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ECONOMIC SUMMARY

GDP GROWTH AND ECONOMIC FORECASTS:

The **Coincident Indicator** — a compound index of a number of economic indicators published by BDL that acts as an estimate of GDP—showed an improvement in its figures in 2013, by recording a YTD increase of 4.3% in Q1 2013 relative to the 0.3% decrease attained in Q1 2012.

IMF and World Bank growth expectations however are not in concordance with the positive results of the Coincident Indicator index.

Despite positive rates of economic growth, latest IMF figures show a slowdown in growth, as they are estimated to register 2% by the end of 2012 and 2.5% for 2013. This comes as the political standoff and the escalating Syrian conflict continue to hamper growth. Provided that the local and regional situation improves in the second half of 2013, only then will IMF growth expectations climb back up again.

Similarly, **World Bank** estimations in 2012 are expected to be 1.7% before increasing to 2.8% in 2013 and 3.8% in 2014.

Many sector indicators saw a downturn in their results when analyzing their economic situation in 2013 vis-a-vis 2012:

• Real Estate:

Property Sale Transactions fell by 18.9% in the first three months relative to the same period in 2012, of which transactions by foreigners fell by 32.6% and transactions by locals fell by 18.6%. However, **Cement Deliveries** recorded a 13.6% increase in the first quarter of 2013 relative to the same period in 2012.

• Tourism:

Following a peak in Q1 2010, **Number of Tourists** fell by 13.4% in Q1 2011, 7.9% in Q1 2012 and 12.5% in Q1 2013. This was due to the local and regional situation deterring Arab tourists from visiting the country.

In Q1 2013 however, **Airport Passengers** saw a 10.3% increase in traffic. This was mainly due to the continued increase in the number of displaced Syrians flying in and out of Lebanon.

• Value of Foreign Assets

Foreign Assets held at BdL witnessed a regression in Q1 2013, as YTD growth in foreign assets fell by 0.4% compared to the 2.5% growth witnessed in Q1 2012.

This slowdown was mainly due to the 3.6% reduction in **Gold Reserves**, which came following the decline in the price of Gold in 2013.

• Fiscal Performance

Fiscal Deficit reached USD 783 Million in Q1 2013, a widening of 17% relative to the same period in 2012. This weakening in the Fiscal Balance came about due to a fall in total revenues while expenditures remained the same.

The 4.8% fall in **Total Revenues**, which reached USD 2,225 Million in Q1 2013, was mainly driven by a fall in budget revenues and in particular, tax revenues, as VAT payments dropped following the Parliament's policy decision to lift the VAT on gasoil in 2012.

Total Expenditures reached USD 3,008 Million, which was mainly driven by a 5.7% rise in **EDL Transfers**.

EdL continues to pose a heavy burden on the government budget despite a 10.2% reduction in Electricity Production and a fall in the Price/Ton of oil.

However, despite the challenges being faced by the Lebanese economy, a number of sectors saw an improvement in their figures or continued to register positive growth results over the 2013 period:

• Trade Flows :

The **Trade Deficit** fell by 10.4% in Q1 2013 compared to the figures attained in the same period in 2012. This is mainly due to a rise in exports and a fall in imports compared to the previous year.

In Q1 2013, **Exports** witnessed a rise of 3.3% relative to the same period in 2012. This rise was mainly driven by a growth in Syrian demand, as the closure and relocation of Syrian businesses has led to a substantial gap in supply in their economy

Total Imports (including Oil Products) on the other hand, saw a 7.7% fall in Q1 2013 relative to the same period in 2012. In reality, this is due to a statistical bias in the compilation of Oil Products in 2012 of Lebanese Customs Figures.

Once oil products are excluded, import values show a rise of 8.6% over the same period.

• Balance of Payments

The **Balance of Payments** saw a net improvement in Q1 2013, as its deficit fell to USD 62 Million from USD 373 Million attained in the same period in 2012. This progression came despite a 4.2% fall in **Capital Inflows** and was mainly fuelled by the significant reduction in the Trade Deficit.

• Port Statistics:

Volume of Goods at the Beirut Port witnessed a rise of 17.6% up to Q1 2013 compared to the same period attained in Q1 2012, due to the increased use of maritime transport for trading purposes by both the Lebanese and Syrians, as a result of the Syrian crisis. This increase has led to port congestion at the Port of Beirut.

• Banking Sector Deposits

Total value of Private Sector Deposits in the commercial banking sector continued to show positive growth results in 2013. In Q1 2013, they grew by 2.5% relative to the 2.2% increase attained in the same period in 2012. As such, private sector deposits reached USD 128,105 Million, accounting for 83% of total commercial bank assets by March 2013.



I. GDP GROWTH AND ECONOMIC FORECASTS

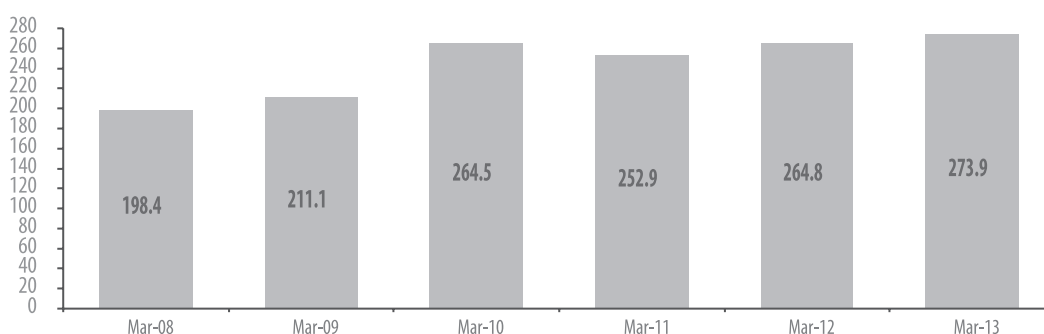
The political standoff that transpired in March 2013 combined with the escalating conflict in Syria have continued to put pressure on growth in Q1 2013.

Institution	2012 Annual Real GDP Growth forecasts as released by the end of 2012	2013 Annual Real GDP Growth forecasts as released by the end of 2012	2013 Annual Real GDP Growth forecasts as released by the end of March 2013
IMF	2.0%	2.5%	2.5%
World Bank	1.7%	2.8%	2.8%
EIU	1.7%	1.8%	1.8%
Institute of International Finance	0.6%	3.5%	1%-3%
EFG Hermes	1.0%	1.5%	1.0%
HSBC	1.4%	2.0%	2.0%
Merrill Lynch	3.0%	NA	1.5%
Standard Chartered Bank	1.5%	2.5%	2.5%
Barclays Capital	1.8%	2.5%	2.0%
Average	1.9%	2.4%	2.0%

The table above displays evolution in the GDP growth estimates for 2012 and 2013 made by major international institutions. For instance, in the latest IMF publication (WEO, Oct 2012), GDP growth figures for Lebanon were estimated to reach 2% in 2012 and 2.5% in 2013. Similarly, in the latest World Bank Publication (GEP, Jan 2013), GDP growth figures were estimated to reach 1.7% in 2012 and 2.8% in 2013.

As such, the average 2013 estimation that was made at the end of 2012 shows that Lebanon's average rate of GDP growth was 2.4%. When the estimations were reiterated in Q1 2013, the average 2013 growth rate forecast fell to 2%. This weakening in Lebanon's GDP growth estimations is the result of the overall reduction in the components of aggregate demand in various sectors over this period following the local and regional instability.

COINCIDENCE INDICATOR
(INDEX 1994=100; 2008-2013)



Source: Banque du Liban

However, despite this year on year slowdown in economic growth, Lebanon succeeded in avoiding a recession and continued to witness positive rates of growth. At the country

level, this is emphasized through the **coincidence indicator index**, which showed a 4.3% rise between Q1 2012 and Q1 2013.



II. THE REAL SECTOR

The real sector saw a deterioration in the first quarter of 2013, mainly as a result of the uncertainty arising from the regional turmoil that has left a negative impact on investor and consumer sentiments at large. Real estate, construction on the whole saw poor results relative to the upward trend

observed in the 2007 to 2010 period. Similarly, tourism data witnessed a dampening in their figures. Inflation improved slightly according to the Technical Center for Pricing Policies at MoET.

2-1. REAL ESTATE AND CONSTRUCTION

In the first quarter of 2013, the real estate and construction sectors recorded a slowdown in activities relative to the same period in 2012. This is noticeable in both the evolutions of the related demand and supply indicators in the first three months.

The **number of total property sale transactions**, which reflects demand for real estate, decreased by 19% to reach approximately 13,619. This is mainly due to the apprehensive attitude of investors for initiating new projects given the unstable regional environment, which is evident given the 18.5% fall in **sale transactions made by locals**.

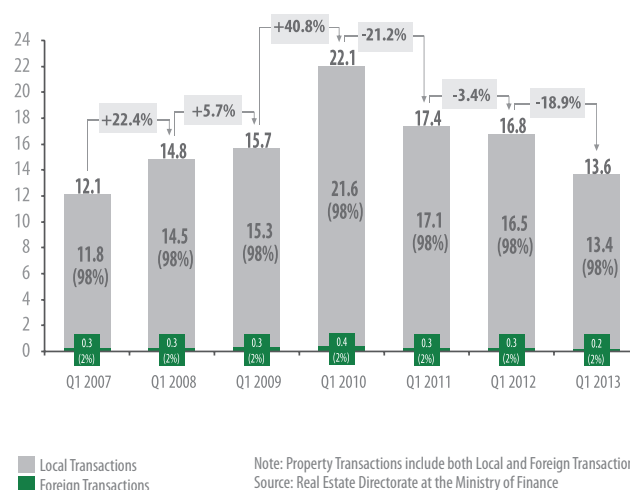
Sales transactions to foreigners similarly saw a drop of 33% over the same period.

The slowdown in the demand for Lebanese property sales was accompanied by a sharp decrease in the **value of real estate sales**. The latter decreased by 22.5% relative to the corresponding period in 2012, to reach USD 1,513 Million. As such, the **average value of property sales** in Q1 2013 reached USD 168,000, down by 4.5%.

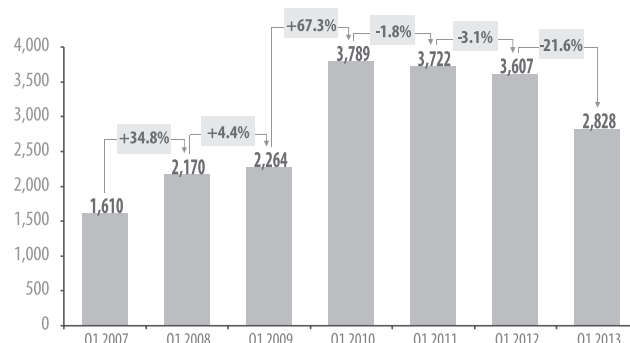
In terms of the supply of new property developments, indicators show that there was a 22% fall in the first quarter of 2013 in terms of the **number of new construction permits** as well as a 7% fall in terms of the **number of new transactions**. The former drop compares to a 3.1% fall witnessed over the same period in 2012. However, the number of new transactions witnessed an improved slowdown relative to the 11% decline attained between 2011 and 2012. The deterioration in the level of supply activities could be attributed to the overall fall in the level of demand following the regional instability and the consequent attitude of contractors to take less risk.

Tons of cement deliveries, a second supply indicator of building activity however, saw a 13.6% increase in the first quarter of 2013 relative to the 4.2% decline attained in the same period a year earlier.

EVOLUTION IN THE NUMBER OF PROPERTY TRANSACTIONS
(IN THOUSANDS OF TRANSACTIONS; 2007-2013)



EVOLUTION IN THE SURFACE AREA OF CONSTRUCTION PERMITS
(IN THOUSANDS OF SQUARE METERS; 2007-2013)



2-2. 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— continued to deteriorate in the first quarter of 2013.

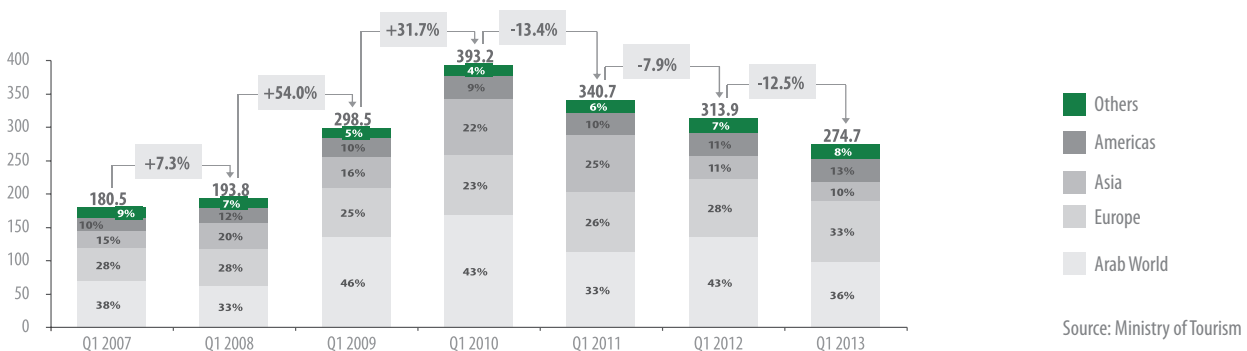
Following a peak in 2010, figures at the ministry of tourism show that **number of tourists** fell by 13.4% in Q1 2011, 7.9% in Q1 2012 and 12.5% in Q1 2013. This was due to the local and regional situation, which deterred Arab Tourists from visiting the country.

Deterrents include:

- The travel bans imposed by GCC countries, following the local and regional instability
- The road blocks associated with the Syrian crisis, which obstructed the passage point for Arab tourists
- The continued violent incidents, clashes and kidnappings, which have deterred Lebanese and Arab expats from visiting the country

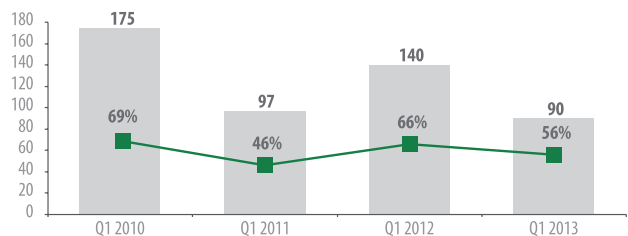
In fact, figures show that Arab visitors, although they continue to represent the primary source of tourists to Lebanon as shown in the below graph, fell by 27% in Q1 2013 relative to the same period in 2012.

EVOLUTION IN THE NUMBER OF TOURISTS (BY REGION)
(IN THOUSANDS OF TOURISTS AND IN PERCENTAGES; 2007-2013)



Furthermore, a report by Ernst and Young recently shows that Beirut witnessed a downturn in its hotel indicators since the start of the year. **Hotel occupancy rates** in Beirut reached 56% in Q1 2013 relative to the 66% attained a year earlier. Similarly, **average rate per room** as well as the **hotel room yield (RevPAR)** fell relative to their values in Q1 2012, reaching USD 161 and USD 90 respectively, that is a corresponding fall of 23.6% and 35.6%.

HOTEL OCCUPANCY AND REVENUE PER AVERAGE ROOM (REVPAR) RATES
(IN PERCENTAGE AND USD; 2010-2013)



Note: Hotel Occupancy Rate is the percentage of all hotel rooms occupied at a given point in time. RevPAR is a performance metric in the hotel industry, which is calculated by multiplying a hotel's average daily room rate (ADR) by its occupancy rate.

Source: Ernst and Young



2-3. AIRPORT TRAFFIC

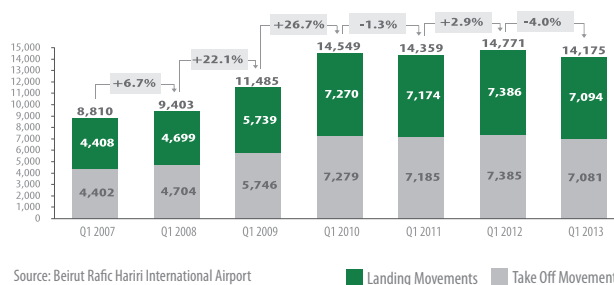
Similarly, the **number of flights**, another indicator of airport traffic— saw a meager fall in Q1 2013. The number of flights fell from 14,771 to 14,175 in Q1 2013, that is a 4% decrease, reflecting a slight weakening in tourism.

Transport of passengers however, another indicator of airport traffic and tourism, grew in Q1 2013 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 10.3%, reaching 1.37 Million in the first quarter of 2013 compared to the 1.24 Million attained in the same period in 2012, as depicted by the statistics compiled at the Airport. This upturn was mainly due to the continued increase in the number of displaced Syrians flying in and out of Lebanon.

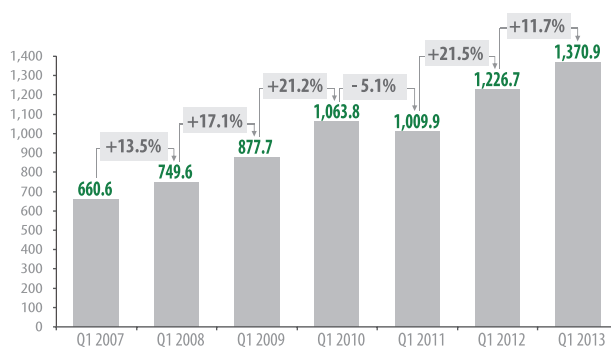
2-4. NEWLY REGISTERED CARS

According to the Association of Car Importers in Lebanon, the **number of newly registered cars** rose by 1.2% in Q1 2013 relative to the same period in 2012. **Revenues received from private car registrations** to the government however remained the same in Q1 2013 relative to Q1 2012. Car sales, which is reflected through the number of newly registered cars, is a leading indicator of economic activity since it is one of the first indicators to turn down when the economy goes into recession and the first to rise when it rebounds. Given that number of registrations rose but the government revenues received from these registrations stayed the same, it can be deduced that, although people are still buying cars, they may be opting for the smaller sizes and more affordable brands.

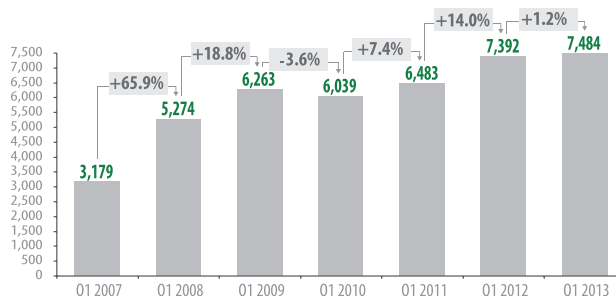
EVOLUTION IN FLIGHT MOVEMENTS
(IN NUMBER OF FLIGHTS; 2007-2013)



EVOLUTION IN THE NUMBER OF AIRPORT PASSENGERS
(IN THOUSANDS OF PASSENGERS; 2007-2013)



EVOLUTION IN THE NUMBER OF NEW REGISTERED CARS
(2007-2013)



2-5. INFLATION

The price movement report of the consumer basket issued by the Technical Center for Pricing Policies (TCPP) at the Ministry of Economy and Trade measures the retail prices for a selected basket of around

570 items (mainly foodstuffs and non-durable consumer goods) and their change on a monthly and annual basis.

Expenditure Category	YTD % Change in Prices (Jan-March 2012)	YTD % Change in Prices (Jan-March 2013)
Grains and Flour Products	0.20%	0.41%
Meat and Meat Products	0.25%	0.67%
Eggs and Dairy Products	1.89%	0.90%
Fat and Oil Products	1.52%	-0.51%
Fruits	4.82%	-4.84%
Vegetables	15.65%	8.37%
Seeds and Nuts	-5.63%	0.30%
Sweets, Chocolates, Jams and Honey	1.14%	2.54%
Miscellaneous Grocery Items	1.75%	-0.97%
Drinks and Beverages	-0.04%	0.72%
Spirits	4.68%	0.84%
Personal Items	5.06%	2.66%
Household Items	0.56%	-0.72%
TOTAL WEIGHTED FLUCTUATION	1.31%	0.61%

According to the latest figures issued, which are illustrated in the table above, **change in the price movement** of the TCPPs basket of foodstuff and non-consumer durable indicates that prices have fallen in Q1 2013 relative to the same period in 2012. In fact, Year to Date figures for March 2013 show that prices rose by 0.61% compared to the 1.31% observed in the same period a year earlier.

As the figures above illustrate, 'Vegetables' and 'Personal Items' were

the categories that showed the greatest rise in prices in the first three months of 2013. On the other hand, fruits saw the greatest fall in prices over this period.

Similarly, 'Vegetables', 'Personal Items' as well as the 'Spirits' categories were the main source of inflation in the same period a year earlier while the 'Seeds and Nuts' and 'Drinks and Beverages' categories recorded the greatest reduction in prices.



III. THE EXTERNAL SECTOR

The external sector showed mixed performance in the first quarter of 2013. The Balance of Payments continued to register a deficit following insufficient inflows of capital to cover the ever growing shortfall in the trade balance. In addition to aggregate trade activity witnessing a 6% decrease in terms of value and 10% in terms of volume in Q1 2013,

3-1. BALANCE OF PAYMENTS, CAPITAL INFLOWS AND TRADE

The **Balance of Payments** deficit saw an improvement in its figures as it fell from USD 373 Million in Q1 2012 to USD 62.2 Million in the same period in 2013, that is, an 83% decline. The reason for this decline was twofold:

- Lebanon continued to witness a growth in its **capital inflows**, which reached USD 4,260 Million by the end of Q1 2013, despite the 4.2% decrease relative to the same period in 2012.
- The 10.4% decrease in the **trade deficit**, which reached USD 4,322 Million by the end of Q1 2013 when compared to the same period in 2012. This is mainly due to a rise in exports and a fall in imports.

With regards to imports, customs figures show that the **value of imports** fell by 7.7% in Q1 2013 relative to the same period in 2012, to reach USD 5,514 Million, while their volume fell by almost 17% to reach 3.8 Million Tons. In reality however, this decrease has been overinflated following the statistical bias in the accumulation of several months worth of oil valuations into a single month in 2012 by the Lebanese Customs. By removing oil products from the equation, this bias is removed and the situation is reversed:

The **value of imports** in Q1 2013 rise by 8.6% while the volume of imports rise by 11.3% over the same period.

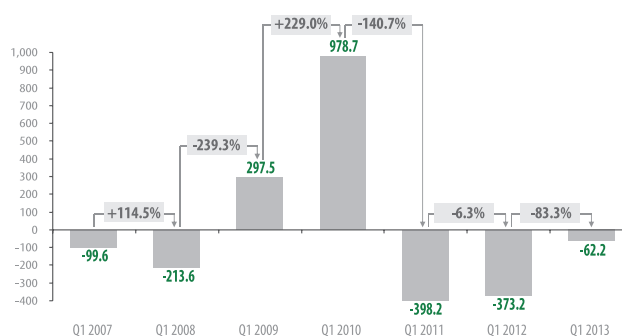
Once oil products are excluded, the observed rise in imports according to the World Bank can be attributed to several factors:

- The increase in the number of displaced Syrians settling in Lebanon has boosted local aggregate demand
- Some goods are imported via Lebanon before being smuggled across the borders for Syrian consumption
- Goods that would have been smuggled into Lebanon from Syria are now being obtained from more expensive sources, which are more likely to be recorded by customs.

With regard to exports, the **value of exports** rose by 3.3% over the same period to reach USD 1,192 Million. Similarly, their volume rose by 51% to reach 0.8 Million Tons. This rise was mainly driven by a growth in Syrian demand, as the closure and relocation of Syrian businesses has led to a substantial gap in supply in their economy. As such, demand for goods from neighboring countries has gone up.

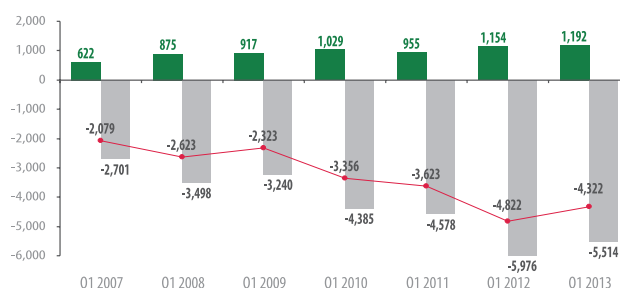
the growth in imports surpassed that of exports, thereby driving this expansion and putting a constraint on the performance of the sector. However, the goods trade deficit decreased by 10.4% year on year. Maritime Transport services however saw vast improvements on all fronts.

EVOLUTION IN THE BALANCE OF PAYMENTS (IN MILLIONS OF USD; 2007-2013)



Source: Banque du Liban

EVOLUTION IN EXPORTS, IMPORTS AND IN THE TRADE BALANCE (IN MILLIONS OF USD; 2007-2013)



Source: Lebanese Customs at the Ministry of Finance

Exports Imports Trade Balance



3-2. TRANSPORT SERVICES

In terms of the main maritime transport services, Port Activity indicators at the Port of Beirut, including the tons of (incoming and outgoing) goods transported, volume of (loaded and unloaded) containers and port revenues showed a vast improvement in Q1 2013. Similarly, Customs indicators, with regards to transit activity and the main customs office used to transport goods witnessed a progress in their figures in the same period. As such, the following observations were made with regards to each indicator:

- **Port Activity**- measured in total tons of goods transported– increased by 17.6% relative to the same period in the previous year.

- **Volume of Containers**, which is quantified in TEU (a measure of capacity in container transportation otherwise known as Twenty Foot Equivalent Unit) and TS (otherwise known as transshipment), also witnessed a 9% improvement over this period.

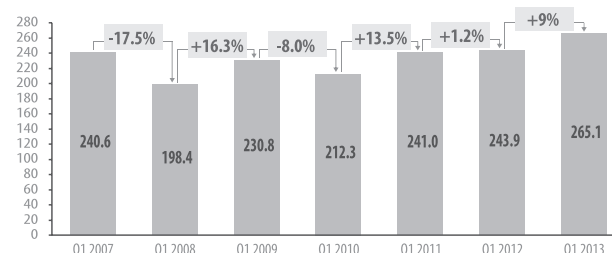
- **Revenues** generated by the Port of Beirut similarly rose by 26%.

- **Value of Transit Activity** reached USD 118.9 Million in Q1 2013 relative to the USD 94.3 Million attained in Q1 2012, that is, a 26.1% increase.

The net growth in all maritime and transit indicators is due to the following:

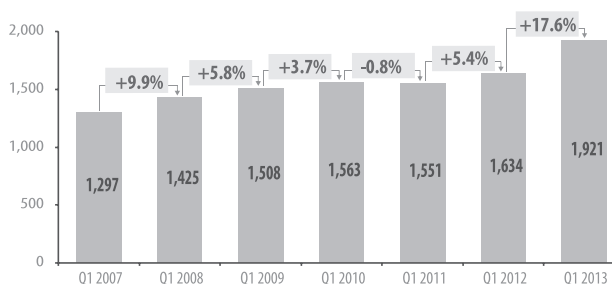
- The limited access of Lebanese products via road transport.
- Goods for the Syrian market being shipped through the Port of Beirut and transported to Syria rather than being shipped directly through Syrian Ports as a result of the crisis.

EVOLUTION IN THE NUMBER OF CONTAINERS AT BEIRUT PORT
(IN THOUSANDS OF CONTAINERS; 2007-2013)



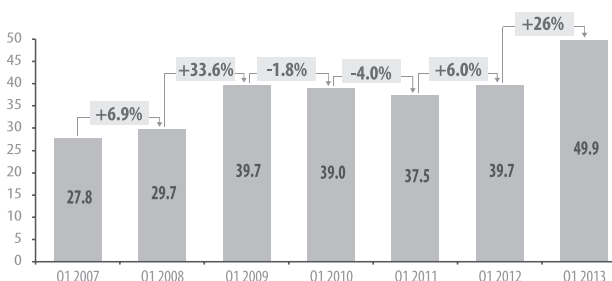
Note: Number of Containers includes activity of Twenty Foot Equivalent Unit containers and Transshipments
Source: Port of Beirut

EVOLUTION IN ACTIVITY AT BEIRUT PORT
(IN THOUSANDS OF TONS, 2007-2013)



Note: Activity at Port of Beirut: Weight of imported and exported products via Beirut port
Source: Port of Beirut

EVOLUTION IN BEIRUT PORT REVENUES
(IN MILLIONS USD; 2007-2013)



Source: Port of Beirut



IV—THE FISCAL SECTOR

The fiscal sector weakened in the first quarter of 2013. Fiscal performance deteriorated relative to the same period in 2012 as the year on year fiscal deficit grew by 17%. In terms of the public debt, given the fact that it continued to grow in absolute terms and

that the slowdown in Lebanon's estimated economic growth for 2012 is expected to persist, it is likely that Debt-to-GDP ratio may consequently rise to 140% by the end of 2013 from the 136% attained in 2012.

Indicator and Period (Millions of LL)	Q1 2012	Q1 2013	% Change
Total Revenues	2,336	2,225	- 4.8%
Total Expenditures	3,005	3,008	+0.1%
Total Fiscal Balance	- 669	- 783	+17.0%
Total Primary Balance	177	- 5	- 102.8%
Budget Revenues	2,224	2,094	- 5.8%
Budget Expenditures	2,498	2,470	- 1.1%
<i>EDL Transfers</i>	541	572	+5.7%
<i>Total Debt Servicing</i>	846	778	-8.1%
Budget Balance	- 274	- 376	+36.9%
Budget Primary Balance	572	402	- 29.7%
Treasury Revenues	113	131	+15.9%
Treasury Expenditures	507	538	+6.1%
Treasury Balance	- 395	- 407	+3.0%

Q1 2013 relative to Q1 2012:
VAT revenues fell by 8.1%
Custom Revenues rose by 0.7%

4-1. FISCAL PERFORMANCE

Fiscal Deficit reached USD 783 Million in Q1 2013, a widening of 17% relative to the same period in 2012. This weakening in the Fiscal Balance came about due to a fall in total revenues while expenditures remained the same. **Total revenues** fell by 4.7% to reach an estimated USD 2,225 Million (LL 3,354 Million) in Q1 2013 while **total expenditures** rose by a meager 0.1%, to reach USD 3,008 Million (LL 4,534 Million) in the same period. This led to the ratio of **total deficit to expenditures** to rise from 22.3% in Q1 2012 to 26% by Q1 2013. The fall in total revenues was mainly driven by a fall in budget revenues. In particular, this drop was mainly driven by:

- A 5.6% fall in **Tax revenues**, which includes:
 - VAT payments, which dropped following the Parliament's policy decision to lift the VAT on gasoil in 2012
 - Miscellaneous Tax Revenues

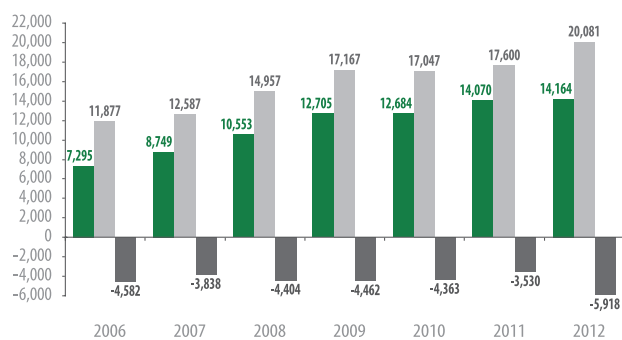
- A 6.46% fall in **Non-Tax Revenues**

On the spending side, the meager rise in total expenditures was mainly driven by:

- A 5.7% rise in **EDL Transfers**. EdL continues to pose a heavy burden on the government budget despite a 10.2% reduction in Electricity Production and a fall in the Price/Ton of oil.
- A 8.1% fall in total value of **Debt Servicing** in Q1 2013, of which interest payments declined by 16.7% and foreign debt principal repayment fell by 26.7%



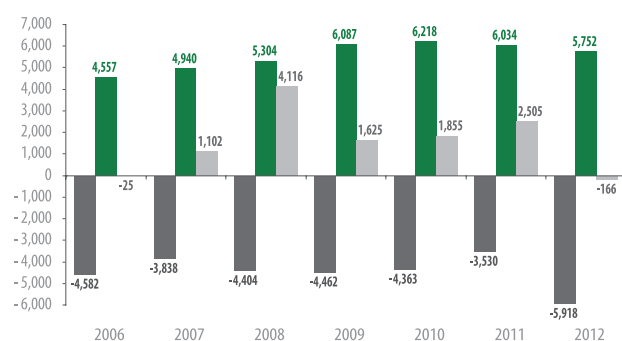
EVOLUTION IN TOTAL REVENUES, EXPENDITURES AND FISCAL BALANCE (IN MILLIONS LBP; 2006-2012)



Source: Ministry of Finance

■ Revenues ■ Expenditures ■ Fiscal Balance

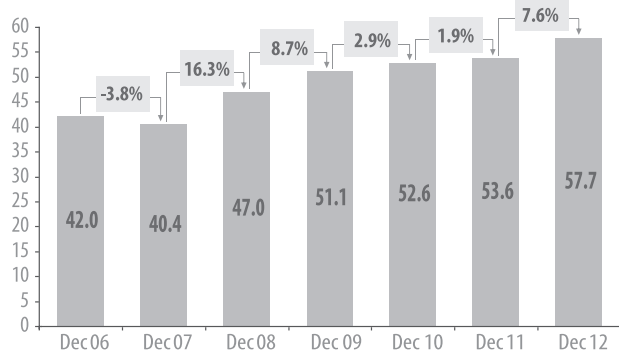
EVOLUTION IN THE PRIMARY BALANCE, DEBT SERVICING AND FISCAL BALANCE (IN MILLIONS LBP; 2006-2012)



Source: Ministry of Finance

■ Revenues ■ Expenditures ■ Fiscal Balance

EVOLUTION IN GROSS PUBLIC DEBT (IN BILLIONS OF USD; 2006-2012)



Source: Banque du Liban

EVOLUTION IN THE BREAKDOWN OF PUBLIC DEBT FIGURES (IN BILLIONS USD; 2012-2013)

Indicator and Period	March 2012	March 2013	% Change Mar 2011/ Mar 2012
Gross Public Debt	54.1	57.7	6.7
Local Currency Debt, of which:	33.5	33.8	0.9%
Central Bank	11.9	10.9	-8.4%
Commercial Banks	16.3	17.1	4.9%
Foreign Currency Debt, of which:	20.6	23.9	16.0%
Eurobond Holders, Foreign Private Sector Loans and Special T-Bills in Foreign Currencies	17.9	21.4	19.6%
Multilateral Institutions	1.4	1.2	-14.3%
Foreign Governments	1.03	1.02	-1.0%
Paris II related Debt	0.21	0.14	-33.3%
Net Debt	46.9	50.1	6.8%

Source: Ministry of Finance

4 -2. GROSS PUBLIC DEBT

Gross Public Debt reached USD 57.7 Billion by the end of March 2013 relative to the USD 54.1 Billion attained a year earlier, that is a year on year increase of 6.7%. However, given that debt servicing in Q1 2013 fell, Gross Public Debt growth saw a slowdown relative to the same period in 2012, rising by 0.03% in Q1 2013 relative to the 0.9% rise attained in Q1 2012.

The 6.7% increase in Gross Public Debt is the result of an increase in **Foreign Currency Debt**. Foreign Currency Debt grew by USD 3.3 Billion, that is 16%, between March 2012 and March 2013. This debt was mainly financed through international loans, Eurobonds and Foreign currency T-Bills, which represent 89.7% of total Foreign Currency Debt. The latter grew by nearly 20% over the same period.

Although small, **Local Domestic Debt** rose by 0.9% between March

2012 and March 2013. This Local Debt was financed through the combined increase in borrowing carried out by the Central Bank (in the form of REPOs, Loans to EdL and through the financing of T-Bills) as well as through commercial banks and T-Bills. According to the figures published by the Ministry of Finance, the rise in local currency debt was mainly fuelled by a 4.9% increase in loans to commercial banks, which make up 50.6% of total Local Debt. Central bank debt, which makes up 32.4% of Local Currency Debt however, fell by 8.4% over the same period.

Furthermore, given that we use IMF figures to forecast 2013 growth rates, the **Debt-to-GDP Ratio** is consequently expected to reach 140% of GDP by the end of the year, following the IMF's most recent downgrade to 1.5%.



V– THE BANKING AND FINANCIAL SECTORS

The banking and financial sectors continued to post positive results in its growth performance in Q1 2013. Banking indicators such as Commercial Bank Assets, Liquidity– as shown via the inflow in Deposits– Claims to the Private Sector, Money Supply and Interest

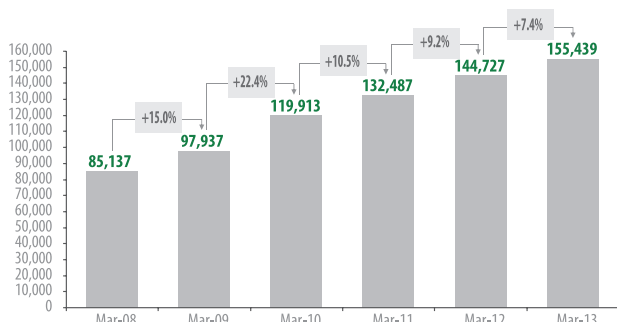
Rates followed a positive growth path, albeit at a slower rate for some indicators. Financial indicators, such as Cleared Check activities and Beirut Stock Exchange activities however saw a slight weakening in their performance.

5-1. COMMERCIAL BANK ASSETS

Commercial bank assets continued to grow throughout Q1 2013, reaching USD 155,439 Million by the end of Q1 2013, indicating a year

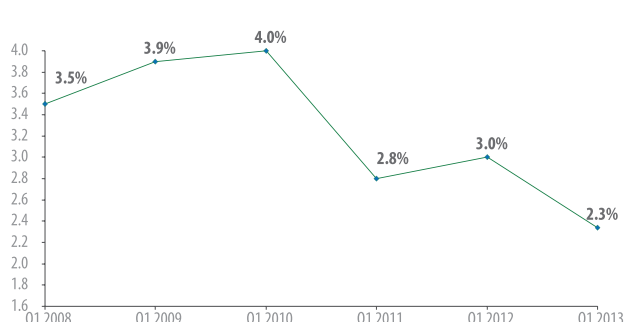
to date growth rate of 2.3%. This growth in assets however falls short of the 3.0% rise witnessed in the first quarter of 2012.

VALUE OF COMMERCIAL BANK ASSETS
(IN MILLIONS OF USD; 2008-2013)



Source: Banque du Liban

YTD GROWTH IN VALUE OF COMMERCIAL BANK ASSETS
(IN PERCENTAGE; 2008-2013)

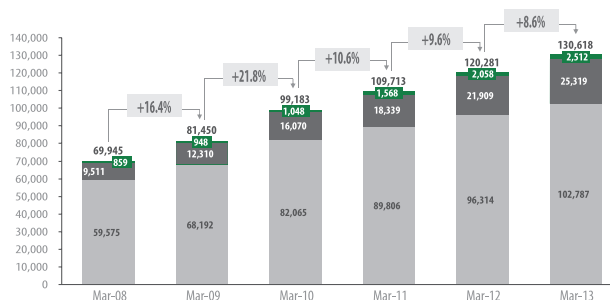


Source: Banque du Liban

5-2. BANKING DEPOSITS

The evolution in the Value of Total Deposits in the banking sector, defined as deposits in the commercial banks by both the non-financial sector and the public sector, continued to move in an upward direction, reaching a total of USD 130,618 Million by the end of Q1 2013. As such, total deposits witnessed a slight growth following a 2.3% increase in Q1 2013 relative to the 2.2% increase attained in Q1 2012, as shown in the table below.

VALUE OF TOTAL BANK DEPOSITS
(RESIDENT, NON RESIDENT AND PUBLIC SECTOR)
(MILLIONS OF USD; 2008-2013)



Note: Bank Deposits defined as Resident and Non Resident Private Sector Deposits and Public Sector Deposits
Source: Banque du Liban

Q1 Growth in Type of Deposit	Q1 2008 Growth	Q1 2009 Growth	Q1 2010 Growth	Q1 2011 Growth	Q1 2012 Growth	Q1 2013 Growth
Total Deposits, of which:	2.8%	3.5%	2.4%	1.0%	2.2%	2.3%
Resident Private Sector Deposits	3.3%	2.9%	3.6%	1.2%	2.0%	1.9%
Non Resident Private Sector Deposits	-0.8%	7.0%	-3.0%	-0.8%	3.0%	5.1%
Public Sector Deposits	11.3%	7.4%	-0.6%	12.2%	3.4%	-5.5%

A breakdown of Private Sector deposits relative to Public Sector deposits shows that the former reached USD 128,105 Million while the latter reached USD 2,512 Million by the end of Q1 2013. Assessing the category with the greatest YTD growth shows that Non-Resident Private Sector was the category that witnessed the greatest

percentage increase in deposits in the Q1 2013 period, reaching 5.1%. This was followed by the Resident Private sector, which saw a 1.9% rise in the same period. Public Sector deposits however, fell by 5.5% in Q1 2013.

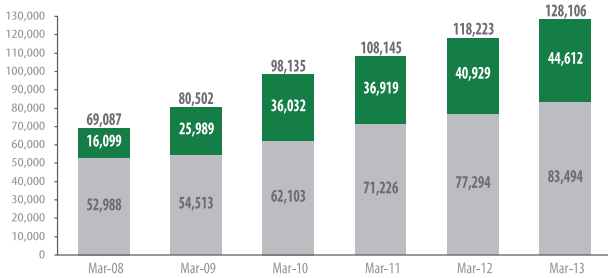


Type of Deposit as a Share of Total Deposits	Q1 2008 Growth	Q1 2009 Growth	Q1 2010 Growth	Q1 2011 Growth	Q1 2012 Growth	Q1 2013 Growth
Total Deposits, of which:	100%	100%	100%	100%	100%	100%
Resident Private Sector Deposits	85.2%	83.7%	82.7%	81.9%	80.01%	78.7%
Non Resident Private Sector Deposits	13.6%	15.1%	16.2%	16.7%	18.2%	19.4%
Public Sector Deposits	1.2%	1.2%	1.1%	1.4%	1.7%	1.9%

In terms of type of deposit as a share of Total, Resident Private Sector Deposits continued to make up the majority of deposits, followed by Non Resident Private Sector Deposits and the Public Sector. What is interesting however, is how this share has changed in the last 5 years.

The share of latter has risen 5% from 13.6% in Q1 2008 to 19.4% in Q1 2013 while that of the former has fallen from 85.2% in Q1 2008 to 78.7% in Q1 2013.

DEPOSITS IN COMMERCIAL BANKS OF NON-FINANCIAL SECTOR (LEBANESE AND FOREIGN CURRENCY) (IN MILLIONS OF USD; 2008-2013)



Note: Bank Deposits defined as Resident Private Sector Deposits (excluding Public Sector)
 Source: Banque du Liban

Furthermore, a breakdown of private sector deposits into Lebanese Currency Deposits (LCDs) and Foreign Currency Deposits (FXDs) provides the following observations when comparing LCDs to FXDs:

- LCDs saw a slowdown in growth rates in Q1 2013 when compared with the growth of FXDs over the same period. The former grew by 1.4% compared with the 3.1% attained by the latter.
- However, this trend is reversed when looking at the figures for the same period in 2012: LCDs grew by 3.8% relative to the 1.3% attained by FXDs.

The following observations are also observed when comparing YTD growth rates of each currency deposit in Q1 2013 with those of the same period in 2012:

GROWTH IN LEBANESE VS. FOREIGN CURRENCY DEPOSITS IN COMMERCIAL BANKS OF NON-FINANCIAL SECTOR (IN PERCENTAGE; 2008-2013)



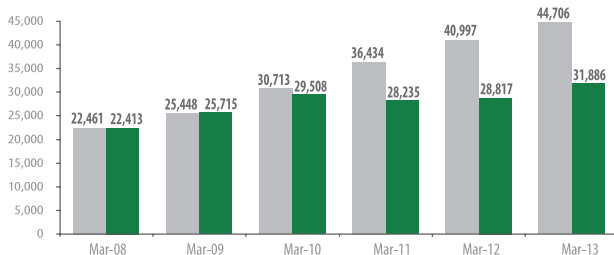
Source: Banque du Liban

• LCDs witnessed a slowdown in growth rates over the 2013 period when compared with its growth rates in 2012. In the 2013 period, they grew by 1.4% compared with the 3.8% attained in the same period a year earlier.

• On the other hand, FXDs witnessed an upturn in growth rates over the same period, rising by 3.1% in Q1 2013 compared with the 1.3% increase observed in 2012.

This analysis indicates that FXDs are regaining their strength at the expense of the Lebanese Pound. As such, the Dollarization rate is expected to rise should this pattern continue. Furthermore, LCDs now account for 35% of total commercial bank assets while FXDs account for 65% of total assets.

TOTAL LOANS TO THE PRIVATE (RESIDENT AND NON RESIDENT) AND PUBLIC SECTOR (MILLIONS OF USD; 2008-2013)



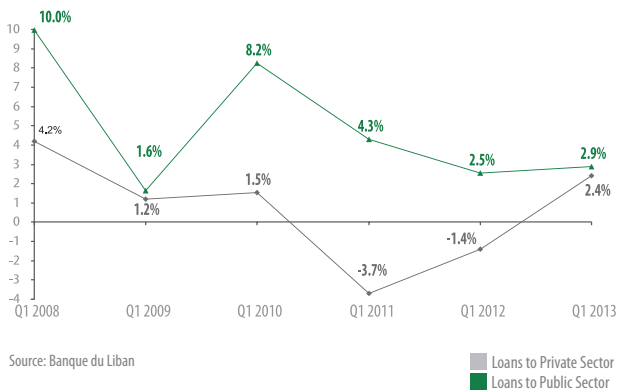
Source: Banque du Liban

5-3. CLAIMS

With regards to Claims, data compiled by the Association of Banks in Lebanon shows that by the end of Q1 2013, **Total Lending to the Private and Public Sector** reached USD 76,592 Million, whereby private sector lending reached USD 44,706 Million and lending to the public sector reached USD 31,886 Million.



YTD GROWTH IN TOTAL LOANS TO THE PRIVATE AND PUBLIC SECTOR (IN PERCENTAGE; 2008-2013)



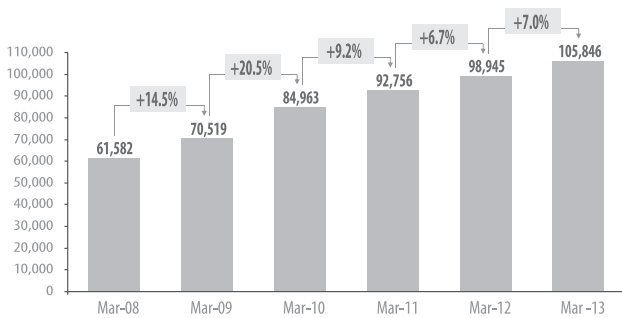
When analyzing YTD growth, growth in **Total Claims** rose by 2.7% in Q1 2013 relative to the YTD increase of 0.9% in the same period in 2012. In particular:

- **Claims to the Private sector** rose by 2.9% over the same period in 2013 compared to the 2.5% rise observed in Q1 2012. As such, loans to the private sector now account for 58% of total claims and 25% of total commercial bank assets.
- **Claims to the Public Sector** rose by 2.4% in Q1 2013 compared to the 1.4% fall observed over the same period in 2012. As such, loans to the public sector account for 42% of total claims and 21% of total assets.

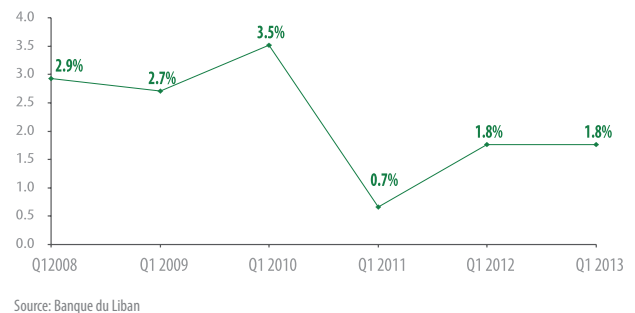
5-4. MONEY SUPPLY

The **stock of money and quasi money (M3)** grew to reach USD 105,846 Million by the end of Q1 2013. YTD Growth in M3 over the Q1 2013 period however remained the same as in Q1 2012.

VALUE OF M3 MONEY SUPPLY (IN MILLIONS OF USD; 2008-2013)



YTD GROWTH IN M3 MONEY SUPPLY (IN PERCENTAGE; 2008-2013)

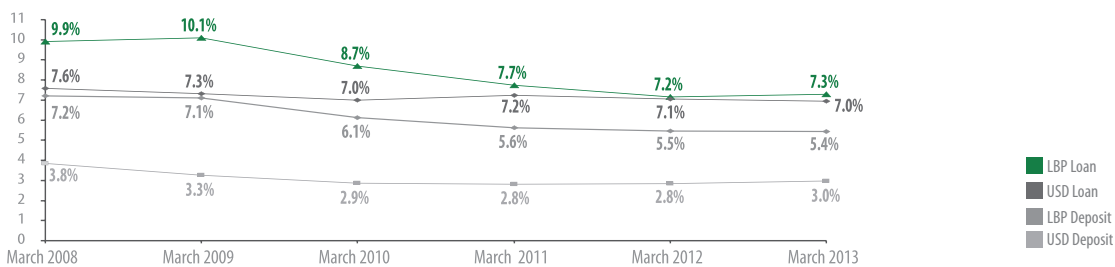


5-5. INTEREST RATES

A mixed trend was observed in both **LBP denominated and USD denominated interest rates on deposits and loans**. By the end of March 2013, LBP deposit rates decreased to 5.4% from the 5.5% observed a year earlier while USD Deposit rates increased to 3% from

the 2.8% observed by the end of March 2012. Interest rates on LBP denominated loans rose to 7.3% by the end of March 2013 from the 7.2% observed a year earlier. Interest rates on USD denominated loans however decreased from 7.1% to 7% over the same period.

LBP AND USD DEPOSIT AND LOAN RATES (IN PERCENTAGE; 2008-2013)



T-BILL AND COMMERCIAL DEPOSITS RATES
(IN PERCENTAGE, 2006-2013)

	March Certificates of Deposits		March T-Bills				
	45 Day CD	60 Day CD	3 Months	6 Months	12 Months	24 Months	36 Months
2006	4.40	4.89	5.22	7.24	7.75	8.68	9.54
2007	4.40	4.89	5.22	7.24	7.75	8.68	9.54
2008	4.40	4.89	5.22	7.24	7.75	8.68	9.54
2009	4.40	4.89	5.07	6.96	7.27	8.12	9.04
2010	4.40	4.89	4.44	5.5	5.58	6.13	6.98
2011	3.57	3.85	3.93	4.5	4.79	5.41	6.03
2012	3.57	3.85	4.43	4.99	5.33	5.9	6.58
2013	3.57	3.85	4.44	4.99	5.35	5.93	6.61

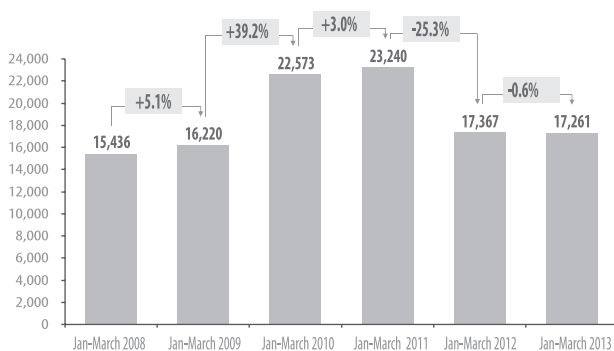
Source: Banque du Liban

5-6. CLEARED CHECKS

The **total value of checks cleared** in the banking system, an indicator of overall spending patterns in the economy, decreased slightly to USD 17,261 Million (LBP and FC combined) by the end of Q1 2013, from the USD 71,367 Million observed by the end of Q1 2013– a decrease of 0.6%. The **number of checks cleared** also witnessed a slight decrease

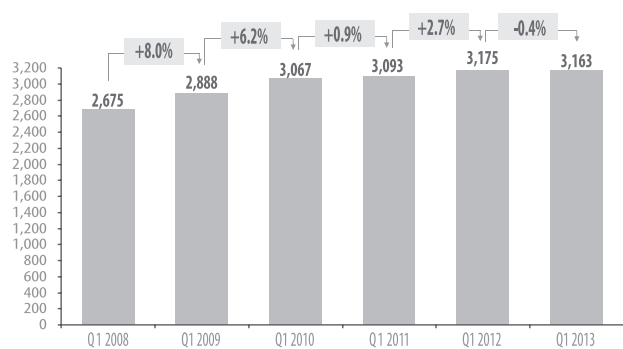
in figures, reaching 1.07 Million compared to the 1.12 Million attained in the same period a year earlier. This has consequently led to a 0.2% fall in the average value of cleared checks by the end of Q1 2013.

EVOLUTION OF THE VALUE OF CLEARED CHECKS (IN MILLIONS USD; 2008-2013)



Source: Banque du Liban

EVOLUTION IN THE NUMBER OF CLEARED CHECKS (IN THOUSANDS OF CLEARED CHECKS; 2008-2013)



Source: Banque du Liban

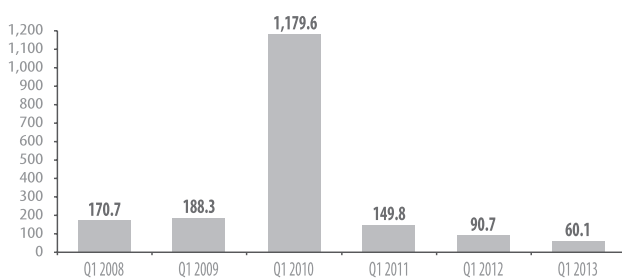


5-7. MARKET CAPITALIZATION

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. Figures released by the Beirut Stock Exchange indicate that **total trading volume** reached 9.45 million shares by the end of Q1 2013, constituting a decrease of 29.4% from the same period last year;

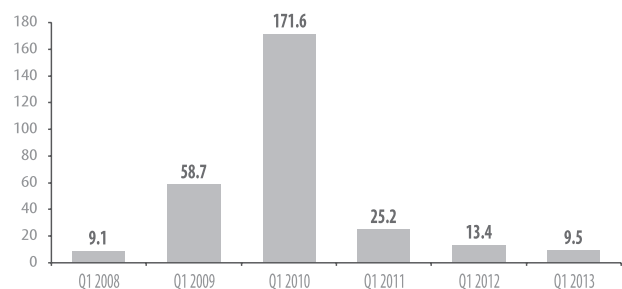
while **aggregate turnover** amounted to USD 60.1 Million, down 33.8% from the turnover attained in Q1 2012. As such, **BSE market capitalization** by the end of Q1 2013 grew by a mere 0.5%, reaching USD 10,897 Million relative to the USD 10,838 Million attained in the same period a year earlier.

EVOLUTION IN THE VALUE OF TRADED SHARES (IN MILLIONS USD; 2006-2012)



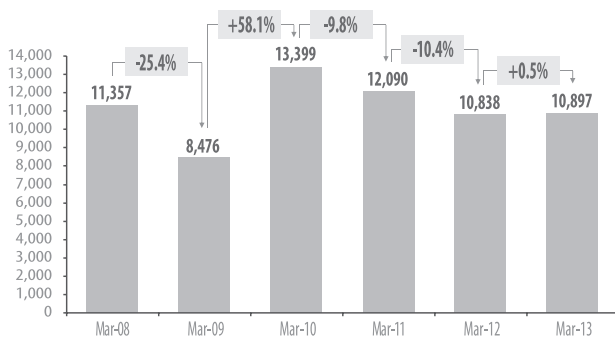
Source: Beirut Stock Exchange

EVOLUTION IN THE VOLUME OF TRADED SHARES (IN MILLIONS OF SHARES; 2006-2012)



Source: Beirut Stock Exchange

VALUE OF MARKET CAPITALIZATION (IN MILLIONS USD; 2006-2012)



Source: Beirut Stock Exchange



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 4. International Institute of Finance: Byblos Bank Report (LTW 299)
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- Beirut Stock Exchange March 2013 Monthly Bulletin—<http://www.bse.com.lb/Market/HistoricalData/MonthlyBulletins/tabid/151/Default.aspx>

