

# Quarterly Economic Bulletin

**ECONOMIC SUMMARY:** The Lebanese economy continues to experience a challenging first 9 months in 2011. Despite the political developments observed in Q2 2011 with the formation of the new government, concerns over the regional politico-security situation is bringing about a slowdown to the Lebanese economy.



REPUBLIC OF LEBANON  
MINISTRY OF ECONOMY & TRADE

| Institution                        | 2011 Annual Real GDP Growth forecasts by the end of 2010 | 2011 Annual Real GDP Growth forecasts by the end of Q1 2011 | 2011 Annual Real GDP Growth forecasts by the end of Q2 2011 | 2011 Annual Real GDP Growth forecasts by the end of Q3 2011 |
|------------------------------------|--|---|---|---|
| International Monetary Fund        | 5%   | no change   | 2.5%  | 1.5%  |
| World Bank                         | 7%   | no change   | 4.8%  | 4%  |
| Economic Intelligence Unit         | 5.8%   | 5.3%  | 4.6%  | 1.3%  |
| Institute of International Finance | 6%   | 4%  | 1.1%  | 1.8%  |
| EFG Hermes                         | 5%   | no change   | 3.5%  | no change   |
| HSBC                               | 6.4%   | 3.2%  | 2.7%  | 1.7%  |
| Merrill Lynch                      | 5.9%   | 6%  | no change   | no change   |
| Standard Chartered Bank            | 6.5%   | 5.5%  | 3%  | 1.5%  |
| Barclays Capital                   | 6.5%   | 5.5%  | 3%  | 1.8%  |
| <b>AVERAGE</b>                     | <b>6.01%</b>   | <b>5.17%</b>  | <b>3.46%</b>  | <b>2.56%</b>  |

Forecasts of the 2011 annual economic growth deteriorated by the end of Q3 2011. Estimates made over Q3 2011 averaged around 2.56% versus the 6%, 5.2% and 3.5% estimated by the end of the 2010, Q1 2011 and Q2 2011 respectively. The table above displays estimates made by major international institutions. The IMF, for instance, forecasted by the end of September 2011 that 2011 economic growth would reach 1.5% relative to the 5% it had estimated by October 2010. This low estimate compared to an average annual rate of 8.2% over the last four years is basically attributed to the effects of the local and regional political uncertainty on the domestic economy.

Signs of difficulties over the first nine months of 2011 essentially appeared in the real and external sectors. Real sector economic indicators - which include those related to real estate and construction, tourism and transport services- registered overall negative growth rates in the first nine months of 2011 relative to the same period in 2010. Inflation also continued to follow an upward trend over this period.

The external sector also witnessed a decline, as reflected by the deterioration in the balance of payments, which continued to post a deficit in the first nine months of the year. This deficit resulted from a decline in inflows of capital such that they were not sufficient to cover the widening trade deficit. Actually, inflation and the local and regional tensions, which have weakened the foreign demand for Lebanese products, have also negatively impacted trade dynamics. Inflows of capital, which soared over the period of the global financial crisis, continued to fall as a result of investor's uncertainty towards Lebanon's political situation as well as due to the regional instability.

Performance on the fiscal front however improved following the inclusion of the expected revenues from the Ministry of Telecommunications that was accumulated over the period. Public debt also continued to deteriorate in both absolute and relative terms following the slowdown in 2011 expected growth rates.

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

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**1. The Real Sector** contracted in the first nine months of 2011, due to the prevailing political tensions in the country and to the regional turmoil that is negatively impacting investor sentiment at large. Real estate, construction, tourism and transport of passengers continued to deviate from their upward trend observed since 2007 into 2011. The activity of the performance of these sectors was also affected by rising inflation, most notably in commodities and their derivatives.

### 1. Real Estate and Construction

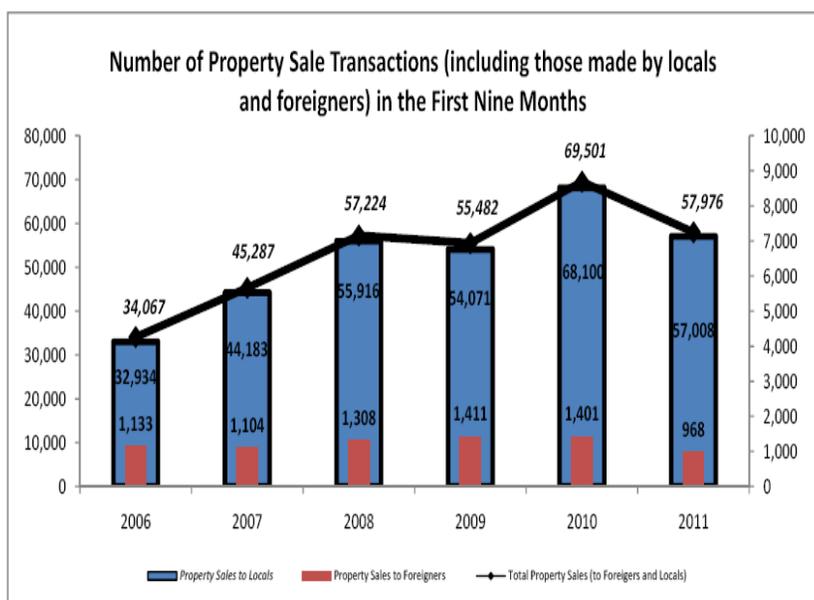
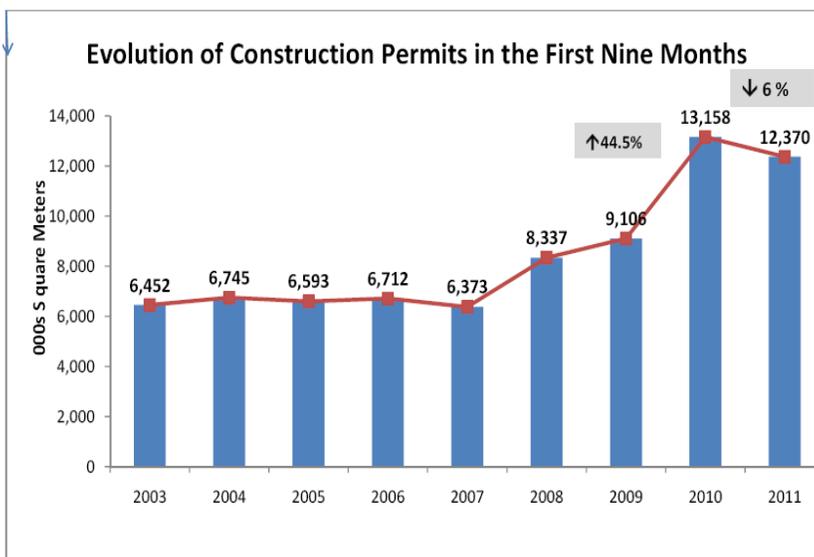
By September 2011, the real estate and construction sector recorded a slowdown in activities relative to the same period in 2010. This is noticeable in the year-on-year evolution of the related indicators, but mainly from the demand perspective.

In the first nine months of 2011, the number of **total property sales**, which reflects demand for real estate, went down by 16.6% to reach 57,976. This was mainly due to the local political developments in the country, which lasted up until the new government was formed in June, and to the regional turmoil that continued to have a negative impact on investor confidence at the domestic level, which is evident through the yearly drop of 31% in **sales transactions to foreigners** over the same period.

The slowdown in the demand for Lebanese property sales was also accompanied by a decline in the **value of real estate sales** in the first nine months of the year, albeit this decline being slightly lower. The latter fell 13.4% relative to the corresponding period in 2010, to reach US\$ 6,032 Million. As such, the average value of property sales between January and September 2011 reached US\$ 104,000, up by 3.9%.

In terms of the supply of new property developments, indicators show that there was a 6% fall in the first nine months of 2011 in terms of the number of **new construction permits** and a 9.1% rise in terms of the **number of new transactions**. The former drop compares to a 44.5% growth attained over the same period in 2010.

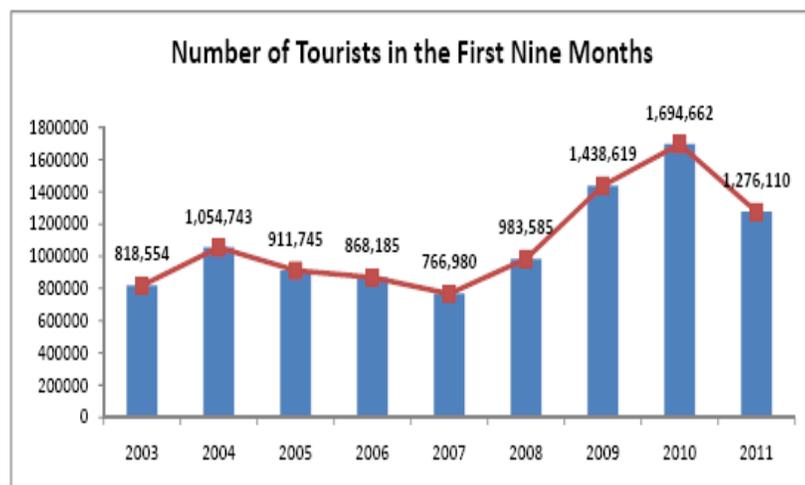
Similarly, the number of new transactions witnessed a slowdown relative to the 20% growth attained a year earlier. The deceleration in the level of supply activities could be attributed to the overall fall in the level of demand following the political stalemate and the consequent attitude of contractors to take less risk. **Tons of cement deliveries**, a second supply indicator of building activity, however saw an increase in the first nine months of 2011 of 7.6% relative to the same period in the previous year.



## 2 Tourism

Tourism activity, which includes number of tourists, tourist spending figures, hotel occupancy rates and revenues per average room (RevPAR)— a function that accounts for room and occupancy rates used for measuring the financial performance of the hospitality sector— all experienced a slowdown in the first nine months of 2011, following a breakdown in Lebanon's local political developments and the regional disturbances.

According to the Ministry of Tourism and as the graph below shows, the **number of incoming tourists** fell in the first nine months of 2011 compared to the same period in the previous year, that is, a fall of 24.7%, which is the first witnessed following 3 years of continuous growth. Furthermore, according to the figures collected by Global Refund in the table below, Arabs continue to represent the main tourists to Lebanon.



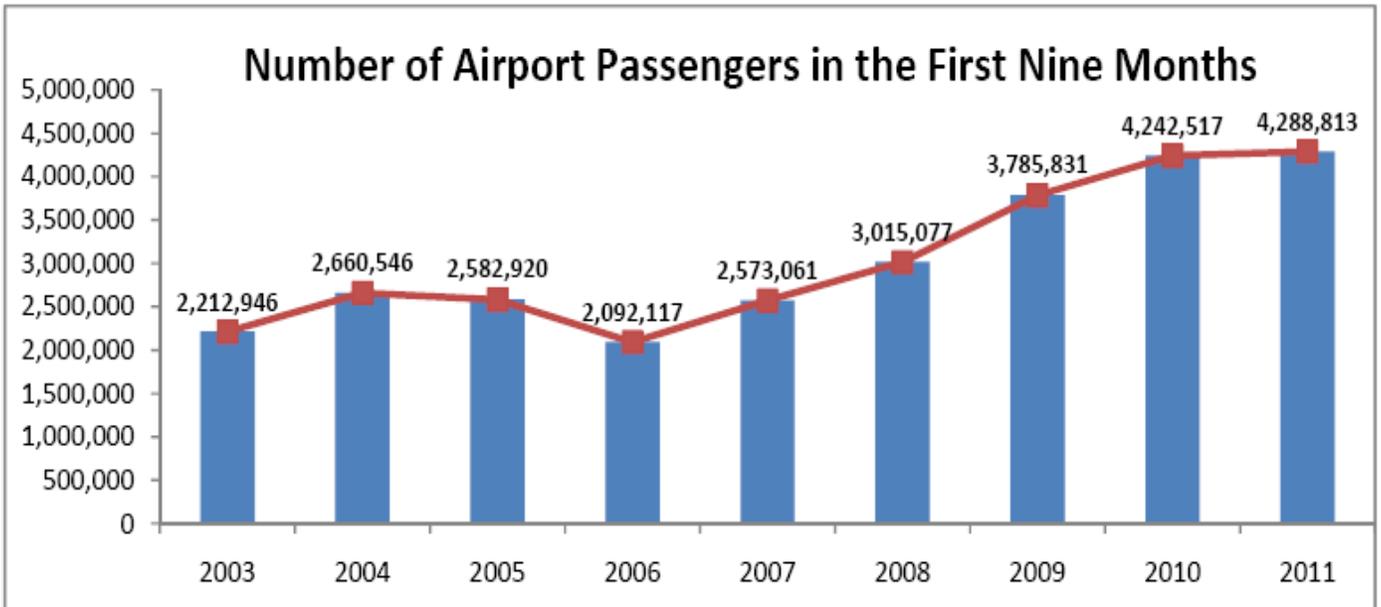
*Breakdown of Tourists by Country of Origin*

|         | Jan-Sept 2009 | Jan-Sept 2010 | Jan-Sept 2011 |
|---------|---------------|---------------|---------------|
| Arabs   | 42.40%        | 41.90%        | 33.80%        |
| Europe  | 24.10%        | 24.60%        | 29.40%        |
| Asia    | 14.10%        | 17.10%        | 16.20%        |
| America | 13.10%        | 11.80%        | 13.80%        |
| Africa  | 2.20%         | 2.80%         | 3.50%         |
| Oceania | 3.50%         | 1.70%         | 3.30%         |

According to the Global Refund Firm, the figure representing purchases by tourists in Lebanon whose VAT was claimed, otherwise known as **tourism spending**, is a reliable method of following tourist spending trends. As the below table illustrates, many of Lebanon's main spending players, which include tourists originating from Arab countries such as Saudi Arabia, Syria, UAE, Egypt and Kuwait, saw a deterioration in spending figures for the Year-to-Date September 2011 figures shown relative to the same period in 2010 and 2009, hence reflecting an overall fall in tourism activity. For instance, Saudi Arabia, which represents approximately 22% of total tourists by September 2010-2011, saw a 4% fall in tourism spending in the first nine months of 2011 relative to the same period in 2010.

| Countries            | Average Ranking (%) | YTD % Change in Tourism Spending for September 2011 | YTD % Change in Tourism Spending for September 2010 | YTD % Change in Tourism Spending for September 2009 |
|----------------------|---------------------|---|---|---|
| Saudi Arabia         | 22                  | -4%   | 39%   | 39%   |
| United Arab Emirates | 11.5                | 17%   | 10%   | -1%   |
| Kuwait               | 9.5                 | -5%   | 4%  | 16%   |
| Syrian Arab Republic | 7.5                 | 12%   | 41%   | 84%   |
| Egypt                | 6                   | -17%  | 38%   | 50%   |
| Jordan               | ...                 | -6%   | 16%   | 12%   |
| Qatar                | ...                 | -1%   | -1%   | 22%   |
| France               | ...                 | 11%   | 26%   | -16%  |

Furthermore, a report by Ernst and Young recently shows that Beirut witnessed a significant decline in its hotel indicators since the start of the year. **Hotel room yield (RevPAR) reached US\$123 in the first nine months of 2011**, a 31.2% fall compared to the same period in 2010, which reflects a fall in hotel profitability. This decline was the combined effect of a year to date drop in **hotel occupancy rates** in Beirut- which only reached 55% in the first nine months of 2011, relative to the 68% attained a year earlier- and a 15.3% fall in **average room rates**, to reach US\$ 222, over the same period.



### 3- Passenger Transport

Transport of passengers grew slightly in the first nine months of 2011 relative to the same period in the previous year. The **number of passengers** passing through Rafic Hariri International Airport saw a year on year rise of 1.1%, from 4.24 Million in the first nine months of 2010 to just over 4.29 Million in the same period in 2011, as depicted by the statistics compiled at the Airport.

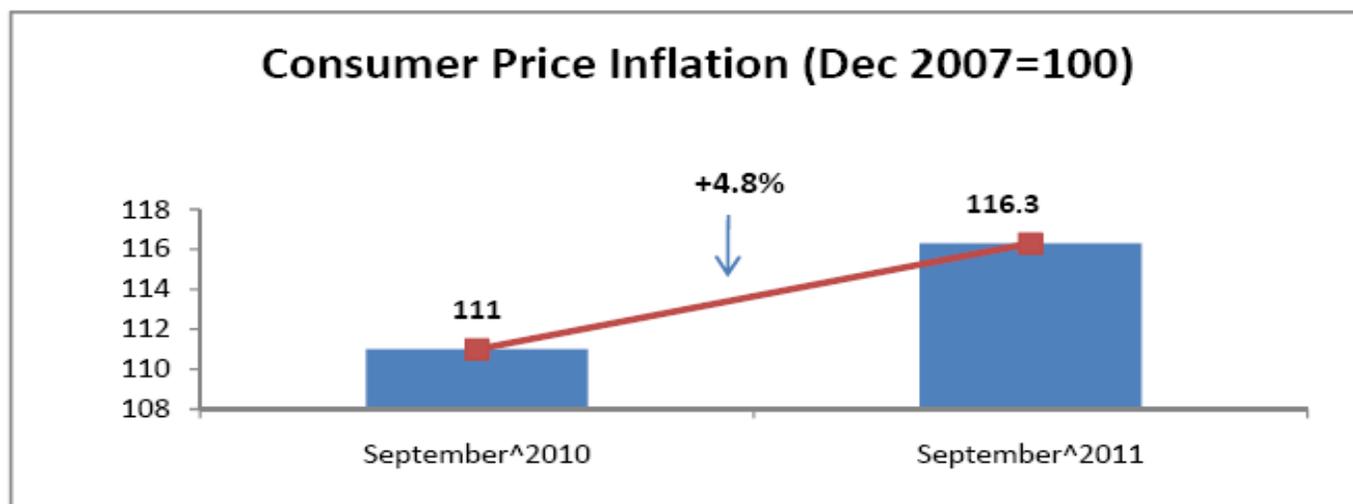
This minute increase was the result of a slight improvement in the number of departure and arrival components that make up the number of passengers, which saw a 1.1% and 0.4% respective increase. The slowdown in the arrival of passengers especially reflects how the political stalemate and the regional turmoil have negatively affected the tourism industry. However, it can be seen from second and third quarter figures that activity rebounded relative to the first quarter of 2011 and relative to those quarters in 2010, which could be attributed to the beginning of the relative stabilization in domestic political conditions, the summer and Ramadan seasons.

## 4. Inflation

According to official estimations as indicated by the **Consumer Price Index (CPI)** issued by the Central Administration of Statistics (CAS), the CPI figure by the end of September 2011 reached a high of 16.3% since the new basket of goods was introduced in Dec 2007 and rose by 4.8% relative to the inflation figures observed a year earlier. The CPI measures the price of goods in an economy by tracking the cost of a basket of goods over time and is used as a proxy for inflation.

The continuous rise witnessed over this period comes as a result of the persistent rise in commodity prices. This has consequently led to a year on year increase in inflation in the following categories in Lebanon: 13.2% rise in water, electricity, gas and other fuels, a 7% rise in transportation and health as well as a 6.7% rise in education.

Since most of Lebanon's inflation is either imported inflation in commodities or due to currency fluctuations, the global rise in commodity prices and exchange rates with the US\$ have had a significant effect on the value of domestic goods and consequently, on the value of imports and exports. This will be analyzed more thoroughly in the next section.



|   | Weights    | % Change in CPI between Sept 2011 and Sept 2010 | % Change in CPI between Sept 2011 and Dec 2007 |
|---|------------|---|--|
| <b>Food and Non-Alcoholic Beverages</b>                                   | 19.9       | 5.5%  | 28.8%  |
| Alcoholic beverages, Tobacco  | 2.1        | 0.8%  | 9.3%   |
| <b>Clothing &amp; Footwear</b>  | 6.2        | 0.1%  | 14.8%  |
| <b>Housing, Water, electricity, gas and other fuels</b>                   |            |   |  |
| <i>Housing</i>  | 16.2       | 0.0%  | 11.2%  |
| <i>Water, electricity, gas and other fuels</i>                            | 9.5        | 13.2%   | 12.7%  |
| <b>Furnishings, Household Equipment and Routine Household Maintenance</b> | 3.9        | 5.3%  | 10.0%  |
| <b>Health</b>   | 6.8        | 7.1%  | 8.1%   |
| <b>Transportation</b>   | 12.3       | 7.0%  | 26.3%  |
| <b>Communication</b>  | 4.8        | -0.1%   | -13.7%   |
| <b>Recreation, Amusement and Culture</b>                                  | 3.7        | 3.4%  | 7.3%   |
| <b>Education</b>  | 7.7        | 6.7%  | 21.7%  |
| <b>Restaurant and Hotels</b>  | 2.7        | 6.2%  | 41.5%  |
| <b>Miscellaneous goods &amp; services</b>                                 | 4.2        | 2.2%  | 9.0%   |
| <b>Consumer Price Index</b>   | <b>100</b> | <b>4.8%</b>                                     | <b>16.3%</b>                                   |

## II. The External Sector continued with its deteriorating performance by the end of September as

the Balance of Payments registered a deficit following insufficient inflows of capital to cover the ever growing shortfall in the trade balance. Although aggregate trade activity rose by 8.9% in the first nine months of the year, imports were the key component driving this expansion, while exports remained almost constant, thus putting a constraint on the performance of the sector, as the goods trade deficit consequently rose by 9.9%.

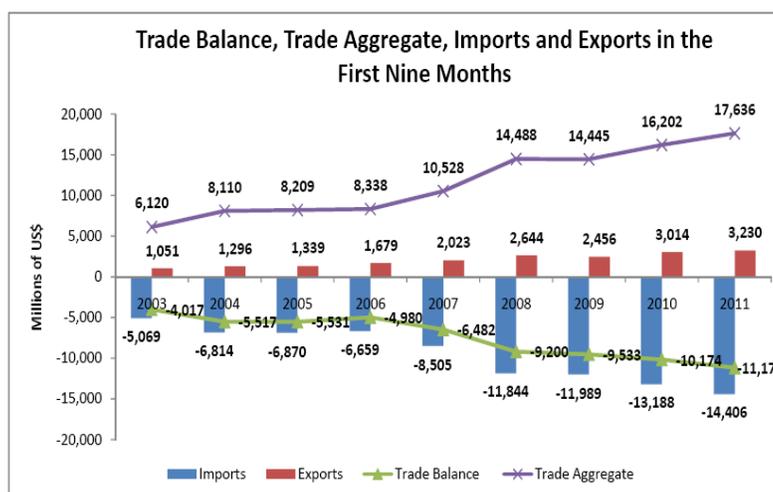
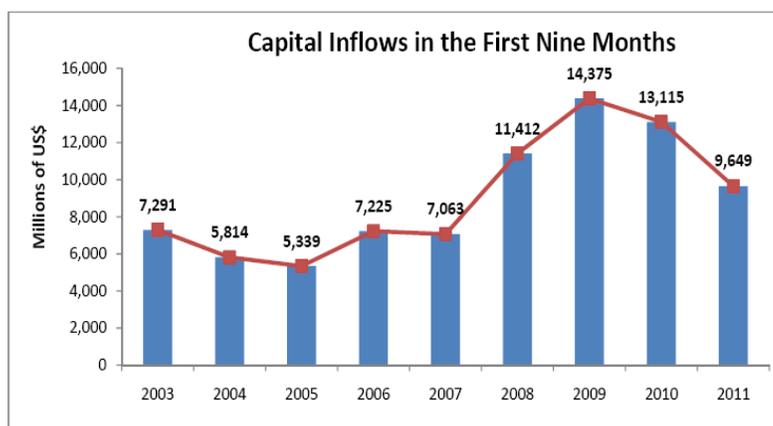
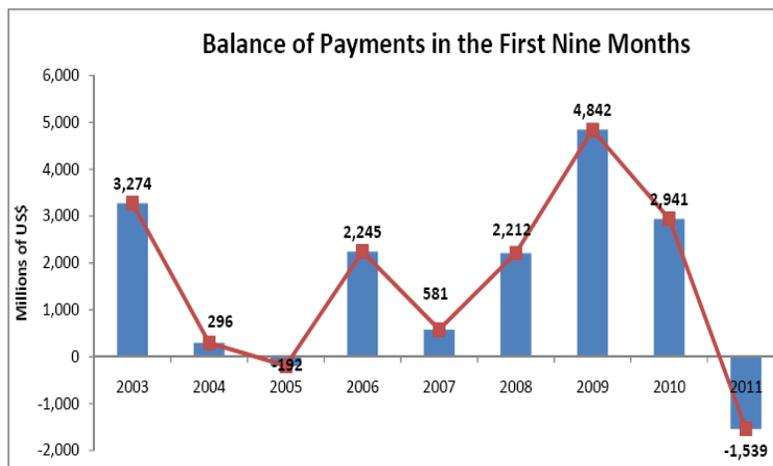
### 2a- Balance of Payments, Capital Inflows and Trade

The balance of payments continued on a downward path as it registered a deficit in the first nine months of the year, falling from US\$ 2,941 Million in 2010 to US\$ -1,539 in 2011, that is, a 152% decline. This comes following the combined effects of a large downturn in capital inflows for the second year running and a slight rise in the trade deficit.

Despite Lebanon enjoying a continued surplus in capital inflows, which reached US\$ 9,949 Million in the first nine months of 2011, their level has actually fallen 26.5% relative to the same period a year earlier. In addition, the total level of inflows in Q3 2011 was 44% and 12% lower than the level attained in Q3 2010 and Q2 2011 respectively. The shortfall in inflows is attributed to the regional despairs and the weakening investor confidence in the region as a whole.

The 9.9% yearly increase in the trade deficit, which reached US\$ 11,176 Million by the end of September 2011, also contributed to the BoP deficit. This increase was the result of greater rise in imports relative to exports. Imports rose by 9.2% in the first nine months of 2011 relative to the same period in 2010, to reach US\$ 14,406 Million. The increase in the value of imports was due to inflationary pressures on the international price of commodities, such as food and oil. For instance, although the volume of oil and mineral fuel imports fell by 21% in the first nine months of 2011 relative to the same period in 2010, the value of these products actually increased by 5%. The decline in the value of the US\$ - to which the Lebanese Lira is pegged- with other currencies such as the Euro has also played a part in the inflating the value of imports.

Exports, on the other hand, rose by only 7.2% over the same period to reach US\$ 3,230 Million. Not only is this increase smaller than the rise in imports, but it is also a lot less than the one attained over the same period in 2010. This relative decrease comes as a result of the political tensions witnessed at the domestic level as well as to the regional turmoil that began at the start of the year.



## 2c- Maritime Transport Services

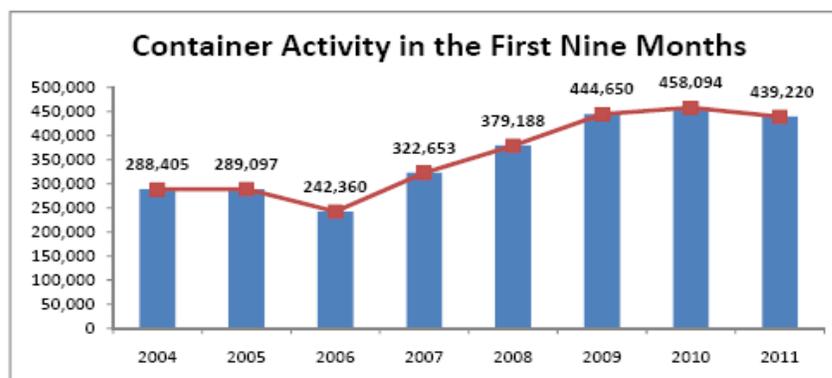
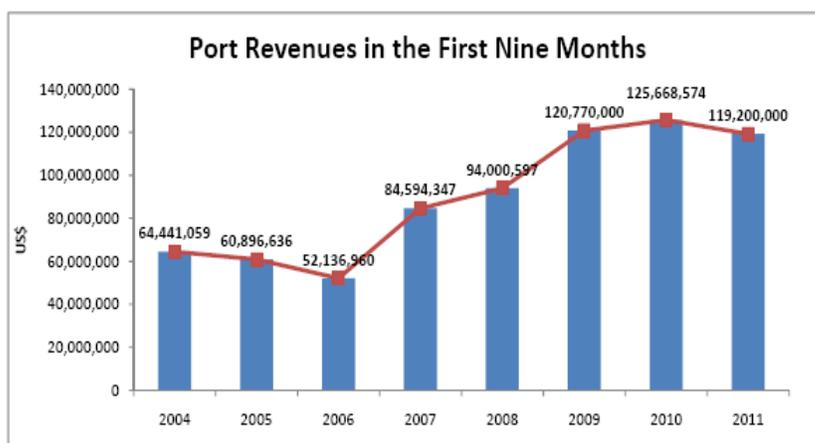
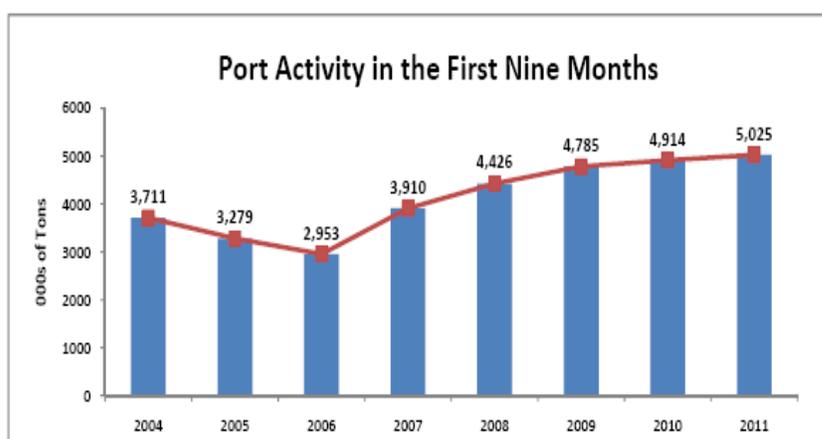
In terms of the main maritime transport services, port activity indicators at the Port of Beirut showed mixed trends by the end of September 2011. Figures representing the tons of goods (incoming and outgoing) transported witnessed a slight improvement over this period relative to the same period in the previous year while the total number of containers (loaded and unloaded) as well as the amount of revenues generated by the Port of Beirut showed that activity has decreased over this period in 2011, most probably due to the regional turmoil that has led to a slow-down in trading activity.

Throughout the first nine months of 2011, port activity- measured in total tons of goods transported- increased by 2.3% relative to the same period in the previous year. The volume of containers quantified in TEU- a measure of capacity in container transportation otherwise known as Twenty Foot Equivalent Unit- however witnessed a decline of 4.1% in over this period. Similarly, the total amount of revenues generated by the port of Beirut decreased by 5.1%.

In addition to this, data obtained from Customs shows that the value of goods in transit reached US\$308 Million in the first nine months of 2011 relative to the US\$295 Million attained over the same period in 2010, that is, a 4.1% increase. The weight (in KGs) of the goods in transit also witnessed a 166% rise. The higher increase in the volume of transit figures indicates a lower value per KG in transits at the port from US\$2.19/KG by the end of September 2010 to US\$0.86/KG in the same period in 2011.

The transport of goods will be evaluated more thoroughly in the next section. However, the main modes of transportation are analyzed at this point. In terms of imports of goods, the most widely used points of entry for the nine months of each year into Lebanon since 2007 are the Port of Beirut and the Beirut Rafic Hariri International Airport, which averaged 65% and 19% respectively in the last 5 years. In terms of exports of goods, the most widely used points of entry for the first nine months of each year into Lebanon has shifted from being the Port of Beirut— which averaged 32% in the years 2007 and 2008 relative to the 23% average attained by the Beirut Rafic Hariri International Airport— to the Beirut Rafic Hariri International Airport, which averaged 41% since 2008 relative to the 28% average attained by the Port of Beirut for the same period. This shows the importance of both maritime and air transport to the Lebanese economy and that that investment in both sectors should continue to grow in order to continue expanding trade in goods.

### BEIRUT PORT ACTIVITY



**III- The FISCAL Sector** saw mixed results in the first nine months of the year. Fiscal performance saw an improvement in figures relative to the same period in 2010, although it continued to post a deficit. In terms of the public debt, given the fact that it continued to grow in absolute terms and that the slowdown in Lebanon's economic growth continued to persist throughout 2011, it is likely that Debt-to-GDP ratio may consequently rise to 136% from the 134% attained by the end of 2010.

| <i>In Millions of LBP</i>                | Jan-Sept 2010 | Jan-Sept 2011 | %    |
|--|---------------|---------------|------|
| <b>Total Revenues</b>                    | 9,323,334     | 10,480,472    | 12%  |
| <b>Total Expenditures</b>                | 12,410,866    | 12,583,673    | 1%   |
| <b>Total Fiscal Deficit</b>              | -3,087,532    | -2,102,571    | -32% |
| <b>Total Primary Surplus</b>             | 1,622,817     | 2,335,606     | 44%  |
| <b>Budget Revenues</b>                   | 8,809,309     | 9,938,938     | 13%  |
| <i>incl. Transfer of Telecom Surplus</i> | 331,050       | 1,631,717     | 393% |
| <b>Budget Expenditures</b>               | 11,280,470    | 11,801,963    | 5%   |
| <i>incl. Transfers to EdL</i>            | 1,250,324     | 1,703,484     | 36%  |
| <i>incl. Personnel Costs</i>             | 3,730,000     | 4,022,000     | 8%   |
| <b>Budget Primary Surplus</b>            | 2,304,348     | 2,575,782     | 12%  |
| <b>Treasury Revenue</b>                  | 514,025       | 541,534       | 5%   |
| <b>Treasury Expenditures</b>             | 1,130,396     | 781,710       | -31% |

End of Sept 2011 relative to end of Sept 2010:  
 VAT revenues rose by 2.1%.  
 Custom Revenues fell by 23.3%

### **3a- Fiscal performance**

Fiscal performance continued to improve for the second year running as the fiscal deficit reached LBP 2,103 Billion (US\$ 1,395 Million) in the first nine months of 2011, a fall of 32% and 37% relative to the same period in 2010 and 2009 respectively.

Public finances improved following a significantly higher percentage increase in total revenues relative to expenditures. **Total revenues** rose by 12% to reach LBP 10,481 Billion (US\$ 6,952 Million) in the first nine months of 2011 while **total expenditures** rose by a mere 1%, to reach LBP 12,584 Billion (US\$ 8,347 Million) in the same period. This led to the ratio of total deficit to expenditures to fall sharply from 24.9% in the first nine months of 2010 to 16.7% in the same period in 2011.

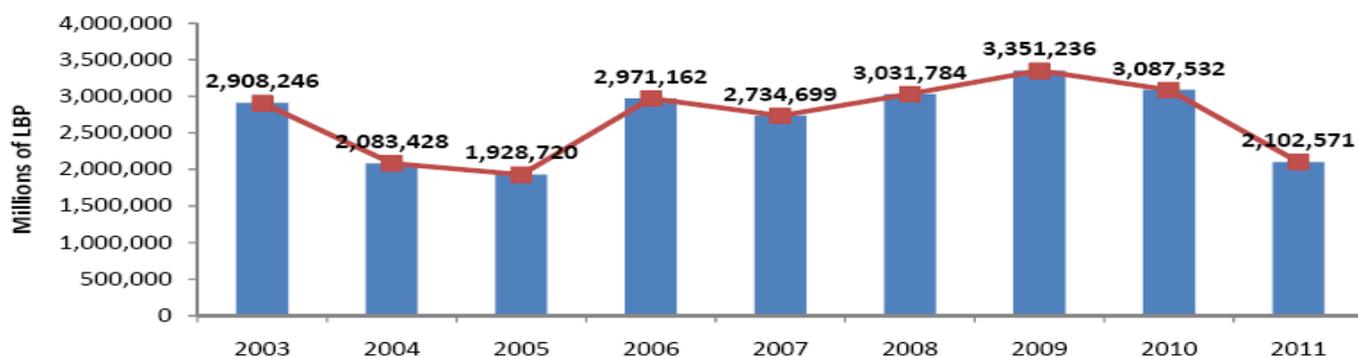
This improvement in the public finances was the result of the inclusion of the expected revenues from the Ministry of Telecommunications that was accumulated over the period. As a result, **non-tax revenues** improved by 113% by the end of September 2011 relative to the end of September 2010. **Tax revenues**, on the other hand, fell by 2.3% which led to an overall rise of 12.8% in budget revenues.

The year on year drop in tax revenues was mainly due to a **23% fall in taxes on International Trade**, which includes custom duties (-5%), excise on gasoline (-47%) and cars (-28%). **Tax on property and other tax revenues** both fell by 1%. **Taxes on income, profits and capital gains** however improved by 19%, but could not make up for the losses on the items described above. **Treasury revenues** however, increased 5%.

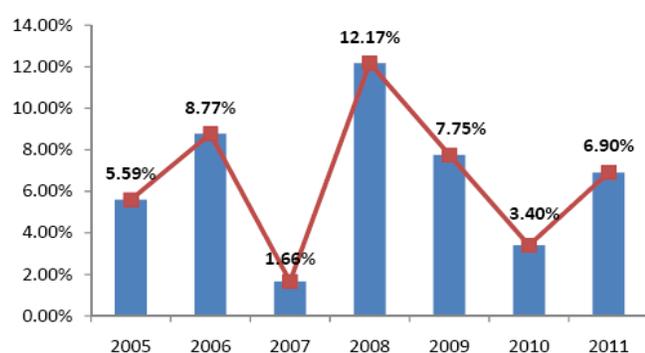
On the **spending side**, the rise in total expenditures mainly came as a result of a 4.1% increase in **current expenditures**, while **capital expenditures** and **treasury expenditures** however, saw a decline in figures between the first nine months of 2011 and 2010.

The former rise was due to an increase in personnel costs (7.8%), materials and supplies (21.3%), transfers to EdL (36.2%), the NSSF (20%) and wheat subsidy payments (336%). The fall in capital expenditures was mainly due to a 19.6% in construction-in-progress by the Ministry of Public Works and Transport and a 79% decrease in expenditures related to fixed capital assets. Treasury expenditures witnessed a slowdown as a result of a 58% fall in VAT refunds over the period.

### Fiscal Deficit in the First Nine Months



### Year on Year % Growth in Debt in the First Nine Months



| in Billions of LBP                                       | Dec-10 | Sept 2010 | Sept 2011 | YoY % Change | YTD % Change |
|--|--------|-----------|-----------|--------------|--------------|
| Gross Public Debt  | 79,295 | 76,664    | 81,956    | 6.90%        | 3.36%        |
| Gross Domestic Debt                                      | 48,255 | 45,028    | 50,300    | 11.71%       | 4.24%        |
| Central Bank Debt  | 13,130 | 9,630     | 16,257    | 68.82%       | 23.82%       |
| Commercial Bank Debt                                     | 27,214 | 27,637    | 26,241    | -5.05%       | -3.58%       |
| T-Bills  | 7,911  | 7,761     | 7,802     | 0.53%        | -1.38%       |
| Gross Foreign Debt                                       | 31,043 | 31,636    | 31,656    | 0.06%        | 1.97%        |
| Bilateral, Multilateral and Foreign Private Sector Loans | 2,624  | 2,576     | 2,616     | 1.55%        | -0.30%       |
| Paris II Related Debt (Eurobonds and Loans)              | 4,137  | 4,355     | 3,734     | -14.26%      | -9.74%       |
| Paris III Related Debt (Eurobonds and loans)             | 1,855  | 1,880     | 1,767     | -6.01%       | -4.74%       |
| Market-Issued Eurobonds                                  | 21,870 | 21,875    | 22,960    | 4.96%        | 4.98%        |
| Accrued Interest on Eurobonds                            | 483    | 469       | 498       | 6.18%        | 3.11%        |
| Special T-bills in Foreign Currency                      | 74     | 481       | 80        | -83.37%      | 8.11%        |
| Public sector debt                                       | 11,419 | 9,364     | 12,877    | 37.52%       | 12.77%       |
| Net debt   | 67,876 | 67,300    | 69,079    | 2.64%        | 1.77%        |
| Gross Market Debt  | 51,308 | 52,039    | 51,108    | -1.79%       | -0.39%       |

### 3b-Gross Public Debt

**Gross Public Debt** continued to rise in the first nine months of 2011, as it reached LBP 81,956 Billion (US\$ 54.4 Billion) by the end of September 2011 relative to the LBP 76,664 Billion (US\$ 50.9 Billion) attained by the end of September 2010, that is an increase of 6.9%.

The 6.9% increase in **Gross Public Debt** is primarily due to an 11.71% increase in **local domestic debt**, which grew by LBP 5,272 Billion (US\$ 3.5 Billion) over this period. These 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 69% and 0.5% respectively by the end of September 2011 relative to the same period in 2010. Local Commercial Banks saw a 5.1% drop in financing. **Foreign currency debt**, on the other hand, increased by a meager 0.06% for the same period. In this context, Bilateral and Multilateral Debt rose by 1.6% whilst Paris II and III related loans shrunk by a respective 14.3% and 6% over this period. Market issued Eurobonds together with the interest accumulated on such bonds however saw a 5% and 6.2% respective rise over the same period. Taking account of the 37.5% increase in **public sector deposits** for the same period, the **Net Public Debt** becomes LBP 69,079 Billion (US\$ 45.8 Billion).

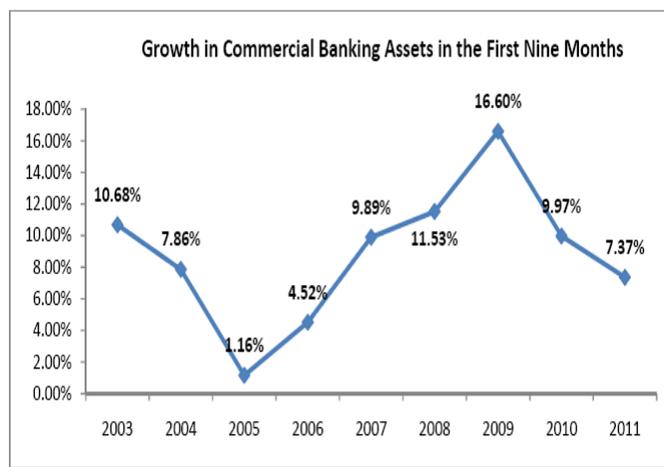
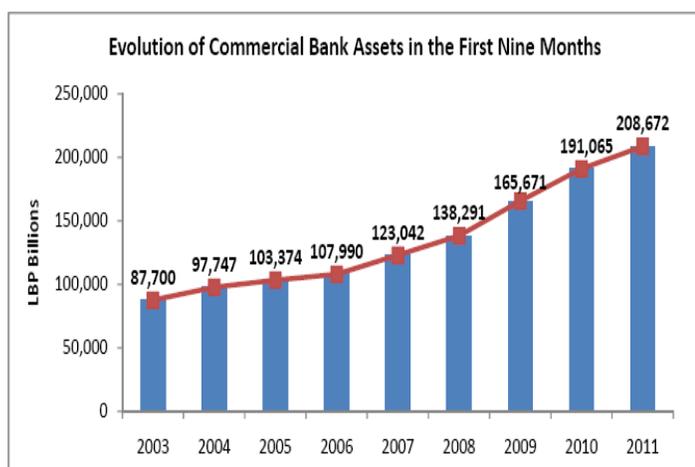
In addition to its deterioration in absolute terms, it is important to also recognize that growth in the **Gross Public Debt** in the first nine months of 2011 saw a rise of LBP 2,661 Billion (US\$ 1.8 Billion) since the beginning of the year relative to a fall of LBP 360 Billion (US\$ 239 Million) attained in the same period in 2010. Together with the fact that we use the most recent IMF 2011 forecast of 1.5% since 2011 Official National Account forecasts for Nominal GDP and GDP growth rates are still unavailable, the Debt-to-GDP Ratio consequently rises from 134% by the end of 2010 to an expected 136% for the end of 2011, as shown in the table below.

| 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | exp 2011 |
|------|------|------|------|------|------|------|------|----------|
| 168% | 167% | 176% | 180% | 168% | 156% | 146% | 134% | 136%     |

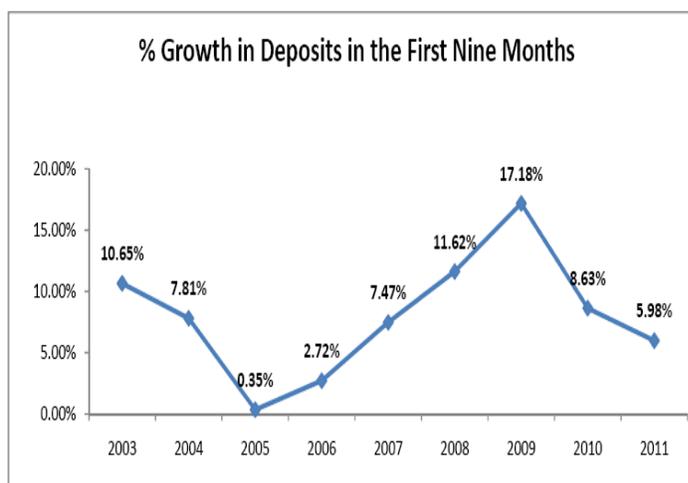
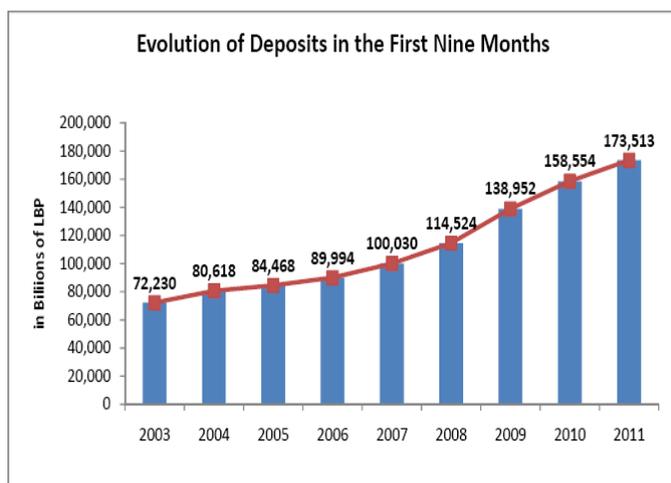
**IV- The Financial Sector** witnessed a slowdown in its performance over the first nine months of 2011, albeit continued growth in the last year. Banking and Financial indicators such as **Commercial Bank Assets, Liquidity**- as shown via the inflow in **Deposits**- and the **Money Supply** clearly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

#### 4a- Banking and Financial Institutions

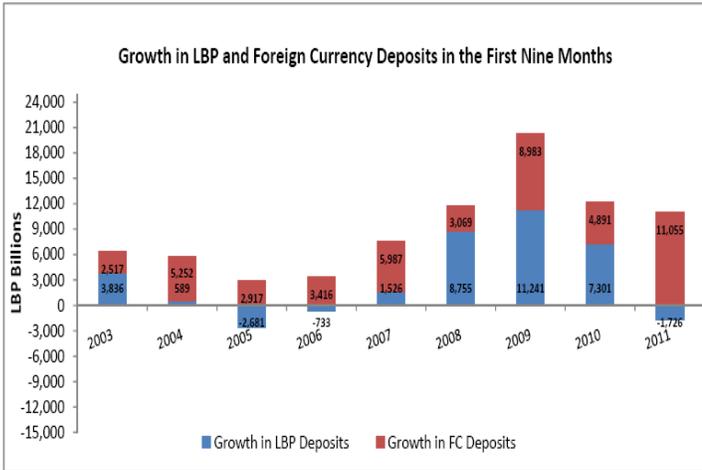
**Commercial bank assets** continued to grow in by the end of September 2011, reaching LBP 208,672 Billion (US\$ 138.4 Billion) by the end of the period, indicating a year on year growth rate of 9.2%. In the first nine months of 2011, commercial banks assets increased by LBP 14,317 Billion (US\$ 9.5 Billion) relative to the LBP 17,325 Billion (US\$ 11.5 Billion) attained in the same period a year earlier. That is, commercial banks witnessed a slowdown in growth in 2011 relative to the same period in 2010, as assets grew by 7.4% in the former relative to the 10% reached in the latter period.



The evolution in **Customer deposits** continued to move in an upward direction, increasing by 9.4% year on year to reach LBP 173,513 Billion (US\$ 115.1 Billion) by the end of September 2011. However, deposits in the first nine months witnessed a slowdown in growth following a 5.9% increase in 2011 relative to the 8.6% increase attained in 2010.



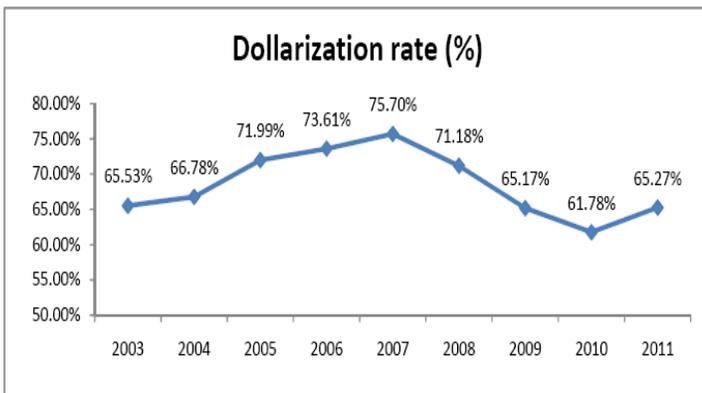
Absolute growth in Bank Deposits was mainly achieved by the Foreign Currency Deposits, as they grew by 10.8% relative to Lebanese Deposits, which actually fell by 2.9% relative to the levels achieved in the first nine months of 2010. Foreign Currency Deposits remain the lion share of bank deposits, totaling 66% of Total Deposits whereas Lebanese Deposits make up 34% of Deposits.



**Lebanese Pound deposits** witnessed a fall in their growth relative to the increase observed in **Foreign Currency Deposits** growth in the first nine months of 2011 relative to 2010. As the graph aside shows, the former fell by LBP 1,726 Billion (US\$ 1.1 Billion), or 124% relative to the level of growth attained a year earlier, while the latter rose by LBP 11,055 Billion (US\$ 7.3 Billion), or 126% over the same period.

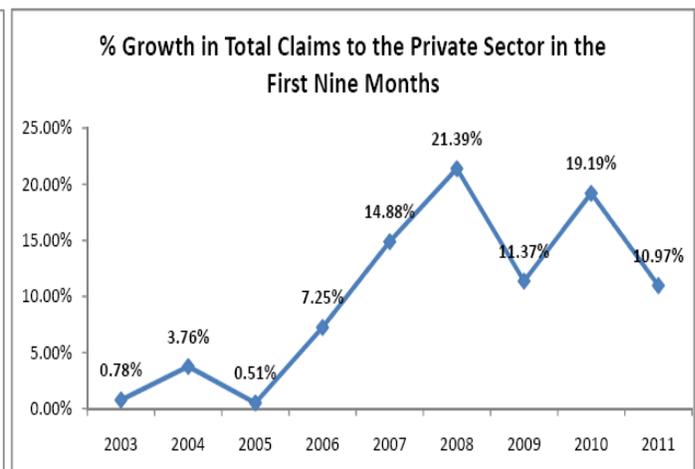
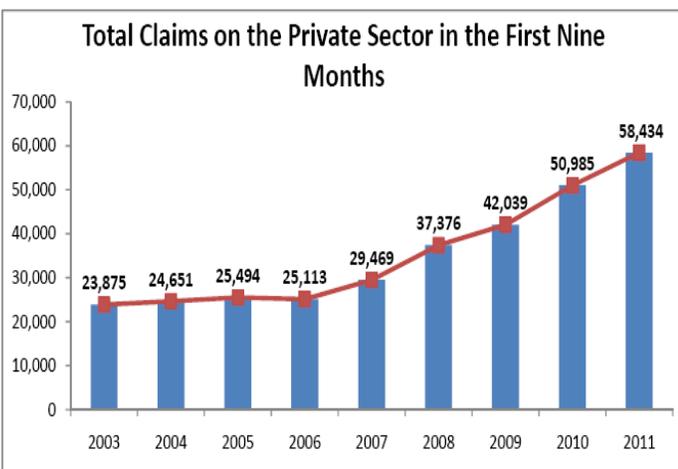
| Type of Deposit                              | Jan-Sept 2011 Growth | Jan-Sept 2010 Growth |
|--|----------------------|----------------------|
| Resident Private (81% of Total Deposits)     | 4.80%                | 9.20%                |
| Non Resident Private (18% of Total Deposits) | 10.45%               | 4.86%                |
| Public (1% of Total Deposits)                | 22.18%               | 25.44%               |

Furthermore, over the same period in 2011, the **Public sector** was the category with the greatest percentage increase in deposits (22.2%), followed by the **Non-resident private sector** deposits (10.5%) and the **resident private sector** deposits (4.8%).

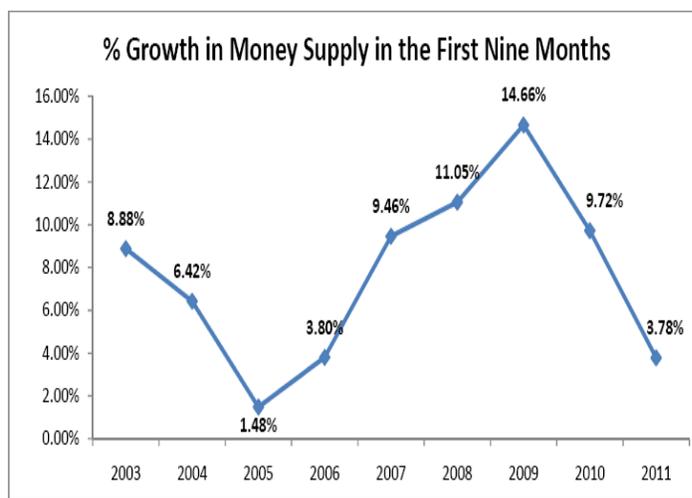
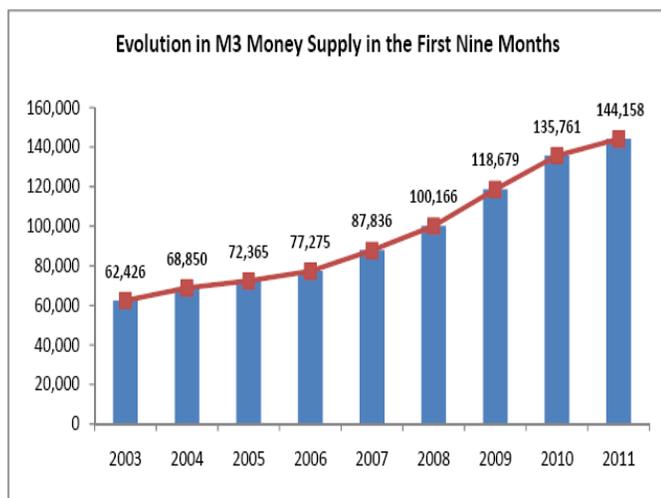


This fall in the growth of LBP deposits relative to the growth of FC deposits in 2011 has consequently led to a rise in dollarization rates in the Lebanese Banking system. According to the total deposits and deposits in LBP obtained from the central bank, **dollarization rates** reached 65.3% by the end of September 2011.

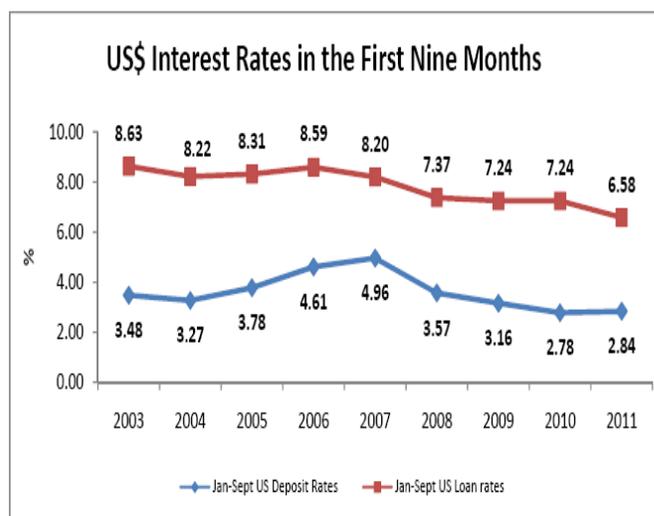
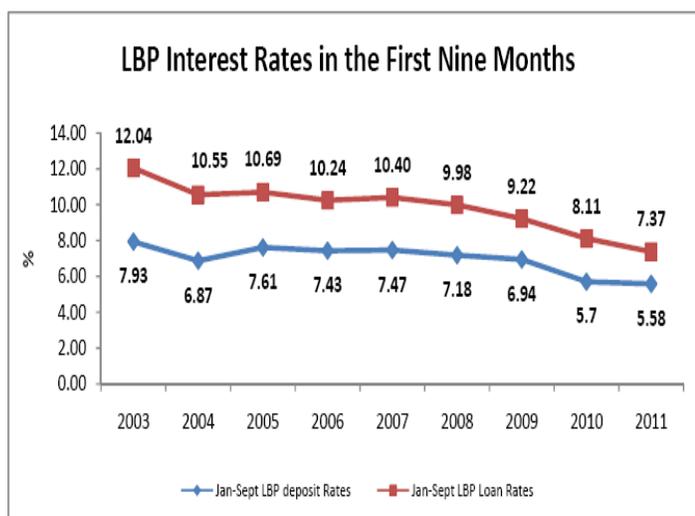
Regarding the uses side of the consolidated balance sheet, data compiled by the Association of Banks in Lebanon shows that by the end of September 2011, **Claims (lending) to the private sector** reached LBP 58,434 Billion (US\$ 38.8 Billion), representing a year on year rise of 14.6%. Growth in total claims in the first nine months of 2011 reached LBP 5,778 Billion (US\$ 3.8 Billion) compared to LBP 8,210 Billion (US\$ 5.4 Billion) attained over the same period in 2010, that is, a YTD increase of 10.97%.



**The stock of money and quasi money (M3)** grew to reach LBP 144,158 Billion (US\$ 95.6 Billion) by the end of September 2011. However, growth in M3 attained LBP 5,248 Billion (US\$ 3.48 Billion) in the first nine months of 2011 relative to the LBP 12,029 Billion (US\$ 7.8 Billion) attained in the same period in 2010. This slowdown in the growth rates in M3 is the result of a contraction in the following components: a) the growth of net foreign assets (excluding gold) by US\$ 4.7 Billion, b) net bank lending to the private sector relative to 2010 by US\$ 1.7 Billion and c) net claims of the public sector by a meager US\$ 10 Million.



**Interest rates** continued to follow an overall downward trend on both LBP denominated and USD denominated deposits. By the end of September 2011, LBP deposit rates decreased to 5.58% from the 5.7% observed by the end of September in 2010 while US Deposit rates increased for the first time since 2007 to 2.84% from the 2.78% observed in the same period last year. Interest rates on LBP denominated loans by the end of September 2011 fell to 7.37% from the 8.11% observed in the same period a year earlier. Similarly, interest rates on USD denominated loans decreased from 7.24% to 6.58%.



Furthermore, interest rates on LBP instruments remained the same by the end of September 2011 on both 45 and 60 day certificates of deposits issued by BdL. Interest rates on 45 Day and 60 Day certificated remained unchanged at 3.57% and 3.85% respectively. The yields on T-Bills remained the same by the end of September 2011 at the following rates: 3.93% for three month bills, 4.81% for one year bills, 5.41% for two year bills and 6.03% for three year bills. Only yields on 6 month T-Bills fell slightly to 4.5%. As the table on page 13 shows, interest rates have fallen consistently year after year since the beginning of the decade for Certificates of Deposits and Treasury Bills.

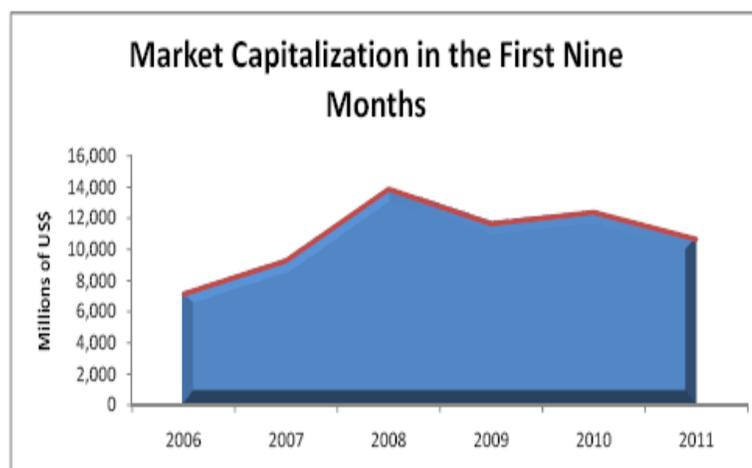
|      | T-Bills   |           |          |          |           |           |           |
|------|-----------|-----------|----------|----------|-----------|-----------|-----------|
|      | 45 day CD | 60 day CD | 3 Months | 6 Months | 12 Months | 24 Months | 36 Months |
| 2003 | 4.5       | 5.0       | 6.96     | 8.18     | 9.13      | 9.41      | ...       |
| 2004 | 4.4       | 4.89      | 5.22     | 6.31     | 6.68      | 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      | 5.22     | 7.22     | 7.73      | 8.58      | 9.27      |
| 2009 | 4.4       | 4.89      | 4.87     | 6.16     | 6.34      | 7.1       | 7.79      |
| 2010 | 3.57      | 3.85      | 3.93     | 4.52     | 4.81      | 5.41      | 6.03      |
| 2011 | 3.57      | 3.85      | 3.93     | 4.5      | 4.81      | 5.41      | 6.03      |

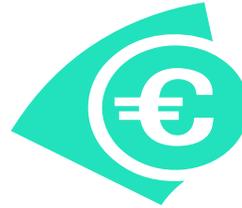
The **total value of checks cleared** in the banking system, an indicator of overall spending patterns in the economy, rose to USD 53,344 Million (LBP and FC combined) in the first nine months of 2011, from the USD 50,909 Million observed in the same period of 2010- an increase of 5%. The number of checks cleared witnessed a 4% decrease to reach 9.7 million from the 10.1 Million attained in 2010. This has consequently led to a 9% increase in the average value of cleared checks in the first nine months of 2011.

|      | Value of Cleared Checks in the First Nine Months (Millions of US\$) | Number of Cleared Checks in the First Nine Months | Average Value of Cleared Checks (US \$) |
|------|---|---|---|
| 2006 | 24,375  | 6,657,935   | 3,661                                   |
| 2007 | 27,514  | 8,010,883   | 3,435                                   |
| 2008 | 39,401  | 8,507,592   | 4,631                                   |
| 2009 | 40,270  | 9,033,519   | 4,458                                   |
| 2010 | 50,909  | 10,078,499  | 5,051                                   |
| 2011 | 53,344  | 9,712,680   | 5,492                                   |

#### 4b- Beirut Stock Exchange

The performance of the Beirut Stock Exchange (BSE) is measured by looking at its market capitalization. This measures the dollar value of this entity by accounting for the value and volume of the stocks listed. The local political stalemate and regional political turmoil has put downward pressure on the BSE's equity prices. The BSE market capitalization by the end of September 2011 was consequently down 14%, reaching US\$ 10,646 Million relative to the US\$ 12,381 Million attained a year earlier. This indicates slower rates of activity and hence, economic growth.





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

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## **SOURCES:**

- **Growth rates:** Estimates based on figures from Various Sources:
  1. IMF : "Regional Economic Outlook"- October 2011.
  2. World Bank: Byblos Bank LTW 235 2011
  3. Economic Intelligence Unit: Lebanon Country Report September 2011 (LTW 232 2011)
  4. International Institute of Finance: Audi Bank LWM 40 2011
  5. EFG Hermes: Audi Bank LWM 33 2011
  6. HSBC: Audi Bank LWM 41 2011
  7. Standard Chartered Bank: Byblos Bank LTW 232 2011
  8. Barclays Capital: Byblos Bank LTW 233 2011

## **Economic Highlights:**

- **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>
  - **Real estate sales, value of sales and number of properties:** Directorate of Real Estate- Ministry of Finance
  
- **Inflation:** Estimates based on figures from September 2011
  - 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>
  - Rafic Hariri International Airport statistics
  
- **Tourism**
  - ⇒ Ministry of Tourism
  - ⇒ Ernst and Young: Audi Bank LWM 44 2011
  - Global Blue Lebanon S.A.L- Insight into Tourism Spending September 2011 YTD
  
- **External Sector**
  - ⇒ Trade: <http://www.finance.gov.lb/en-US/finance/EconomicDataStatistics/Pages/TradeStatistics.aspx>
  - ⇒ Balance of Payments: <http://www.bdl.gov.lb/edata/elements.asp?Table=t54-2>
  - ⇒ Capital Inflows: Ministry of Economy and Trade DataFile Computations
  - ⇒ Port of Beirut: <http://www.portdebeyrouth.com/stat.htm>
  - ⇒ Custom Entry- Exit Points: <http://www.customs.gov.lb/customs/index.htm>
  
- **Fiscal Sector**
  - September 2011 YoY Fiscal Performance— <http://www.finance.gov.lb/en-US/finance/EconomicDataStatistics/Pages/FiscalPerformance.aspx>

- September 2011 Public Finance Monitor YoY Public Debt- <http://www.finance.gov.lb/en-US/finance/ReportsPublications/DocumentsAndReportsIssuedByMOF/Pages/PublicFinanceReports.aspx>
- **Monetary and Banking sector**
  - **Monetary survey:** BDL: [http://www.bdl.gov.lb/edata/elements.asp?Table=q\\_BDL\\_SID2](http://www.bdl.gov.lb/edata/elements.asp?Table=q_BDL_SID2)
  - **Commercial Bank Assets:** BDL: [http://www.bdl.gov.lb/edata/elements.asp?Table=q\\_BDLa\\_SID4](http://www.bdl.gov.lb/edata/elements.asp?Table=q_BDLa_SID4)
  - **Commercial Bank Deposits- by type of deposit:** BDL: <http://www.bdl.gov.lb/edata/subseries.asp?SIID=4>
  - **Commercial Bank Deposits- by currency of deposit:** BDL: <http://www.bdl.gov.lb/edata/subseries.asp?SIID=6>
  - **Claims on private sector:** BDL: <http://www.bdl.gov.lb/edata/subseries.asp?SIID=4>  
 ABL: <http://www.abl.org.lb/Library/Files/Files/Economic%20Letter%20December%202009.pdf>
  - **Interest Rates:** BDL: <http://www.bdl.gov.lb/edata/subseries.asp?SIID=7>
  - **Cleared Checks:** BDL: <http://www.bdl.gov.lb/edata/subseries.asp?SIID=1>
  - **Dollarization Rates:** Ministry of Economy and Trade DataFile Computations
  - **Beirut Stock Exchange:** September 2011 Monthly Bulletin—<http://www.bse.com.lb/Market/HistoricalData/MonthlyBulletins/tabid/151/Default.aspx>