



THE LEBANESE ECONOMY is showing continued strength into 2010. The economy continues to be maintained by the thriving real estate, tourism and banking sectors.

Institution	2010e
Ministry of Finance	7-8%
Banque du Liban	5%
World Bank	6%
IMF	6%
Economic Intelligence Unit	5.80%
Barclays Capital	6%
Merrill Lynch	5.80%
Institute of International Finance	7.00%
Standard Chartered	5%
HSBC	6.90%

⇒ The data in the table illustrates the most recent **estimates of economic growth for Q1 2010** by a variety of institutions. The IMF has also recently projected that Lebanon will be the fourth fastest growing economy in the MENA region in 2010.

⇒ The **real estate, tourism and banking sectors** continue to be the main drivers of economic growth. Albeit a 2010 improvement in the fiscal balance and in capital inflows, the public and trade sectors continue to pose the key burden on the economy.



INFLATION by March 2010 experienced a year on year rise of **4.5% relative to March 2009**.

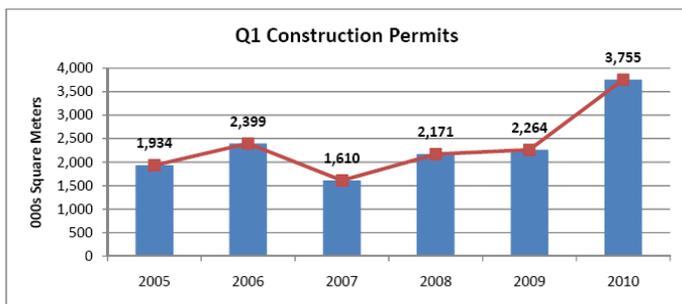
⇒ According to the Central Administration of Statistics in Lebanon, the March 2010 inflation index reached 109.5 (taking December 2007= 100) compared to the 104.8 attained a year earlier. Thus, **Q1 year on year inflation** reached 4.5%.

⇒ The **rise in consumer prices** is mainly in the fields of **transportation** (16.3%) and **water, electricity and gas** (14.9%). Both come as a result of a rise in the price of oil from US\$45/ barrel at the end of Q1 2009 to US\$83/ barrel by the end of Q1 2010. The rise in the cost of **education** (9.6%) and **housing** (6.1%) were fuelled by higher labor costs in the former and a rise in property prices in the latter. On the other hand, the fall in the price of **communication** (-13.1%) is due to the cuts in pre and post paid cellular rates that took place in Q2 2009.

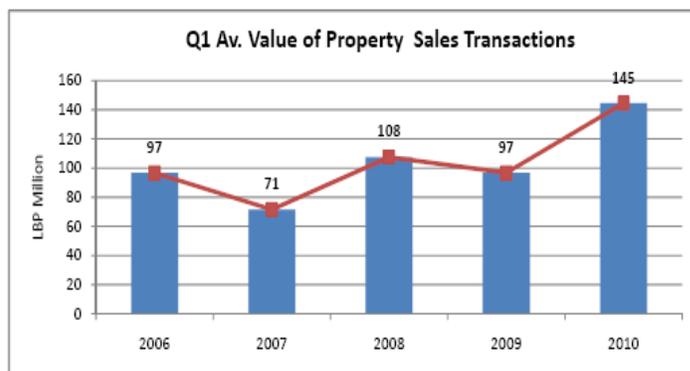
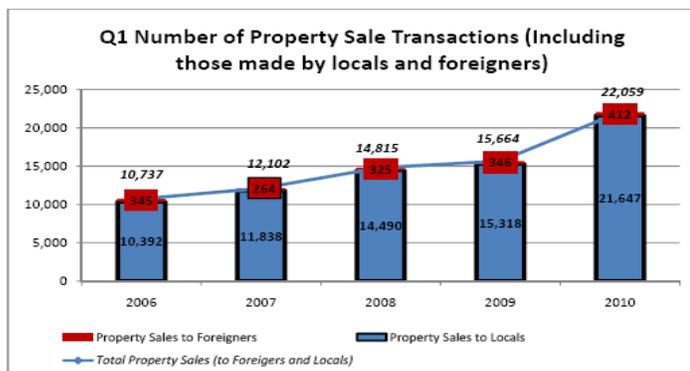
	% Change in CPI between March 2009 and March 2010
Food and Alcoholic Beverages	0.3%
Alcohol Beverages and Tobacco	7.8%
Clothing and Footwear	-6.8%
Housing, Water, Electricity, Gas and other Fuels	
Housing	6.1%
Water, Electricity, Gas and Other Fuels	14.9%
Furnishings, Household Equipment and Routine Household maintenance	1.0%
Health	2.4%
Transportation	16.3%
Communication	-13.1%
Recreation, Amusement and Culture	3.3%
Education	9.6%
Restaurants and Hotels	3.8%
Miscellaneous Goods and Services	1.2%
Consumer Price Index	4.5%

Source: Central Administration of Statistics

THE REAL ESTATE AND CONSTRUCTION SECTOR registered record levels in Q1 2010 owing to the strong rates of economic growth, continued large remittances from Lebanese expatriates, large foreign capital inflows, population growth and robust tourism.



- ⇒ Real estate companies have expressed their optimism about the projected performance of the sector in 2010. Chief marketing officer at Noor Holdings, Sobhi Agha, has stated that the company is expecting a 150% increase in sales volumes in 2010 following H.E. Minister Abboud's positive assertions concerning tourism in the coming summer.
- ⇒ New construction activities in Q1 2010 increased by both size and volume. In terms of size, building activities are still ongoing as shown by the rise in the area of **construction permits** at the Order of Architects and Engineers of Beirut and Tripoli, which totaled 3.75 million square meters in Q1 2010, up by 65.9% from the same period a year earlier. In addition, the **volume of new transactions** registered at the Order of Architects and Engineers in Beirut and Tripoli increased by 28.3%, reaching a total of 3,662 transactions in Q1 2010, entailing a 29.3% rise in the average area per transaction. A further indicator of building activities—cement deliveries—also shot up in Q1 2010, reaching 1,109,314 Tons or a 17.7% increase relative to Q1 2009, thus confirming continued growth in the sector.



- ⇒ In terms of existing property, figures registered at the Real Estate Directorate depict that there has been an increase in the **number of property sales transactions** and an even higher rise in the **value of such transactions**. Number of property sales rose by 41% in Q1 2010 to reach 22,059 relative to the 15,664 attained in Q1 2009, with transactions among foreigners rising by 19%, from 346 in Q1 2009 to 412 in Q1 2010. The **average value of property sale transactions** reached LBP 145 Million (US\$ 96,186), a 110.3% rise relative to the LBP 97 Million (US\$ 64,345) attained in Q1 2009.
- ⇒ According to the Central bank Governor Riad Salameh, a real-estate bubble is not expected to take place in Lebanon and that the surge in property prices in the country is due to a real increase in demand coming from Lebanese residents, expatriates and Gulf Arabs.
- ⇒ H.E Minister Safadi however has expressed concern regarding the real estate bubble being confined to Beirut and its surrounding area, its limited impact on job creation and the importance of the need to maintain a

balance in property prices so that it can cater to both the means of the Lebanese population as well as investors, as the latter would be hurt by a sharp plummet in prices.

THE TOURISM SECTOR continued to witness a positive trend in the first quarter of 2010.

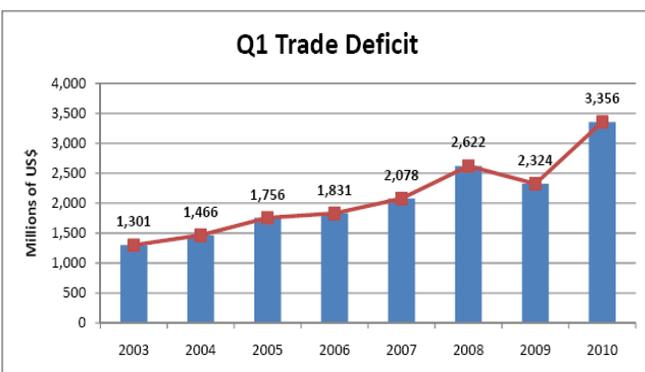


⇒ According to the Ministry of Tourism, the number of tourists in Q1 2010 reached 393,212 tourists, the highest attained in over a decade, and more precisely, a 32.1%, 102.9% and 117.8% increase compared to Q1 of 2009, 2008 and 2007 respectively. According to a report by Ernst and Young, Beirut also saw the highest increase in hotel room yield, reflecting an increase in hotel profitability. This increase was mainly due to the rise in average room rates, which reached US\$261 in the first two months of 2010 as well as the rise in hotel occupancy rates, which increased by 3% in the first two months of 2010, to reach 70%.

⇒ Meanwhile, the number of airport passengers saw a year on year rise of 21.1%, from just over 885,000 in Q1 2009 to 1.072 Million in Q1 2010, as depicted by the statistics compiled at the Rafic Hariri International Airport.

⇒ A report published by the World Travel and Tourism Council (WTTC) states that Lebanon's tourism industry is to register a growth rate of 11.3% in 2010, enhanced by stable political and security conditions and increased confidence from Lebanese expatriates and Gulf nationals. According to the WTTC, tourism is also expected to directly contribute US\$4.4 Billion to the economy in 2010 and provide around 199,000 jobs, which would account for 13.7% of total employment in the country.

THE EXTERNAL SECTOR continued to perform well despite a worsening in the Q1 2010 trade balance. This came about following an improvement in the amount of capital inflows reaching the economy in Q1 2010 relative to the Q1 of previous years.

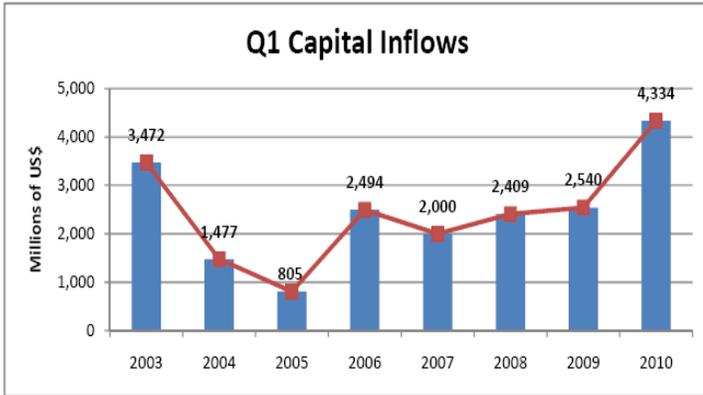


⇒ According to Ministry of Finance figures, imports increased by 35.3% to US\$4.38 Billion and exports increased by 12.2% to US\$1.03 Billion in Q1 2010, leading to a trade deficit of US\$3.36 Billion, up 44.5% year on year.

⇒ The rise in the value of imports can be attributed to several factors: the increase in the price of oil in 2009-2010, the weakening of the dollar relative to the Euro in the Q1 2010 period when compared to the Q1 2009 period and the increase in demand by local consumers and investors.

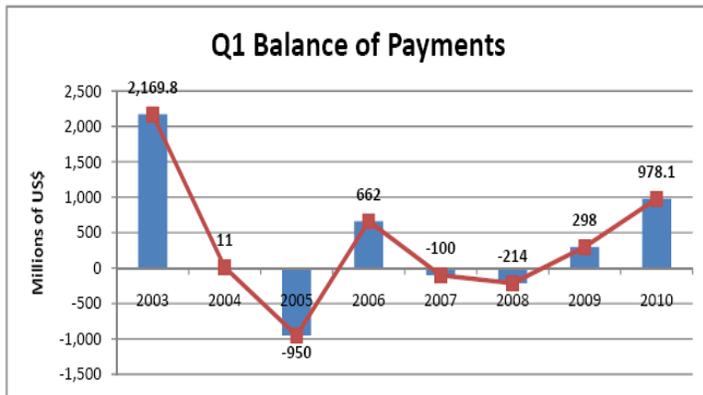
⇒ The rise in the value of exports can be put down to the turnaround in economic conditions of Lebanon's main export partners. Furthermore, bilateral efforts to boost trade relations between Lebanon and several countries have also been beneficial to exports: Lebanon, for instance, has witnessed a 132% and 7% rise in exports to Turkey and Qatar following successful bilateral meetings in 2009-2010.

⇒ In terms of value, petroleum oils came at the top of the list of imports (18.5%), followed by automobiles (5%) and gold in unwrought forms (4.5%) in Q1 2010. This compares to petroleum (18.7%), automobiles (6%) and fixed wing aircraft (5.8%) in Q1 2009. Gold in unwrought forms was the top export (22%) followed by tanks and armored fighting vehicles (5.7%) and cast iron (4.5%) in Q1 2010. Gold in unwrought forms (23%) also came at the top of the list in Q1 2009 but was however followed by Portland cement (9.7%) and diamond jewelry (2.8%).

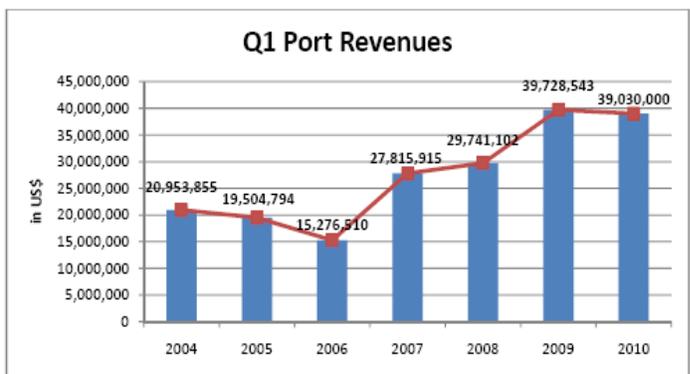
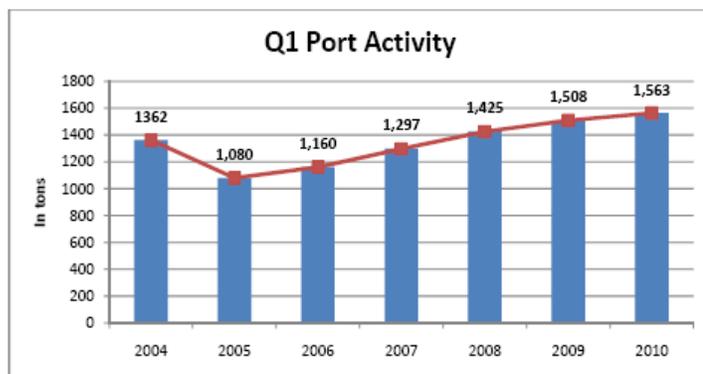


⇒ However, despite this increase in the ever-growing trade deficit, the huge influx of **capital inflows**, which reached record levels in Q1 2010, managed to keep a surplus in the **Balance of Payments (BoP)** in excess of US\$4,334 Million. This compares to a mere BoP surplus of US\$2,540 Million in the same period last year, a rise of 70.63%.

⇒ The cumulative surplus in the BoP observed in Q1 2010 is the result of a rise in the net foreign assets of the Central Bank of US\$ 1,778 Million, which offset the US\$ 800 Million decline in net foreign assets of banks and financial institutions. The fact that interest rates in Lebanon are higher relative to those found on many international markets has played a vital role in encouraging significant capital inflows from Lebanese expatriates and Arab nationals. In addition to appearing through bank deposit flows as a result of local and international interest rate differentials, **capital inflows** have also emerged via foreign direct investments and cash transfers from investors and the record number of visiting tourists respectively as well as from remittances from Lebanese expatriates.



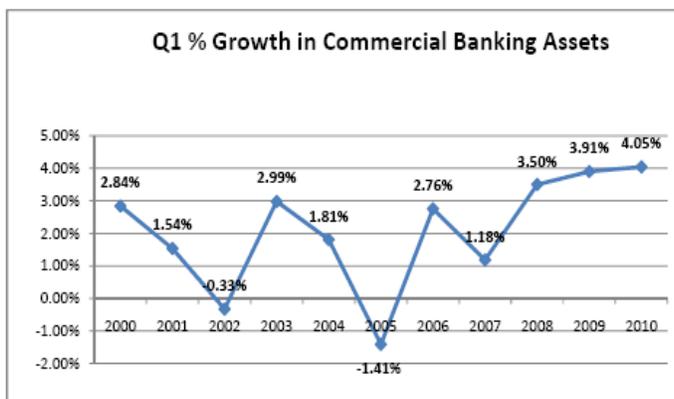
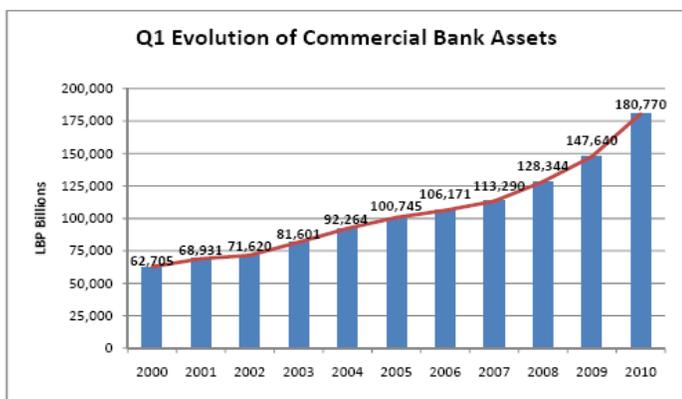
MARITIME TRANSPORT SERVICES saw improvements in terms of tons of goods coming in and out of the Port of Beirut. Revenues, in the other hand, saw a slight decline.



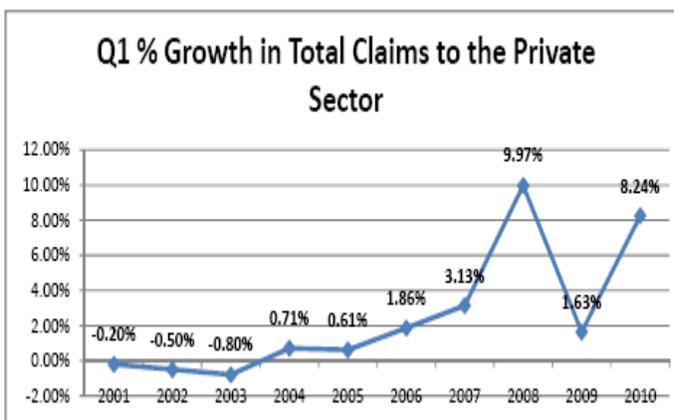
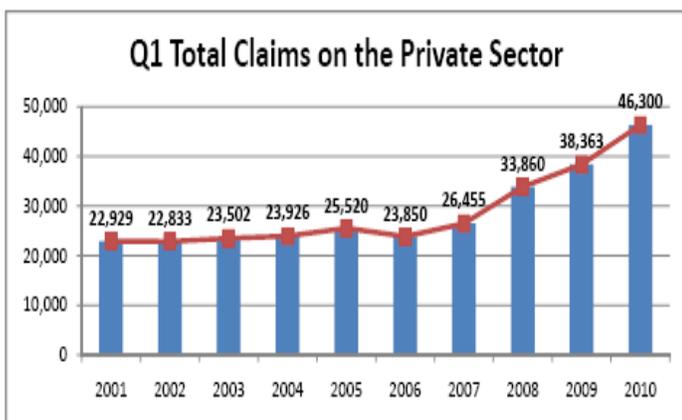
⇒ **Port Activity**, defined as the number of goods (incoming and outgoing) in thousands of tons, saw a 3.65% increase in the first quarter of 2010 relative to the same period in 2009- a record high for Lebanon.

⇒ **Port Revenues** in the first quarter of 2009, were registered at just over US\$ 39 Million, a slight decrease of 1.75% compared to the same period of the previous year. This was mainly due to a fall in the number of imported vehicles over this period.

THE FINANCIAL SECTOR continued its resilient pattern into the first quarter of 2010. **Commercial Bank Assets, Claims on the private sector, Deposits and the Money Supply** clearly demonstrate this trend as they all show record growth in the first quarter of 2010.

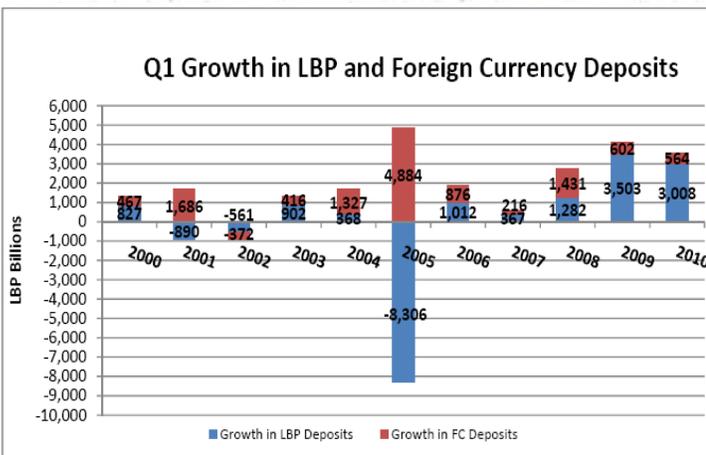
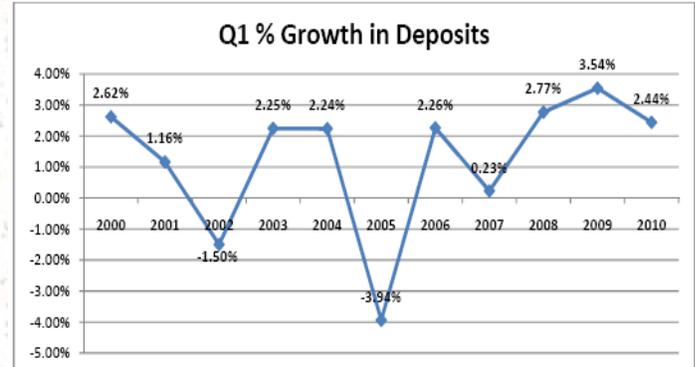
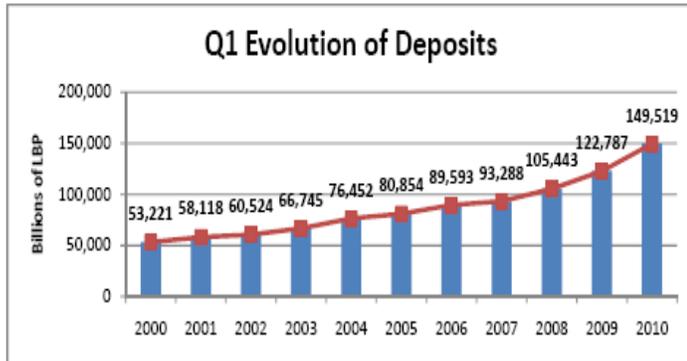


⇒ **Commercial Bank Assets** have been increasing at a steady stream over the first quarter period of the last ten years. BdL figures show that by the end of Q1 2010, they reached LBP 180,770 Billion (US\$ 119,914 Million), rising by LBP 7,029 Billion (US\$ 4,663 Million) since the beginning of 2010, equivalent to a growth of 4.05%. This compares to a rise of LBP 5,550 Billion (US\$ 3,682 Million), or a growth of 3.91% over the same period last year. In fact, the period covering the first quarter of 2010 has witnessed the greatest amount of growth in commercial bank assets in the last ten years.



⇒ Data compiled by the Association of Banks in Lebanon shows that by March 2010, **Claims (lending) to the private sector** reached LBP 46,300 Billion (US\$ 30,713 Million). Considering that the Q1 growth in 2009 claims reached a mere LBP 615 Billion (US\$ 405 Million) compared to a high of LBP 3,526 Billion (US\$ 2,338 Million) in Q1 2010, the year on year increase of claims broke a record growth of 473%. Overall, growth in total claims in Q1 2009 however rose by 1.63% compared to a more fruitful 8.24% increase in Q1 2010.

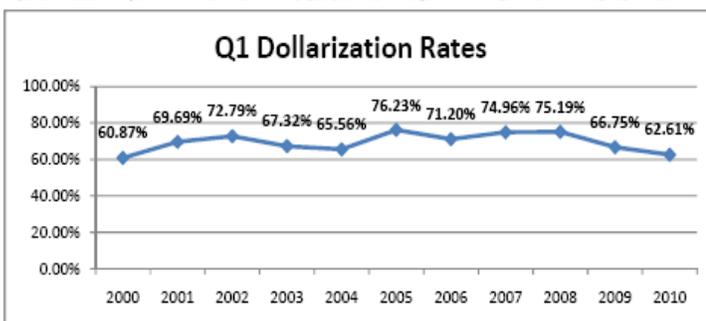
⇒ **Deposits in commercial banks** have been increasing at a steady stream over the first quarter of the last ten years. By the end of Q1 2010, they totaled LBP 149,519 Billion (US\$ 99,183 Million) and rose by LBP 3,562 Billion (US\$ 2,362 Million) since the beginning of 2010, thus growing by 2.44% by the first quarter of 2010, as shown by BdL statistics. This compares to a rise of LBP 4,203 Billion (US\$ 2,788 Million), equivalent to a growth 3.54%, in the same period last year.



⇒ The opposite graph shows the jump in LBP Deposits relative to Foreign Currency (FC) deposits. Lebanese Pound deposits reached LBP 54,319 Billion (US\$36,033 Million), having increased by LBP 3,008 Billion (US\$ 1,995 Million) in the first quarter of 2010. FC deposits, on the other hand, reached LBP 93,620 Billion (US\$ 62,103 Million), having increased by the less significant amount of LBP 564 Billion (US\$ 374 Million). This is due to a combination of the high interest rate on LBP deposits relative to those on FC as well as the confidence in the Lebanese Banking sector spurred by its resilience to the Financial Crisis.

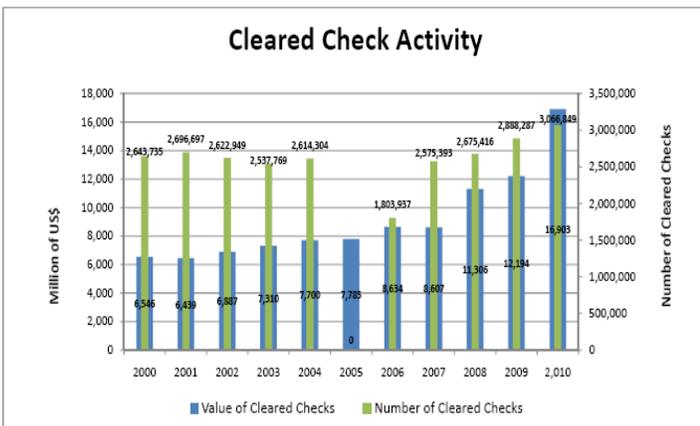
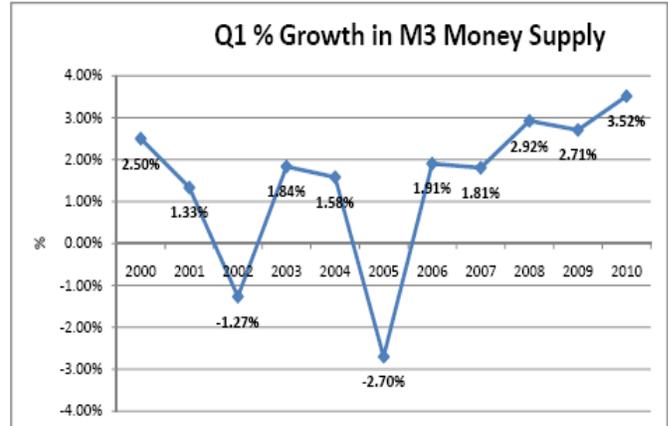
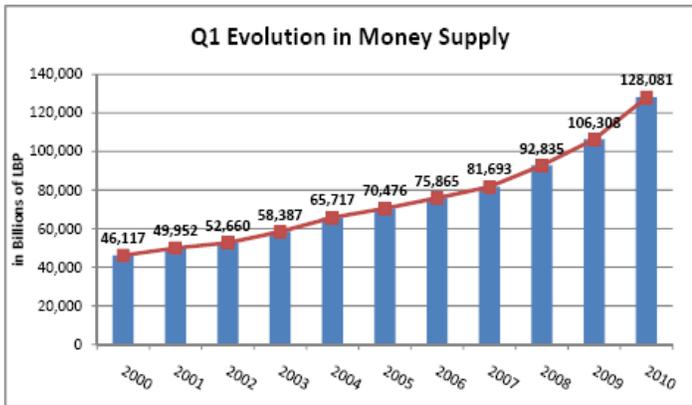
Type of Deposit	Q1 2010 Growth	Q1 2009 Growth
Resident Private	3.63%	2.89%
Non Resident Private	-3.03%	6.99%
Public	-0.62%	7.37%

⇒ Furthermore, the opposite table shows that over the same period in 2010, growth in Q1 deposits was highest for the resident private deposit category, with a rate of 3.63%. The non resident private sector and public sector categories witnessed a fall in Q1 growth of 3.03% and 0.62% respectively.



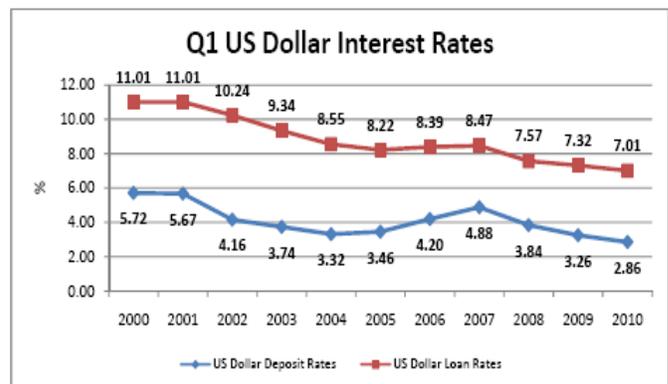
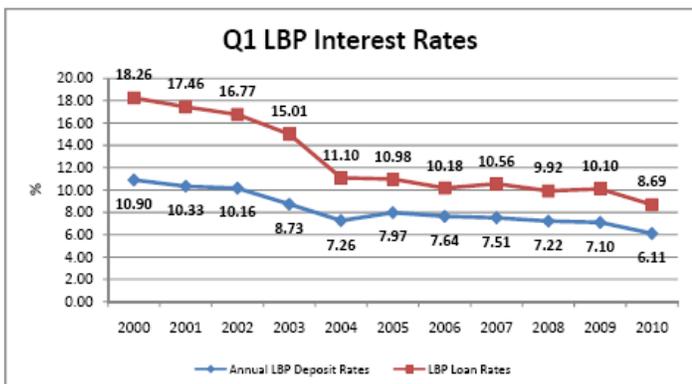
⇒ As a result of the high levels of LBP deposits making their way into the Lebanese banking sector, **dollarization rates** have continued to follow a downward trajectory since early 2008. By March 2010, the dollarization rate reached 62.61%, its lowest level in the last nine years.

⇒ Liquidity maintains its abundance as illustrated by the money supply indicator. The **money supply** in its broad sense (M3) grew by LBP 4,349 Billion (US\$ 2,885 Million) or 3.52% during the first quarter of 2010, according to BdL figures. The observed expansion in the Q1 money supply is the largest seen since the year 2000.

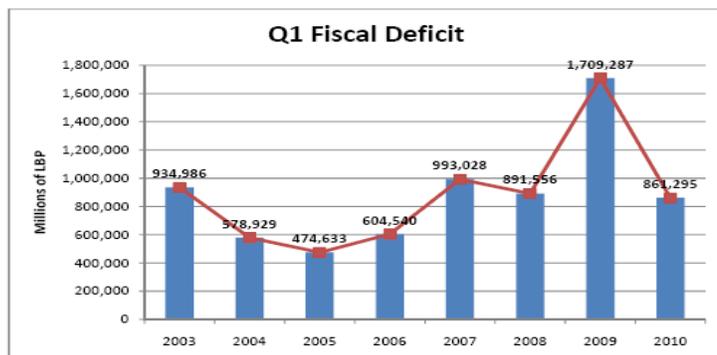


⇒ **Check clearing activity**, an indicator of overall spending patterns and a key component in the money creation process of an economy, show a continued rise in value and number in the first quarter of every year since the outset of the financial crisis. In Q1 2010, value and number of cleared checks reached US\$ 16,903 Million for just over 3 million checks, that is a respective 38.6% and 6.2% increase to the same period last year.

⇒ In the first quarter of 2010, **interest rates** on LBP denominated and USD denominated deposits at commercial banks decreased to 6.11% and 2.86% respectively from the 7.10% and 3.26% figures observed in the same period in 2009, as depicted by BdL. Similarly, the interest rates in USD denominated loans fell from 7.32% to 7.01% while those in LBP fell from 10.10% to 8.69% over the same period in 2009. BdL began to encourage a smooth decline in interest rates in order to further the demand for credits and absorb the excess liquidity in the economy. Lower interest rates are expected to speed up investments by making credit cheaper and by allowing banks to locate investment opportunities with reasonable risks.



THE FISCAL SECTOR saw a fall in the Fiscal Deficit as well a fall in the Public Debt by the end of Q1 2010 compared to the same period in the previous year.

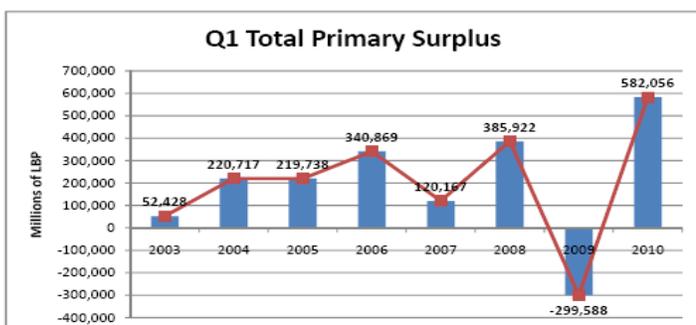


⇒ Ministry of Finance figures show that the **Fiscal deficit** fell by 49.6% in the first quarter of 2010 relative to 2009, reaching just over LBP 861 Billion (US\$ 571 Million) compared to the LBP 1,709 Billion (US\$ 1,133 Million) attained a year earlier.

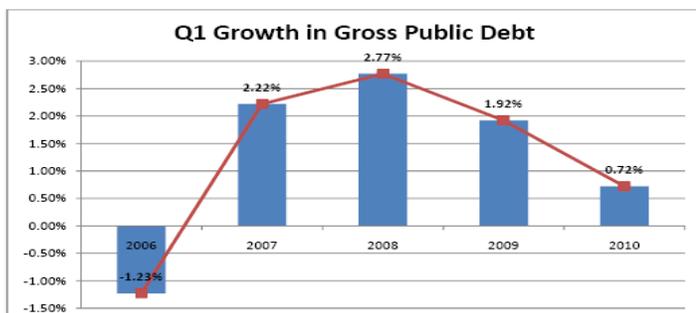
⇒ On the spending side, **public expenditures** (Budgetary and Treasury spending) decreased by 13.05% by the end of Q1 2010 to reach LBP 3,945 Billion (US\$ 2,617 Million), of which 49.59% was due to a fall in Treasury expenditures and 6.7% due to a

rise in Budgetary Expenditures. The fall in Treasury expenditures over the said period was mainly a result of a 45.8% reduction in EDL spending, that reached LBP 505 Billion (US\$ 335 Million) relative to the LBP 1,085 Billion (US\$ 719 Million) attained in the same period a year earlier.

⇒ On the revenue side, **public revenues** (Treasury and Budget receipts) increased by 9.05% relative to the first quarter of 2009, reaching LBP 3,084 Billion (US\$2,046 Million) . Treasury revenues registered a rise of 18.76%, to reach LBP 169.7 Billion (US\$ 112.6 Million). As for budget revenues, they moved up 8.53% to reach LBP 2,914 Billion (US\$1,933 Million), driven mainly by a rise in tax revenues. Total tax revenues went up by 17.27%, due to a year-on-year rise of 29.85% in miscellaneous tax revenues as well as a 13.7% increase in VAT revenues. The former reflects a significant rise in receipts from taxes on incomes, profits, capital gains and property while the latter indicates an improvement in aggregate private consumption. Non-tax revenues fell by 17.68%, mainly due to a 22% fall in income from public institutions and government properties. This comes despite a fall in telecommunication prices, indicating an increase in the quantity of lines being sold to the public. The release of the 2010 Budget Proposal has evidently shown that the possibility of increasing revenues through a rise in VAT taxes will not transpire this year.



⇒ **The Primary Surplus** by the first quarter of 2010 registered a surplus of LBP 582.1 Billion (US\$ 386 Million), that is, an increase of 294% relative to the same period in 2009.



⇒ Lebanon's **Gross Public Debt** reached LBP 77,582 Million (US\$ 51.5 Billion) by the end of the first quarter of 2010. This constitutes an increase of 0.72% since the end of 2009 relative to the 1.92% increase witnessed over the same period in 2009.

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