase in the first, second, third and fourth quarter of the year respectively.

The rise in import activity in 2010 can be attributed to the combined effects of the gradual rise in the price of oil in 2010 relative their 2009 prices and the overall strengthening of the Dollar against the Euro in the first half and towards the end of 2009, as shown in the graphs on the opposite page. Not only was Lebanon's top import—petroleum—thus more expensive on international market, which significantly increased the value of imports, but the strengthening in the dollar also translated into European goods being more expensive on average throughout 2009 and hence, led to an overall rise in import values in 2010 relative to 2009. Combining this with the fact that the rise in the volume of imports was at around 2.5% shows a small but nonetheless significant rise in domestic economic demand in the country. The continuous increase in the value of Lebanese exports throughout the year is due to the economic recovery witnessed in Lebanon's main trading partners, namely the Arab countries in the region and the European nations.

## 2c- Maritime Transport Services

In terms of the main maritime transport services, the activities at the Port of Beirut in 2010 also reflect sound trading activity relative to those seen in previous years. Figures representing the tons of goods (incoming and outgoing) transported, the total number of containers (loaded and unloaded) at the port and the amount of revenues generated by the Port of Beirut show that in each case, trading activity has increased on the whole, especially since the July 2006 war.

| Port of Beirut | Port Activity in Tons (000s) | Container Activity in TEU (000s) | Revenues (US\$) |
|----------------|------------------------------|----------------------------------|-----------------|
| 2010           | 6,470                        | 599,433                          | 166,827,992     |
| 2009           | 6,324                        | 591,190                          | 165,262,251     |
| 2008           | 5,746                        | 527,209                          | 132,548,141     |

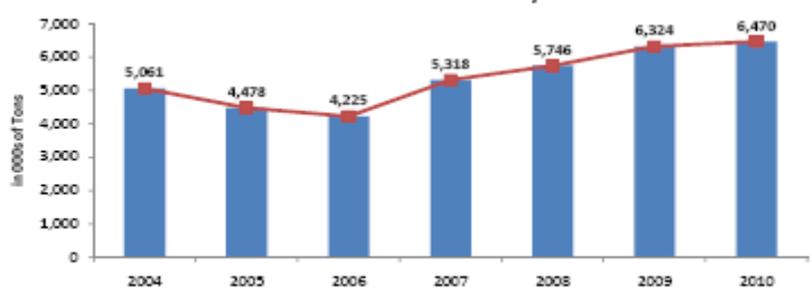
Throughout 2010, port activity- measured in total tons of goods transported- increased by 2.3%, 12.6%, 21.7% and 53.1% respectively relative to 2009, 2008, 2007, and 2006. The volume of containers quantified in TEU- a measure of capacity in container transportation otherwise known as Twenty Foot Equivalent Unit- also saw increases of 1.4%, 13.7%, 34.9% and 72.8% relative to 2009, 2008, 2007 and 2006 respectively. Similarly, the total amount of revenues generated by the port of Beirut further increased in 2010 by 0.95%, 25.8%, 46.6% and 120.6% respectively relative to 2009, 2008, 2007 and 2006.

This consistent rise in the above mentioned port indicators can partly be attributed to the fact that the Beirut Port was rehabilitated and expanded to encompass four docks, two new quays and a new container terminal with an annual 700,000 container-capacity, which became operational in 2005. The increase space together with the fact that the bulk of containers handled by this point of entry go to Syria, Jordan and Iraq, who all experienced good rates of economic growth since 2006, have added to this consistent rise in trade activity at the port.

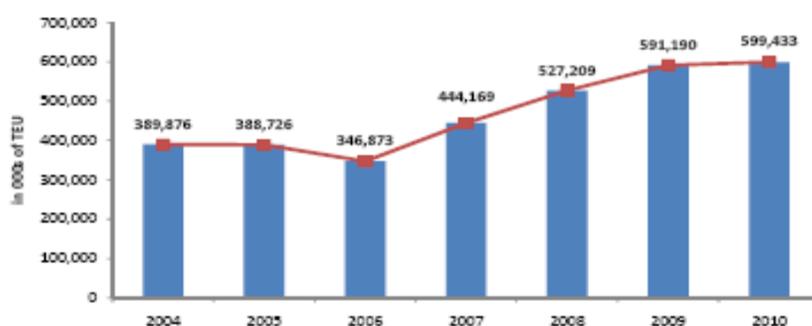
In addition to this, data obtained from Customs shows that the value of goods in transit reached US\$387,812 in 2010 relative to the US\$428,795 attained in 2009, that is, a 9.5% decrease. The weight (in KGs) of the goods in transit also witnessed a fall of 7.4%. Both reductions in transit figures in terms of value and volume indicate a lower value per KG in transits at the port from US\$1805.7/KG in 2009 to US\$1700/KG in 2010.

### BEIRUT PORT ACTIVITY

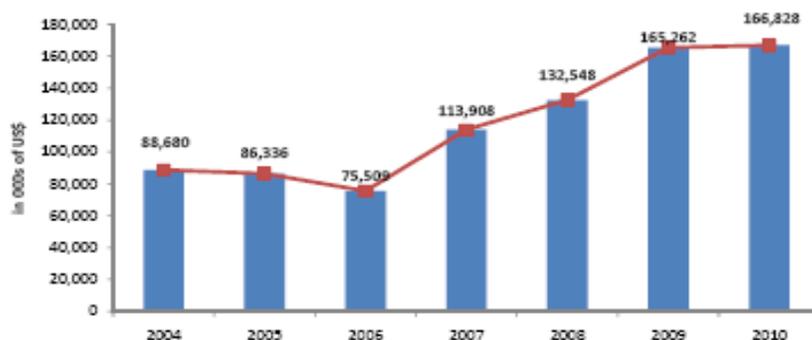
Annual Volume of Goods In/Out



Annual Volume of Containers

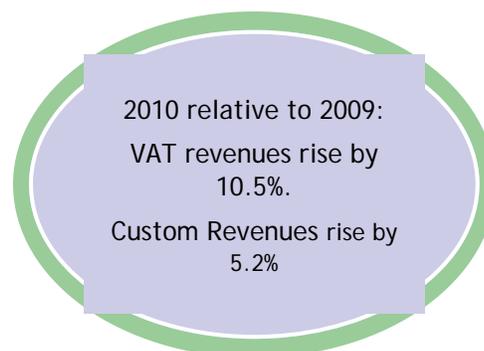


Annual Beirut Port Revenues



**III- The FISCAL Sector** was characterized by relative stability in 2010 as the fiscal deficit attained slightly lower levels to the ones reached in 2009. Actually, it has been on a downward trend in the last five years with the exception of the years 2006 and 2008. Although public debt grew in absolute terms, persistent improvements in economic growth -rather than the fall in the fiscal deficit- over the years have been responsible for the fall in the Debt-to-GDP ratio. By end 2010, the ratio fell to a low 134% whereas it had reached an all time high of 180% in 2006.

| In Millions of LBP     | 2009       | 2010       | %       |
|------------------------|------------|------------|---------|
| Budget Revenues        | 12,036,474 | 12,018,493 | -0.15%  |
| Budget Spending        | 13,028,439 | 15,229,200 | 16.89%  |
| Primary Budget Surplus | 5,094,842  | 3,006,931  | -40.98% |
| Treasury Revenue       | 668,801    | 665,830    | -0.44%  |
| Treasury Spending      | 1,880,288  | 1,859,896  | -1.08%  |
| Total Expenditures     | 17,167,260 | 17,089,096 | -0.46%  |
| Total Revenues         | 12,705,275 | 12,684,323 | -0.16%  |
| Total Fiscal Deficit   | -4,461,985 | -4,404,773 | -1.28%  |
| Total Primary Surplus  | 1,624,822  | 1,812,865  | 11.57%  |



### **3a- Fiscal Deficit**

**Fiscal Deficit fell by 1.28% relative to the whole of 2009** following a downward trend in the last 5 years with the exception of the year 2006 and 2008. In 2006, expenditures shot up following the July 2006 war while in 2008, the rise in the global price of oil and worldwide inflation fuelled the government to both raise transfers to EdL and increase the salaries and wages of civil servants.

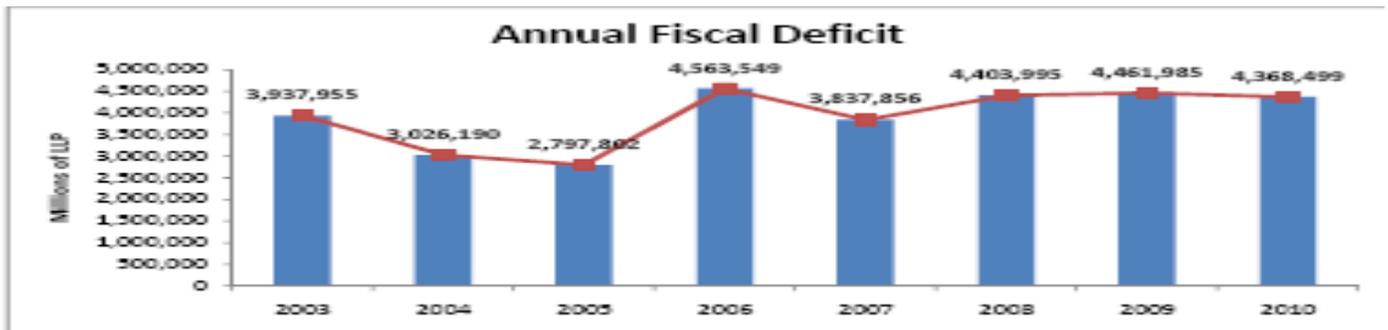
Although total expenditures reached LBP 17,089 Billion (US\$ 11,335 Billion) given that total revenues reached LBP 12,684 Billion (US\$ 8,410 Billion) in 2010, the public finances improved in relative terms as the percentage fall in total expenditures surpassed that of total revenues (0.46% versus 0.16%), thus allowing the ratio of the total deficit to expenditures to slightly drop from 25.9% in 2009 to 25.7% in 2010.

On the **revenues side**, total revenues fell by 0.16% and this was attributed to the deterioration in both budget revenues (tax and non tax revenues), which saw a 0.15% fall in 2010 compared to 2009, and treasury revenues, which saw a 0.44% fall. The fall in budget revenues was due to a 33% drop in non-tax revenues which could not be compensated for by the 11% rise in tax revenues. Tax revenues displayed a strong performance in the following items:

- A) Tax on property, which saw an increase of 34%.
- B) Taxes on international trade (i.e.: customs and excise duties), which saw a 5% increase.
- C) Domestic taxes on goods and services improved by 10% as VAT revenues and property taxes increased by 11% and 5% respectively relative to 2009.
- D) Taxes on profits, capital gains, wages, salaries and income improved by 11% in 2010 relative to 2009 due to a 13%, 11% and 19% increase in tax on interest income, income tax on profits and income on capital gains and dividends respectively.

Non tax revenues also fell 33.5% in 2010, mainly due to transfers from telecoms and rent from Rafic Hariri International Airport falling by 53% and 21% relative to the previous year. In addition to this, treasury revenues fell by 0.4%.

On the **spending side**, total expenditures fell by 0.46% in 2010 relative to 2009. This comes as a result of a combined fall in both budgetary and treasury spending, which plunged 0.44% and 1.08% respectively. This fall in total budgetary spending was the result of a 2.1% fall in general budgetary expenditures, which includes a 20.4% drop in EdL Transfers, a 2.71% rise in interest payments as a result of the domestic and foreign debt taken up by the government and a 7.1% rise in foreign debt principal repayments. Despite a strong increase in municipality and spending on deposits, the 1.08% fall in treasury expenditures came as a result of the 80% drop in extended guarantees.

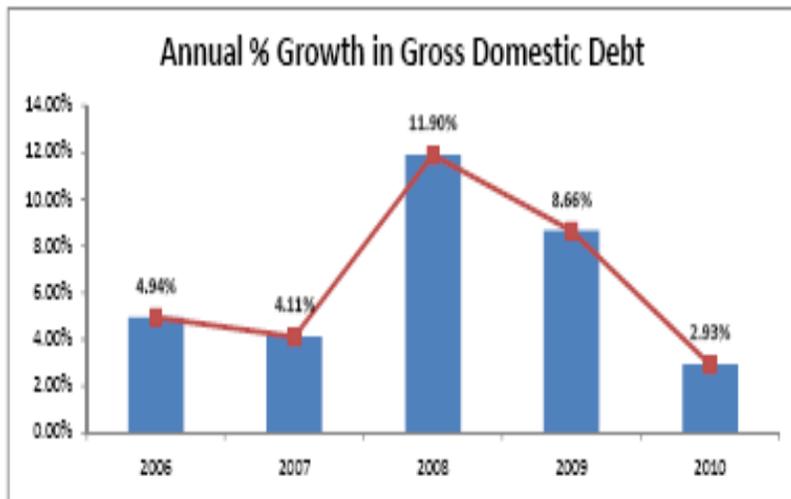


### 3b-Gross Public Debt

**Gross Public Debt** has continued to rise throughout 2010, as it reached LBP 79,295 Billion (US\$ 52.6 Billion) by the end of 2010 relative to the LBP 77,112 Billion (US\$ 51.2 Billion) attained by the end of 2009, that is an increase of 2.83%.

The 2.83% increase in Gross Public Debt is primarily due to an increase in local domestic debt, which grew by LBP 3,282 Billion (US\$ 2,177 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 27.1% and 7.5% respectively in 2010. Local Commercial Banks saw a 0.3% drop in financing. Foreign currency debt, on the other hand, fell by 3.4% for the same period, whereby Bilateral and Multilateral Debt as well as Paris II and Paris III loans shrunk by a respective 3.4%, 14.2% and 5.5% over this period. Market issued Eurobonds together with the interest accumulated on such bonds however saw a 0.6% and 5% respective increase over the similar period.



Taking account of the rise in public sector deposits for the same period, the Net Public Debt becomes LBP 66,876 Billion (US\$ 45.1 Billion).

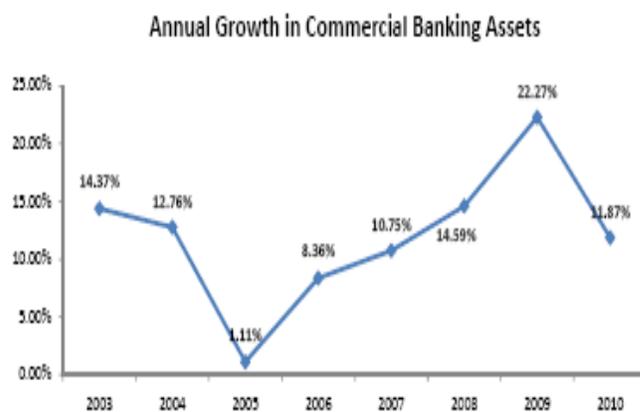
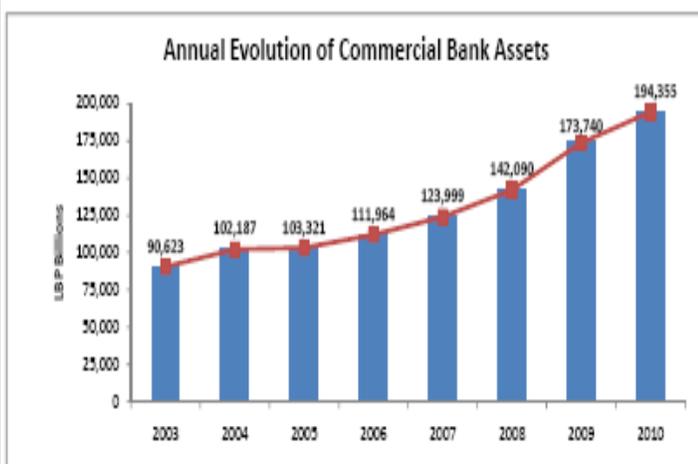
|  | 2009                   |                      | 2010                   |                      |
|--|------------------------|----------------------|------------------------|----------------------|
|  | as % from Local Debt   | as % from Total Debt | as % from Local Debt   | as % from Total Debt |
| <b>Local currency Debt</b>                     | 100.00%                | 58.39%               | 100.00%                | 60.86%               |
| Central Bank                                   | 22.98%                 | 13.42%               | 21.42%                 | 13.03%               |
| Commercial Banks                               | 60.67%                 | 35.43%               | 56.55%                 | 34.41%               |
| T-Bills  | 16.35%                 | 9.55%                | 15.24%                 | 9.27%                |
|  |                        |                      |                        |                      |
|  | as % from Foreign Debt |                      | as % from Foreign Debt |                      |
| <b>Foreign Currency Debt</b>                   | 100.00%                | 41.61%               | 100.00%                | 39.14%               |
| Bi-Multilateral & Foreign Private sector loans | 9.26%                  | 3.40%                | 8.18%                  | 3.31%                |
| Paris II related debt (Eurobonds etc..)        | 18.95%                 | 6.26%                | 15.04%                 | 5.22%                |
| Paris III related debt                         | 4.24%                  | 2.55%                | 6.13%                  | 2.34%                |
| Market issued Eurobonds                        | 64.96%                 | 28.22%               | 67.82%                 | 27.58%               |
| Interest on Eurobonds                          | 1.28%                  | 0.60%                | 1.44%                  | 0.61%                |
| T-Bills in Foreign currency                    | 1.31%                  | 0.58%                | 1.39%                  | 0.09%                |

## IV- The Financial Sector displayed a slowdown in its performance in 2010 compared to 2009.

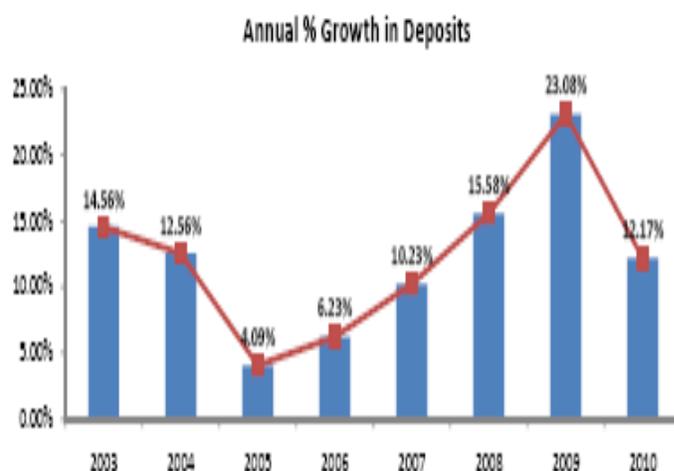
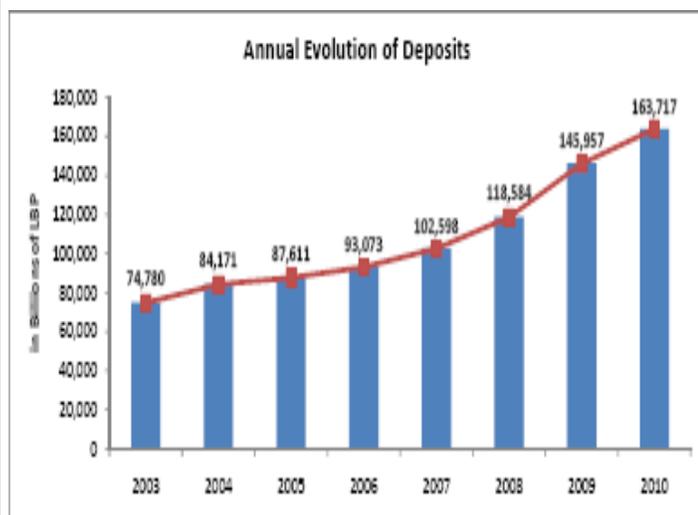
Banking and financial indicators such as commercial bank assets, liquidity –as shown via the inflow in deposits- and money supply clearly demonstrated this trend, as growth rates fell despite a positive evolution in absolute numbers. Similarly, the Beirut stock exchange also saw a slowdown in 2010. Only the insurance sector saw consistent improvements over this period.

### 4a- Banking and Financial Institutions

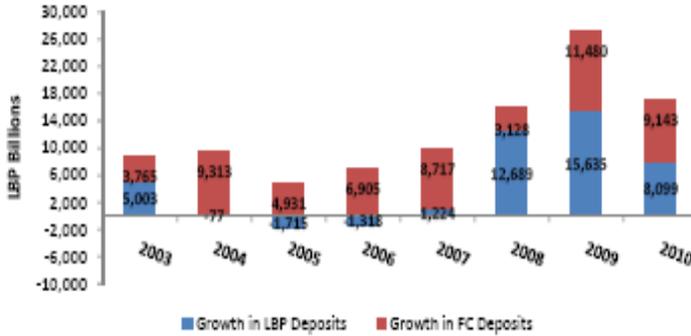
Total assets of commercial banks increased by LBP 20,614 Billion (US\$ 13.67 Billion) by the end of 2010 relative to the LBP 31,657 Billion (US\$ 21 Billion) annual growth attained over the same period in 2009. That is, in 2010, Commercial Bank Assets increased by 11.9%, but growth in assets actually experienced a 34.9% fall relative to the figures attained in 2009.



The fall in the growth in commercial banks' consolidated assets was the result of a fall in capital inflows that are driven by customer deposits. Although the evolution in **customer deposits** continues to move in an upward direction, as it increased by 12.2% in 2010 to reach LBP 163,717 Billion (US\$ 109.1 Billion), the year on year growth in deposits actually fell by 35.1%. Despite the 2010 recorded growth in the level of deposits being a lot less than the level attained in 2009, it remains relatively healthy when compared to historical trends. This reduction is a reflection of the unusually high inflows attained during the period of the financial crisis, again, an indicator of the high confidence of depositors to invest in the Lebanese banking sector.



Annual Growth in LBP and Foreign Currency Deposits

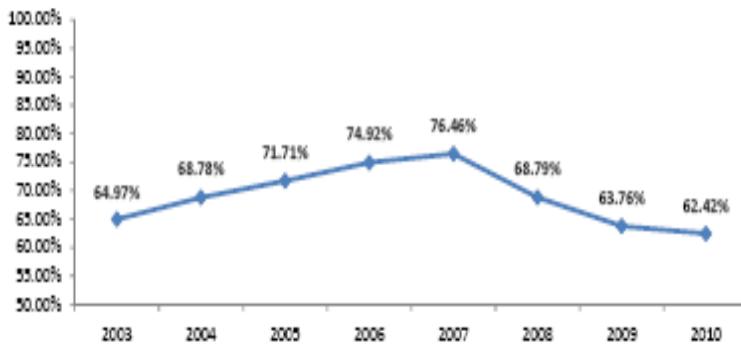


Among the fall in deposits, **foreign currency deposits** saw a greater fall relative to **Lebanese Deposits** by the end of 2010. As the graph aside shows, the former fell by LBP 7,536 Billion, or 48.1%, while the latter fell by LBP 2,337 Billion, or 35%, over the 2010 period. The smaller reduction in Lebanese pound deposits relative to FC deposits indicates confidence in the Lebanese Pound and in the Lebanese Banking sector resulting from the latter's resilience to the financial crisis since its inception in 2007.

| Type of Deposit                                    | 2010 Growth | 2009 Growth |
|--|-------------|-------------|
| Resident Private (82% of Total Deposits)           | 12.03%      | 19.49%      |
| Non Resident Private (17% of Total Total Deposits) | 11.54%      | 44.04%      |
| Public (1% of Total Deposits)                      | 32.55%      | 19.43%      |

Furthermore, the opposite table shows that over the same period in 2010, the **Public sector** was the category with the greatest percentage increase in deposits (32.55%), followed by the **resident private sector** deposits (12.03%) and closely thereafter, by **non-resident private sector** deposits (11.54%). The positions for each category have changed since the ones

Annual Dollarization Rates

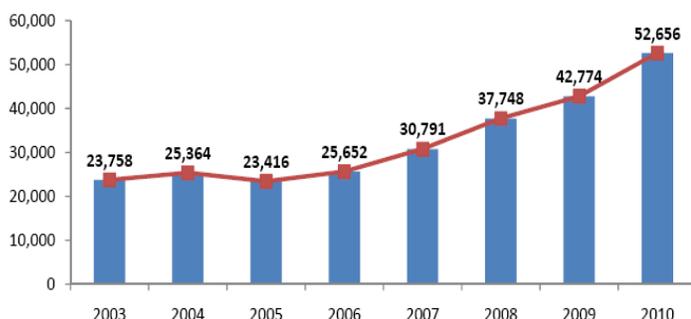


observed a year earlier, as well as their values changing significantly. In 2009, growth values for each type of deposit was much lower than in 2010, thus illustrating Lebanon's less influential position as providing a relatively safer haven to private customers following the revival of the regional economies.

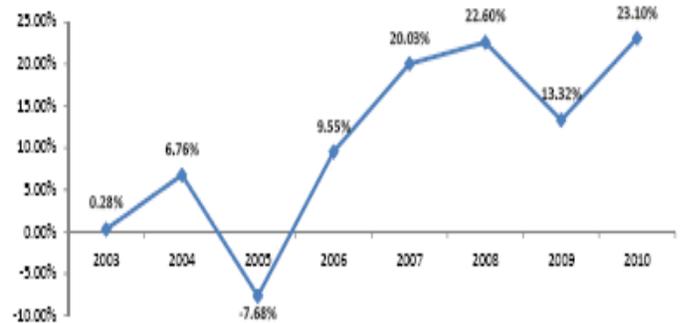
This growth in LBP deposits relative to FC deposits has consequently led to a continued fall in dollarization rates in the Lebanese Banking system. According to the total deposits and deposits in LBP obtained from the central bank, **dollarization rates** have recorded their lowest level in the last decade, reaching 62.4% by the end of 2010.

Regarding the uses side of the consolidated balance sheet, Data compiled by the Association of Banks in Lebanon shows that by the end of 2010, **claims (lending) to the private sector** reached LBP 52,696 Billion (US\$ 34.9 Billion), representing a year on year rise of 23.2%. Growth in total claims since the outset of 2010 reached LBP 9,882 Billion compared to LBP 5,026 Billion over the same period in 2009. This rise in bank lending activity was able to match credit activity and help drive economic growth in the Lebanese economy throughout the year.

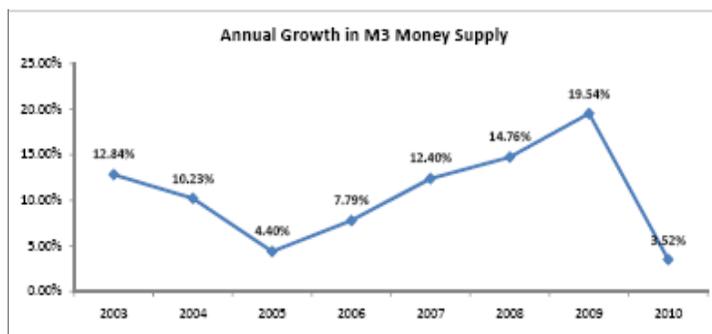
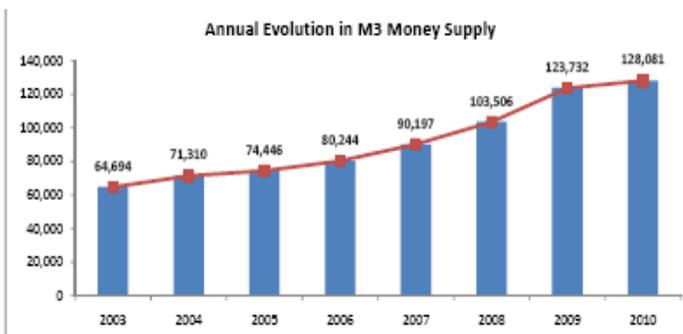
Annual Total Claims on the Private Sector



Annual % Growth in Total Claims to the Private Sector

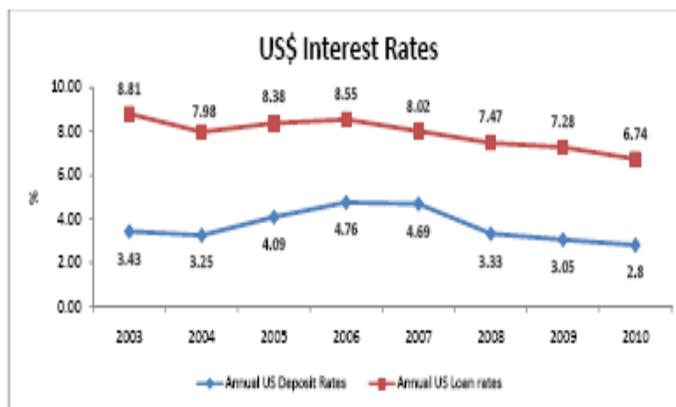
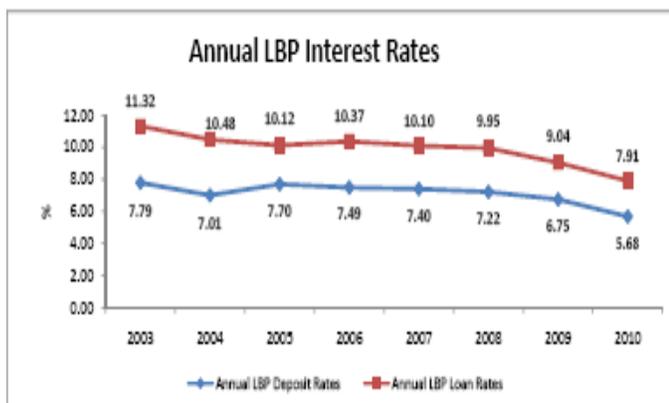


**The stock of money and quasi money (M3)** grew to LBP 138,909 Billion (US\$ 92.15 Billion) by the end of December 2010. However, growth in M3 reached LBP 15,178 Billion (US\$ 10.1 Billion)- a fall of 78% in the 2010 annual growth rates when compared 2009 as opposed to the continuous rise in the growth rates since 2005. This fall in growth rates in M3 is the result of the fall in deposits in the last year when they had been growing on a consistent basis in the prior period.



**Interest rates** continued to follow the downward trend on both LBP denominated and USD denominated deposits following continued growth in Lebanese pounds deposits relative to Dollar deposits. In 2010, they respectively decreased to 5.68% and 2.8% from the 6.75% and 3.05% observed a year earlier. Similarly, interest rates on LBP and USD denominated loans by the end of 2010 fell to 7.91% and 6.74% from the 9.04% and 7.28% observed in the same period in 2009.

Furthermore, interest rates on LBP instruments fell by the end of 2010 on both 45 and 60 day certificates of deposits issued by BdL. The former fell to 3.57% while the latter to 3.85%. The yields on T-Bills were further cut at the end of the period to the following rates: 3.93% for three month bills, 4.52% for six month bills, 4.81% 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 above shows, interest rates have fallen consistently year after year since the beginning of the decade for Certificates of Deposits and Treasury Bills.



| Year | 45 Day CD | 60 Day CD | T- Bills |          |           |           |           |
|------|-----------|-----------|----------|----------|-----------|-----------|-----------|
|      |           |           | 3 Months | 6 Months | 12 Months | 24 Months | 36 Months |
| 2000 | 9.5       | 10.25     | 11.18    | 12.12    | 13.43     | 14.64     | 8.87      |
| 2001 | 9.5       | 10.25     | 11.18    | 12.12    | 13.43     | 14.64     | 8.87      |
| 2002 | 6.75      | 7.5       | 7.77     | 9.15     | 9.13      | 9.41      | 8.85      |
| 2003 | 4.4       | 4.89      | 5.48     | 6.53     | 6.87      | 7.99      | 8.87      |
| 2004 | 4.4       | 4.89      | 5.22     | 6.31     | 6.69      | 7.89      | 8.87      |
| 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      | 5.1      | 7.1      | 7.58      | 8.43      | 9.2       |
| 2009 | 3.77      | 4.03      | 4.55     | 5.72     | 5.73      | 6.42      | 7.23      |
| 2010 | 3.57      | 3.85      | 3.93     | 4.52     | 4.81      | 5.41      | 6.03      |

The **total value of checks cleared** in the banking system, an indicator of overall spending patterns in the economy, climbed to USD 68,629 Million (LBP and FC combined), from the USD 57,460 Million observed in December 2009- a rise of 19.5%. Similarly, the number of checks cleared rose to 13.3 million from the 12.2 Million attained in 2009, equivalent to a 9.5% rise. This has consequently led to a 9.1% increase in the average value of cleared checks in 2010. In addition to this annual increase, between 2006 and 2010, the average value of checks rose 44%, reflecting the large increase in deposits over this period, and the consequent growth in lending and hence, spending within the economy.

|      | Value of cleared checks (US\$) | Number of cleared checks | Average Value of each Cleared Check (US\$) |
|------|--------------------------------|--------------------------|--|
| 2006 | 32,537,000,000                 | 9,141,079                | 3,559                                      |
| 2007 | 38,342,000,000                 | 10,794,030               | 3,552                                      |
| 2008 | 52,544,000,000                 | 11,486,586               | 4,574                                      |
| 2009 | 57,460,000,000                 | 12,227,136               | 4,699                                      |
| 2010 | 68,629,000,000                 | 13,382,549               | 5,128                                      |

#### **4b- Beirut Stock Exchange**

Various indicators illustrate the minor downhill performance of the **Beirut Stock Exchange (BSE)** in 2010. Market capitalization of the BSE - which measures the dollar value of this entity by accounting for the value and volume of the stocks listed – was down 1.3%, reaching US\$ 12.68 billion by the end of December 2010 relative to the US\$12.84 billion achieved a year earlier. This indicates slower rates of activity and hence, economic growth. In fact, following the political tensions ahead of the indictment decision of the international court regarding the assassination of late Prime Minister Rafic Hariri, the European sovereign debt crisis, volatility in regional markets and the slow recovery of the USA from the financial crisis, the Beirut Stock Exchange (BSE) was characterized by a slowdown in activity in 2010. It is worth noting that, in 2010, the banking sector represented 72.6% of total market capitalization followed by the construction sector, which made up 24.2% of market capitalization.



Trading activity on the BSE however increased in 2010 relative to 2009. In 2010, the total volume of shares traded reached 271 million with a total value of US\$ 1.87 billion. This compares to the 102 million shares traded with a total value of US\$ 1.04 billion reached in 2009. However, this rise in the trading activity is attributed to an increase in cross trading activities conducted by Lebanon's three top banks: BLOM Bank, Audi Bank and Byblos Bank. BLOM and Audi Banks implemented a 10:1 stock split, which increased cross trading activity and the volume of stocks on the BSE. Bank Audi also repurchased a large number of shares from EFG Hermes which also led to a rise in trade volume. Therefore, it can be said that this rise in activity is not related to an increase in the value of the shares linked to economic market improvements, but rather in their volume.

## 4c- Insurance

The **insurance sector** contributes to economic growth through its ability to foster investment and innovation by creating an environment of greater certainty. By promoting sensible risk management measures through price mechanism and other methods, it is able to contribute to responsible and sustainable economic development. Insurers are also solid partners for the development of a workable supplementary system of social protection, in particular in the field of retirement and health provision. For business, insurers play an important role in the modernization of financial markets and in facilitating a firm's access to capital.

Lebanon's insurance sector is economically more advanced and innovative as compared to its Arab neighbors, having ranking fifth in the Middle East and North Africa (MENA) region in terms of total insurance premiums in 2009. Furthermore, head of the Insurance Control Commission said that the total premiums in Lebanon amounted to LBP 1,748,0000 million (US\$ 1,165,000 million) in 2010, an increase of 13% compared to the previous year, of which non life insurance makes up the bulk. Growth in the insurance sector in Lebanon is driven by an expansion of the non-life insurance segment which recorded a significant growth in 2010 and is attributed to increased comprehensive motor insurance for new cars sold and replaced health insurance. However, life insurance premiums declined due to global financial crisis that had a negative impact on personal savings. Insurance penetration in Lebanon however, is far below the world average and hence there is a strong potential for further expansion.

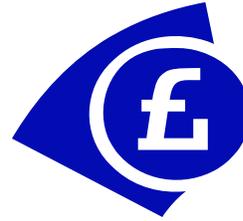
## V- 2011 Outlook

Despite a slowdown in Lebanon's economic performance in 2010, growth continued to largely be delivered on the back of the strong financial, real estate and tourism sectors. The main challenge to the Lebanese economy according to the World Bank, is to now keep the fiscal deficit from widening. A rise in the deficit would increase the size of the domestic stock and hence, prevent debt servicing costs from rapidly falling in the future. At this point, the resulting public debt would not pose much of a threat to the economy since foreign currency and gold reserves at the Central Bank—which currently stand at \$31.6bn and \$12.7bn respectively— are abundant enough to contain a crisis. A reduction in the size of the fiscal deficit can only be achieved if the economy continues to maintain the high rates of growth witnessed in recent years.

However, the extent to which the economy will continue to benefit from such growth will also depend upon its ability to strengthen public-private partnerships and improve infrastructure and service delivery in the long term. The IMF and World Bank estimated that 2011 growth rates would reach 5% and 7% respectively if these actions are accounted for and if the political situation remains stable and is conducive to decision making.

Given the political bickering that emanated in the fourth quarter of 2010, which resulted in a delay in the formation of a replacement government, the Lebanese economy is expected to see a slowdown at least in growth in the first quarter of 2011. A shortfall in the political arena would essentially slowdown economic growth by putting delays on the government's decision making process and harming consumer and investor confidence. As such, this would further delay the adoption of a budget and the implementation of structural reforms aimed at tackling the high level of the public debt. The sale of the Telecoms sector for instance, which is expected to generate around US\$7 Billion once the global credit markets recuperate following the financial crisis, has been put on hold following the political deadlock and may be deferred beyond 2012. A lack of progress on the reforms sought by donors is likely to further delay the disbursement of the remaining conditional aid pledged at the "Paris III" donor conference in 2007. The longer the political arena remains at a standstill, the more capital inflows, economic growth and reforms plans will be affected.

According to many Lebanese bankers and investors however, Lebanon's economy is still under control despite the recent political uncertainty. Not only are foreign and gold reserves at the central bank as well as deposits at commercial banks abundant enough to contain a crisis, but the country has always been resilient to domestic strife and international crises, especially since a variety of economic indicators continued to perform well in the fourth quarter of 2010 when the political situation began to witness a downturn. In terms of the banking sector, banks have kept interest rates on deposits in Lebanese pounds at about 7 percent, while rates elsewhere in the world tumbled. The relatively high inflow of funds consequently enabled commercial banks to finance the fiscal deficit, while the central bank was able to reduce reserve requirements on lending and hence, increase credit for sectors such as housing, health care, education, environmental projects and startup businesses. Thus, despite the political deadlock that may negatively affect the Lebanese economy on the whole, it is unlikely that the economy will extensively underperform in the near future.



**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 (The Daily Star, 10th August 2010, "IMF forecasts Lebanon's GDP Growth at 8% in 2011"), World Bank (LTW 179) and Official Figures (BLOM 28th June- 3rd July 2010)
- **Doing Business Rankings:**
  - ▶ The International Bank for Reconstruction and Development / The World Bank, (2011), "*Doing Business 2011*" Report, Palgrave Macmillan.
  - ▶ Doing Business 2011 Factsheet- Summary of Reforms in the Middle East and North Africa.

## **Ministry Highlights:**

- Collected from the respective Ministry of Economy and Trade Departments.

## **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](http://www.mouhandess.org.lb)
- **Cement Deliveries:** Banque du Liban: <http://www.bdl.gov.lb/edata/elements.asp?Table=t51-12>
- **Cement Prices:** Cimenterie Nationale
- **Real estate sales, value of sales and number of properties:** Directorate of Real Estate- Ministry of Finance
  
- **Inflation:** Estimates based on figures from
  - ⇒ The Central Administration for Statistics: [www.cas.gov.lb](http://www.cas.gov.lb)
  
- **Airport Activity:**
  - ⇒ Banque du Liban: <http://www.bdl.gov.lb/edata/subseries.asp?SIID=1>
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