Issue 8
Q3 2010

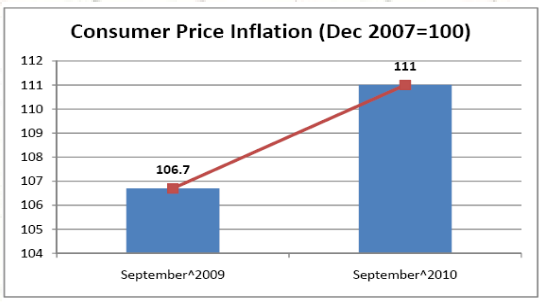
Q3 Bulletin

THE LEBANESE ECONOMY is showing continued strength into the third quarter of 2010, following two years of relative stability, exceptional resilience in the face of the global financial crisis and a capacity to rebound and thrive. Economic growth continues to flourish despite it being limited to a number of sectors and regions throughout the country. According to the IMF, concentration is in retail trade, tourism services, and construction— and mainly, in areas in and around Beirut, the capital.

Institution	2010e by the First Nine Months of the year
International Monetary Fund	8%
World Bank	8%
Economic Intelligence Unit	7.20%
International Institution of Finance	7%
EFG Hermes	6.50%

⇒ The data in the table illustrates the most recent **estimates of economic growth for the first nine months of 2010** by a variety of institutions. The World Bank , EIU and IIF revised their projections upwards for Lebanon by the third quarter of 2010, owing to the strong regional demand fuelled by inflows of capital into the services sector, notably real estate, banking and tourism sectors, which have been driving the boom in the construction and trade sectors.

⇒In order to sustain the current growth spell and translate economic expansion into jobs and broader social gains, IMF economists recommend that Lebanon strengthens its public finances, upgrades its infrastructure, and improves the business environment.



INFLATIONARY PRESSURES

rose by 0.8% in September 2010 relative to August 2010 and 4% relative to September 2009, as education, clothing and food costs increased.

⇒ According to the Central Administration of Statistics in Lebanon, the September 2010 inflation index reached 111 (taking December 2007= 100) compared to the 106.7 attained a year earlier and 110.1 a month earlier .

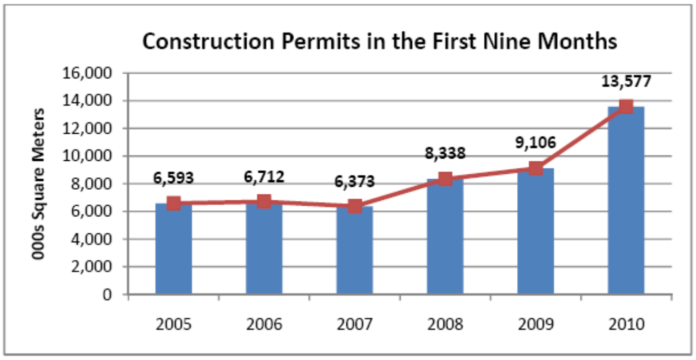
⇒ The year on year **rise in consumer prices** is by enlarge due to a 33.8% and 9.5% rise in the respective price of clothing and footwear and education. **The huge increase in the former is explained through the recent floods in Pakistan and bad weather in India and China, three of the world's major producers of cotton yarn.** Crops have been severely hit, pushing up international wholesale prices of cotton yarn. Together with the weakening of the dollar against the Euro, the cost of readymade clothes and retail prices are going up.

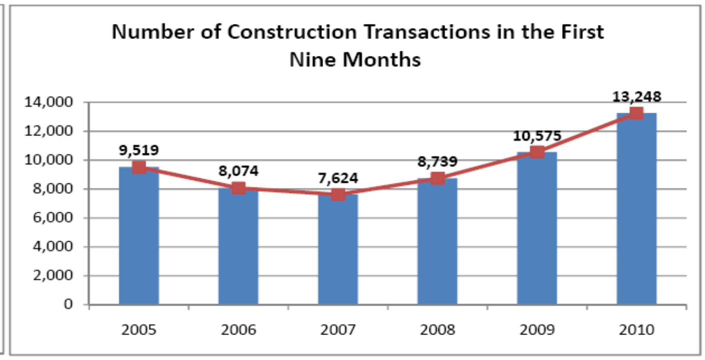
	% Change in CPI between Sept 2009 and Sept 2010
Food and Non-Alcoholic Beverages	5.40%
Alcohol Beverages and Tobacco	1.60%
Clothing and Footwear	33.80%
Housing, Water, Electricity, Gas and other Fuels	
Housing	0.00%
Water, Electricity, Gas and Other Fuels	4.20%
Furnishings, Household Equipment and Routine Household maintenance	-2.20%
Health	-4.20%
Transportation	0.10%
Communication	-0.10%
Recreation, Amusement and Culture	3.00%
Education	9.50%
Restaurants and Hotels	4.10%
Miscellaneous Goods and Services	1.90%
Consumer Price Index	4.00%
Source: Central Administration of Statistics	

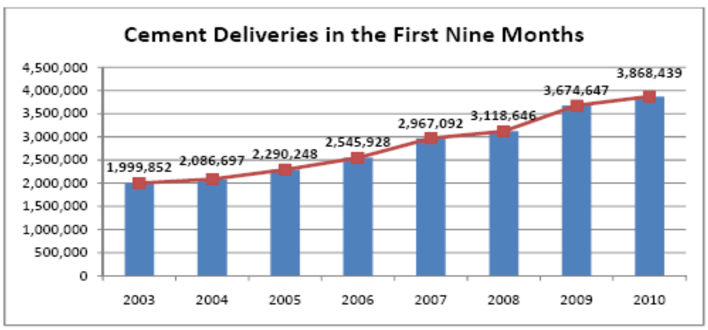
MINISTRY OF ECONOMY AND TRADE

THE REAL ESTATE AND CONSTRUCTION SECTOR in Lebanon continued to register record levels in the first nine months of 2010. Amid a relative global economic and political détente in the Mediterranean country, construction permits, property transactions, property sales and cement deliveries all reached an all time high.

⇒ According to the Order of Architects and Engineers, the area in Sq Kilometers of new construction permits and the associated number of transactions jumped by 49% and 25% respectively in the first nine months of 2010 relative to the same period in 2009. This shows that there was a rise in the supply of real estate and therefore a continued incentive for real estate developers to build new projects.

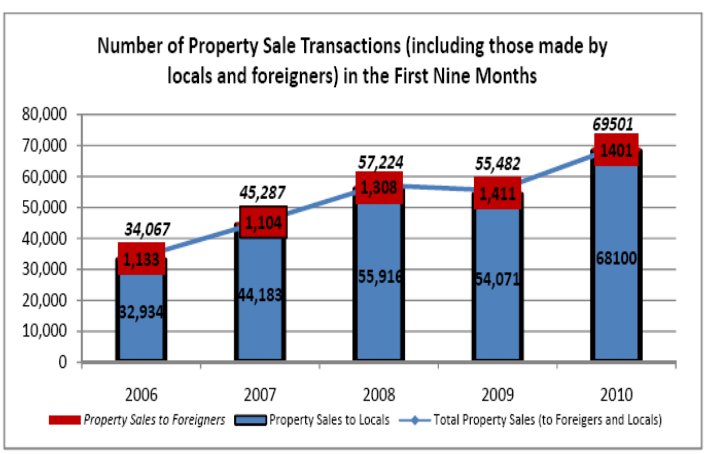


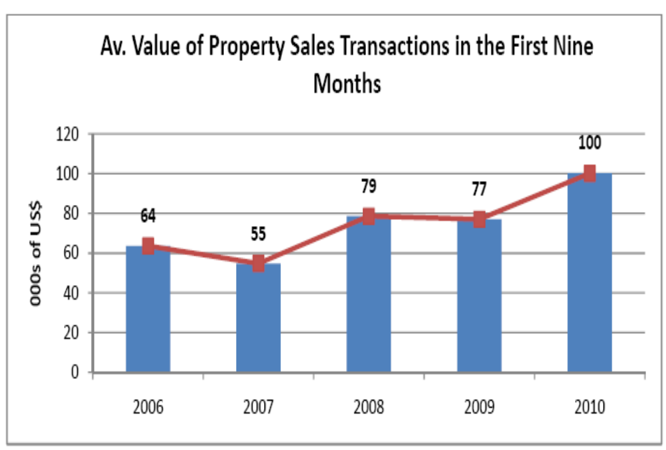




⇒ The vibrancy in the real estate sector is also reflected by the rise in the ton of cement deliveries, an indicator of construction activity, which increased by 5.3% and 24% in the first nine months of 2010 relative to the same period in 2009 and 2008 respectively. This rise reflects a growth in infrastructure and real estate investments, which suggests that contractors are continuing to develop new projects to cater for the high demand for Lebanese real estate.

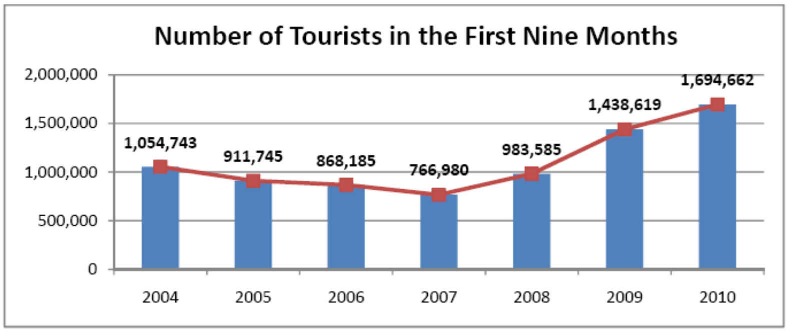
⇒ In terms of existing property, figures registered at the Real Estate Directorate depict a rise in property sales of 25% in the first nine months of 2010 compared with the same period last year, with transactions among foreigners falling by 0.7% and rising by 25.9% among locals. Transactions also registered a record value of US$10.5 billion with average property sale transactions consequently amounting to US$100,000, a 29.8% increase compared to the same period in 2010. This illustrates the continued rise in demand for real estate in Lebanon and the important role played by locals and foreigners alike.

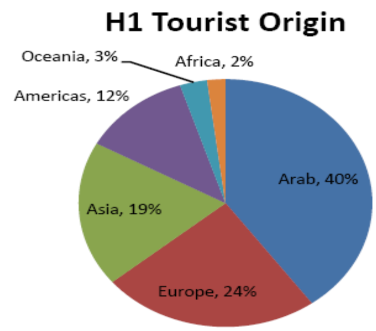




THE TOURISM SECTOR continued to witness a positive trend in the first nine months of 2010.

⇒ According to the Ministry of Tourism, **the number of tourists** in the first nine months of 2010 reached over 1,694,000 tourists, the highest attained in over a decade, and more precisely, a 17.8%, 72.3% and 121% increase compared to the first nine months of 2009, 2008 and 2007 respectively. Tourists continue to be of Arab and European origin.

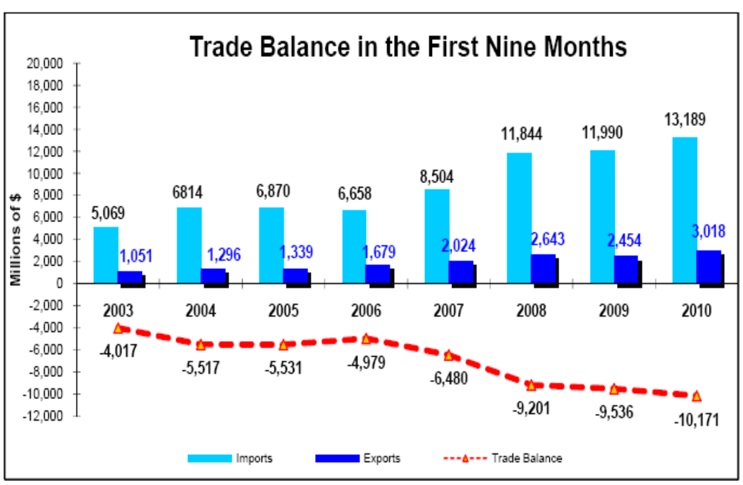




⇒ The booming tourism sector in the country has continued to have an advantageous effect on the **hotel industry** in terms of profitability. In a report by Ernst and Young, it was indicated that average room rates at Beirut hotels reached US$ 262 in the first nine months of 2010, up by 6% relative to the same period in 2009, leaving Beirut with the 3rd highest room rate in the Middle East. However, hotel occupancy rates witnessed a slight decrease in the first nine months of 2010, reaching 68% compared to the 71% attained in the first nine months in 2009. The numerical combination of both room occupancy rates and average room rates has consequently led to a 1.10% rise in room yields to reach US$179 in the first nine months of 2010, reflecting a slight increase in hotel profitability.

⇒ Meanwhile, **the number of airport passengers** saw a year on year rise of 12%, from just over 3.79 Million passengers in the first nine months of 2009 to 4.24 Million in the same period in 2010, as depicted by the statistics compiled at the Rafic Hariri International Airport.

THE EXTERNAL SECTOR continued to perform well despite a worsening in the trade balance of the first nine months of 2010. This was possible thanks to the high level of capital inflows reaching the economy over this period 2010 relative.

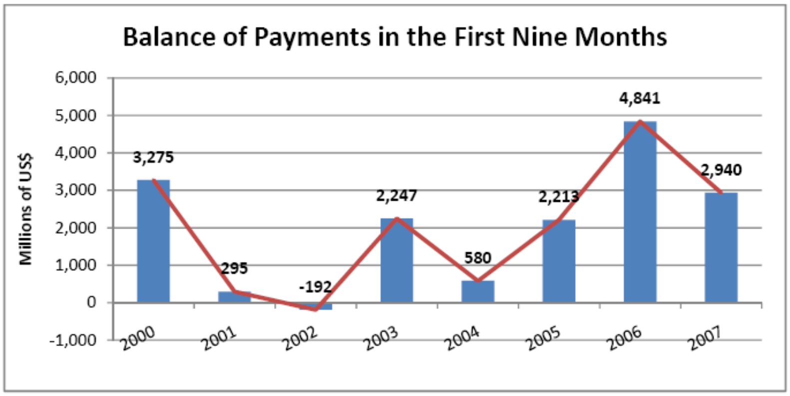


⇒ **According to Ministry of Finance figures,** year to date **imports** increased by 10% to reach US$13,890 Million in the first nine months of 2010 while **exports** increased by 22.9% to just over US$3,018 Million in the first nine months of 2010, thus leading to a **trade deficit** of US$10,171 Million, up 6.6% compared to the same period in 2009.

⇒ The **rise in the value of imports** can be attributed to several factors: the higher price of oil, the rise in the Euro relative to the Dollar over the nine month period of 2010 when compared to that of 2009, which has therefore made imports more expensive, and the increase in demand by local consumers and investors.

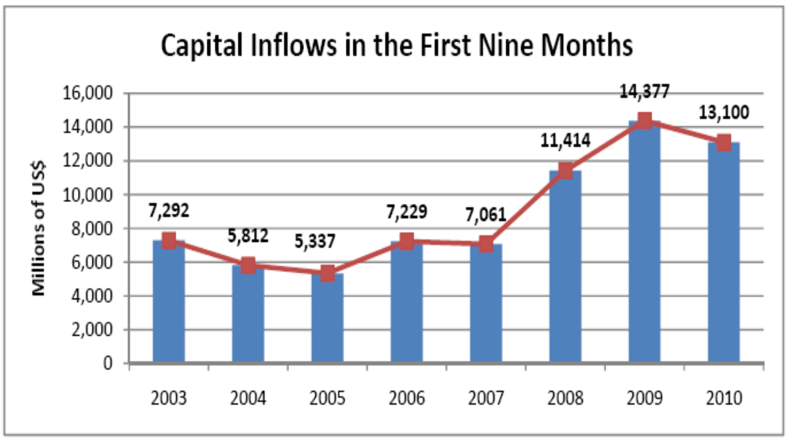
⇒ The **rise in the value of exports** is a result of a significant increase in external demand for Lebanese products by the country's main exporters: Arab and European nations. This comes as a result of both main trading partners witnessing a recovery from the global financial crisis.

⇒ In terms of value, precious metals (gold, jewellery, diamonds– worked and unworked) were the **top export** (27%) in the first nine months of 2010 whereas in terms of volume, waste/ scrap of cast iron was the top export(15%). Mineral products (petroleum oil) came at **the top of the list of imports** in terms of value (17.5%) and volume (31.5%). This compares to the previous year where, in terms of value, precious metals (gold, jewellery, diamonds– worked and unworked) was the top export (28.12%) whereas in terms of volume, portland cement was the top export(28.3%). Mineral products (petroleum oil) remained at the top of the list of imports in terms of value (17.9%) and volume (38.1%).



⇒ The Central Bank Of Lebanon figures show the cumulative **Balance of Payments (BoP)** figures, which reflect net foreign assets in the country, were in excess of US$ 2,940 Million. This compares to a higher BoP surplus of US$ 4,841 Million registered in the same period last year. Although the BoP has fallen by 39.3% year on year, it is still deemed significant and can be attributed to the high base registered in 2009.

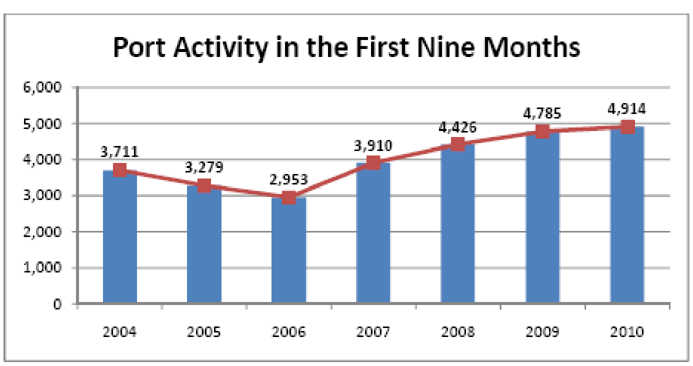
⇒ The cumulative surplus in the BoP observed over the first nine months of 2010 is the result of a rise in the net foreign assets of the Central Bank of US$ 3,069 Million, which more than offset the US$ 129.3 Million decline in net foreign assets of banks and financial institutions. Albeit a decline in **capital inflows**, their figures remain significant. The fall is mainly attributed to the high levels recorded in the previous year as well a as the rebound in global and regional markets, which have led to capital being invested in the recovering economies. Favorable interest rates in Lebanon however continue to play a significant role in encouraging capital inflows from Lebanese expatriates and Arab nationals, either appearing through bank deposits, foreign direct investments, cash transfers from investors, the record number of visiting tourists as well as remittances from Lebanese expatriates.

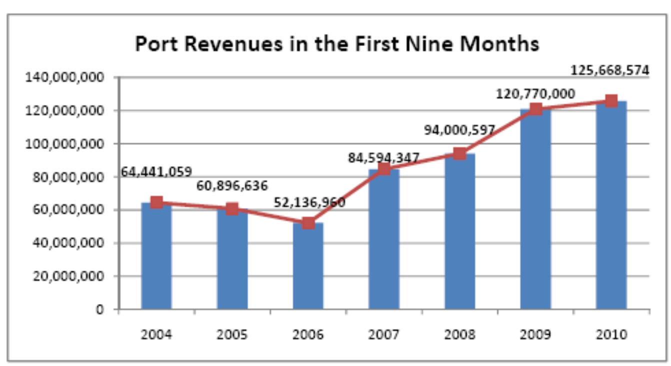


MARITIME TRANSPORT SERVICES **saw improvements in terms of tons of goods coming in and out of the Port of Beirut as well as in terms of revenues.**

⇒ **Port Activity**, defined as the number of goods (incoming and outgoing) in thousands of tons, saw a 2.7% increase in the first nine months of 2010 relative to the same period in 2009- a registered high for Lebanon.

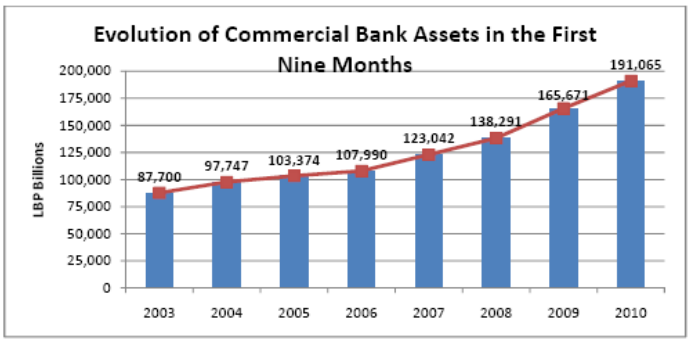
⇒ **Port Revenues** in the first nine months of 2010, were recorded to be just over US$ 125.6 Million, an increase of 4.1% compared to the same period of the previous year. The port of Beirut continues to be the major site for custom receipts.

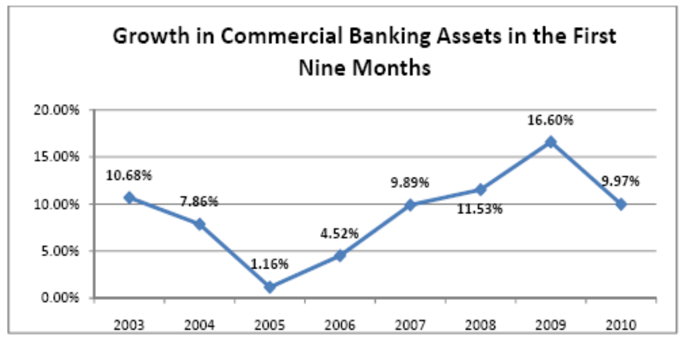




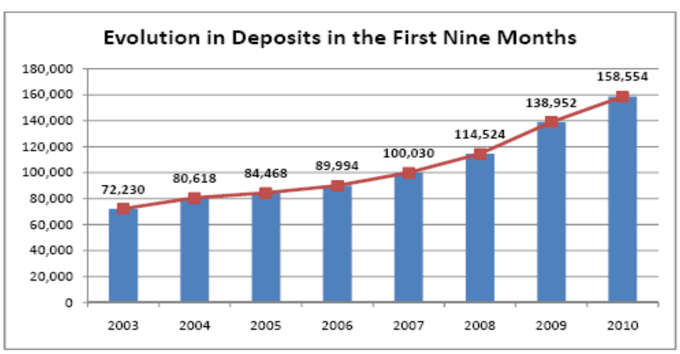
THE FINANCIAL SECTOR continued to experience healthy activity throughout the first nine months of 2010 despite a drop in the year-to-date growth rates in 2010 in Commercial Bank Assets, Claims on the private sector, Deposits and the Money Supply relative to those in 2009.

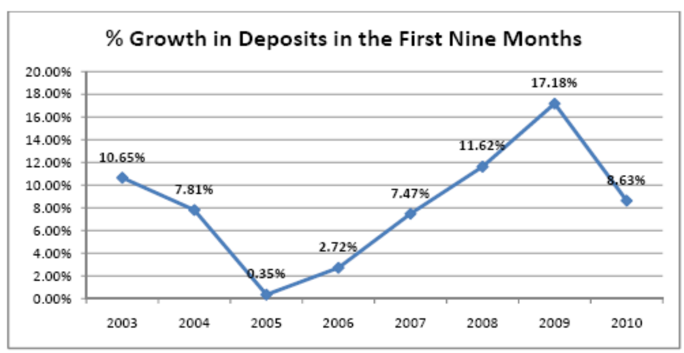
⇒ **Commercial Bank Assets** have been increasing at a steady rate in the first nine months over the last ten year period. BdL figures show that by the end of September 2010, bank assets continued to grow at a steady rate, reaching LBP 191,065 Billion (US$ 126.7 Billion), a rise of LBP 17,325 Billion (US$ 11.5 Million) since the beginning of 2010. This is equivalent to a year to date growth of 10%, which is relatively lower to the 16.6% and 11.5% attained in 2009 and 2008 respectively, but still considerably good. Similarly, the year on year increase of bank assets reached 15.3% in 2010 compared to an increase of 19.1% and 12.3% in 2009 and 2008 respectively. This fall is due to a contraction in inflows in 2010.





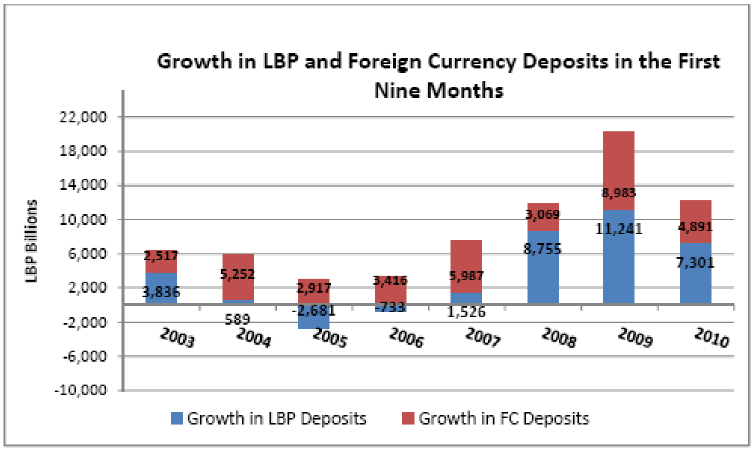
⇒ **Deposits in commercial banks** have been increasing at a steady stream over the first nine months of the last ten years. By the end of September of 2010, they totaled LBP 158,544 Billion (US$ 105.2 Million) a, rise of LBP 12,597 Billion (US$ 8.36 Million) since the beginning of 2010. This is equivalent to a year to date growth of 8.6%, as shown by BdL statistics, which is relatively lower than the 17.2% and 11.6% attained in 2009 and 2008 respectively. Furthermore, the year on year increase in deposits reached 14.1% in 2010 compared to an increase of 21.3% and 14.4% in 2009 and 2008 respectively. Despite such lower figures, inflows remain decent and the fall is only a reflection of the unusually high figures attained in the previous years due to Lebanon's position as a safe haven for depositors to protect against the downturn witnessed following the financial crisis.



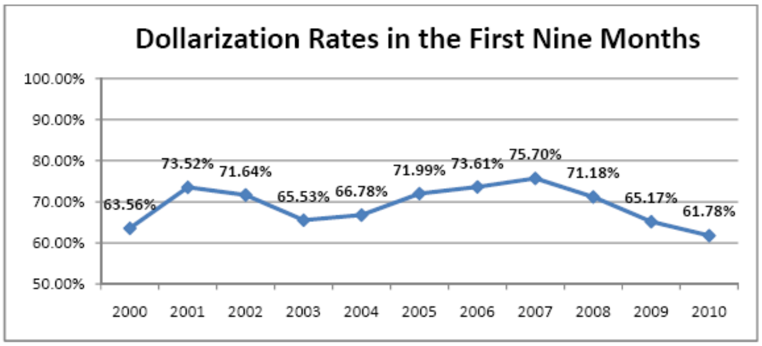


Share of (from total):	Q3 2010	Q3 2009
Resident Private	82.22%	81.79%
Non Resident Private	16.52%	17.12%
Public	1.26%	1.09%

⇒ Furthermore, the opposite table shows that over the same period in 2010, most deposits came from residents in the first nine months of 2010 and that the share of this sector increased slightly from 81.8% recorded in the same period in 2009. The share of non residents fell in the first nine months of 2010 to 16.5% from 17.1% recorded a year earlier.

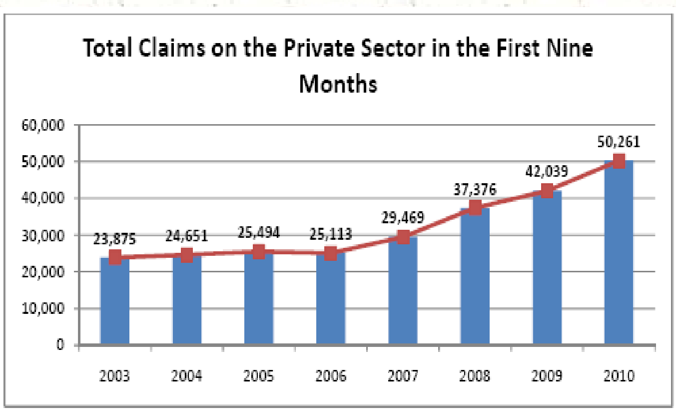


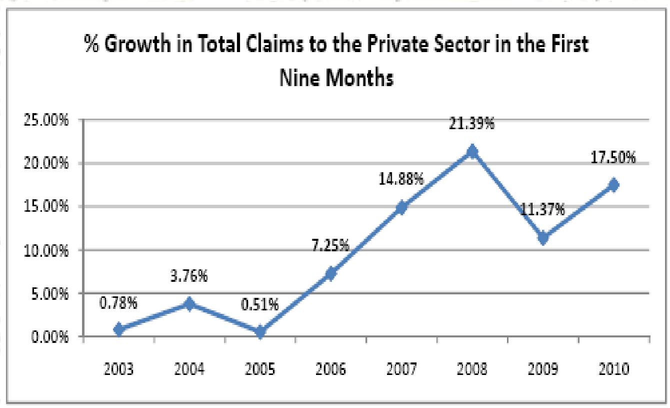
⇒ The opposite graph shows the variation in **LBP deposits relative to Foreign Currency (FC)** deposits. Lebanese Pound deposits reached LBP 58,612 Billion (US$38.8 Million), having increased by LBP 7,301 Billion (US$ 4.84 Million) or 14.2% in the first nine months of 2010. FC deposits, on the other hand, reached LBP 97,947 Billion (US$ 64.9 Million), having increased by the less significant amount of LBP 4,891 Billion (US$ 3.2 Million) or 5.2% over the same period. The growth in LBP deposits is a reflection of the stable monetary conditions in Lebanon.



⇒ As a result of the persistently 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 the end of September 2010, the dollarization rate reached 61.78%, its lowest level in the last ten years.

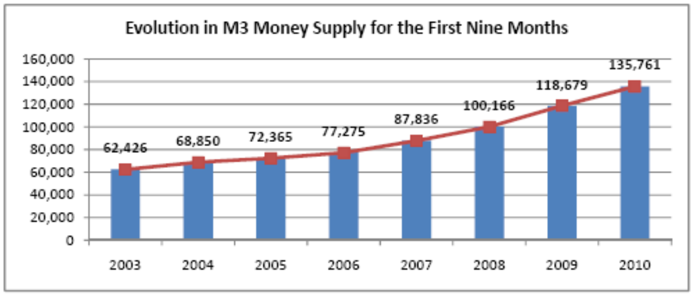
⇒ According to data compiled by the Association of Banks in Lebanon, bank loan activity —otherwise known as **claims to the private sector**— seemingly reached LBP 50,261 Billion (US$ 33.3 Million), a rise of LBP 7,486 Billion (US$ 4,970 Million) by September 2010. This is equivalent to a year to date growth of 17.5%, which is higher than the growth rate achieved in 2009. On a year on year basis, growth in claims increased by 19.6% for 2010 relative to a growth rate of 12.4% and 26.8% in 209 and 2008 respectively.

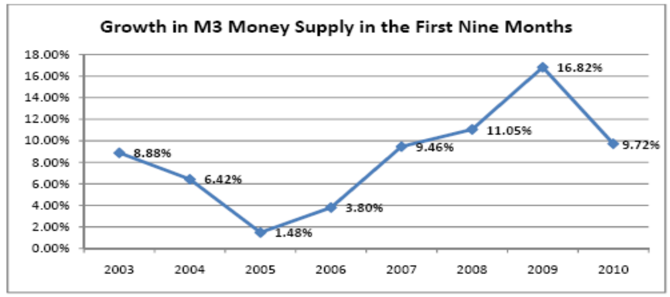




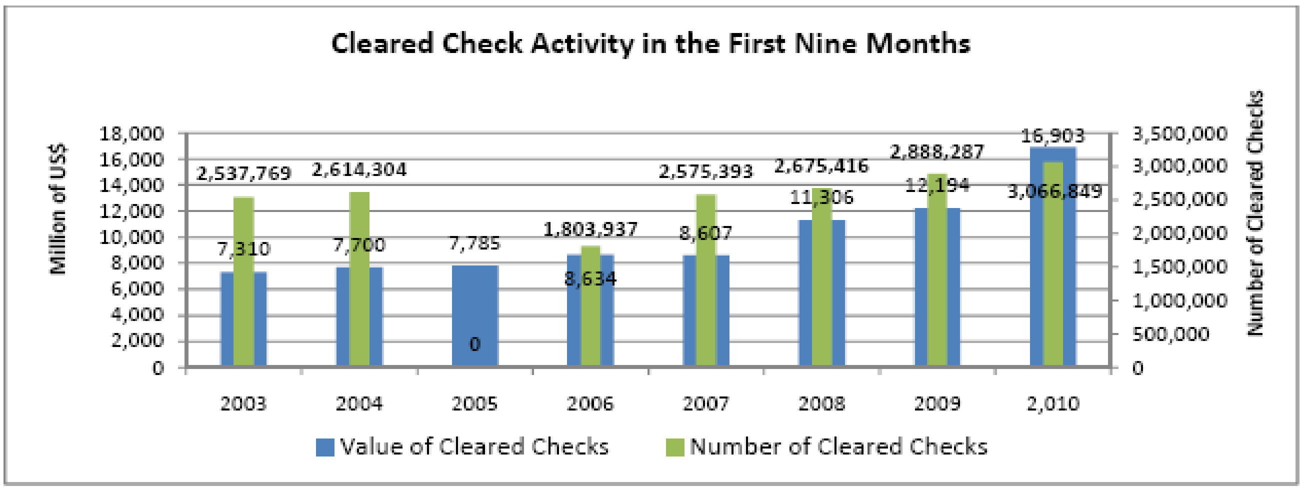
⇒ The strong recovery of lending activity mirrors the buoyant economic activity in Lebanon this year and the domestic banks ability to match the domestic demand. This stream in the lending activities of banks demonstrates the financial flexibility of the highly liquid, deposit rich Lebanese banks with a low leverage relative to international banks who are currently experiencing less lending activity due to the slow recovery of economic activity following the global financial crisis and hence, the result in credit rationing across the sector.

⇒ Liquidity maintained its abundance as illustrated by the money supply indicator. The **money supply** in its broad sense (M3) grew by LBP 12,029 Billion (US$ 7.98 Million) or 9.72% during the first nine months of 2010, according to BdL figures.

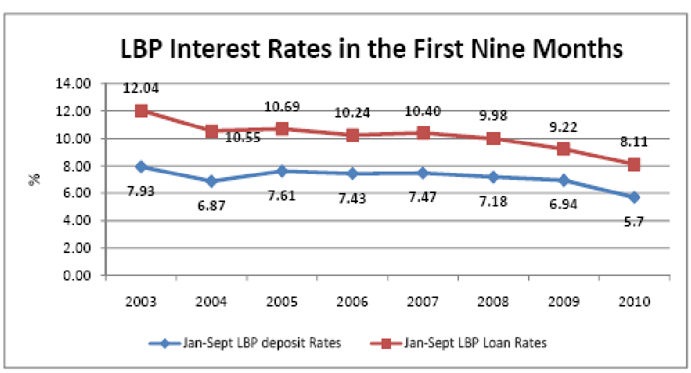


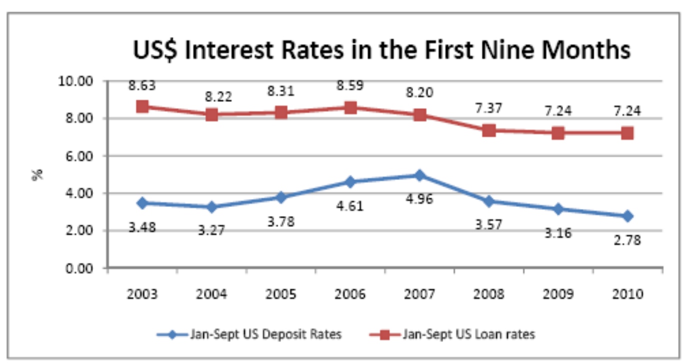


⇒ **Check clearing activity**, an indicator of overall spending patterns and a key component in the money creation process of an economy, showed a continued rise in value and number in the first nine months of every year since the outset of the financial crisis. By September 2010, value and number of cleared checks reached US$ 50,909 Million for just over 10 million checks, that is, a respective 26.4% and 11.6 increase relative to the same period last year.



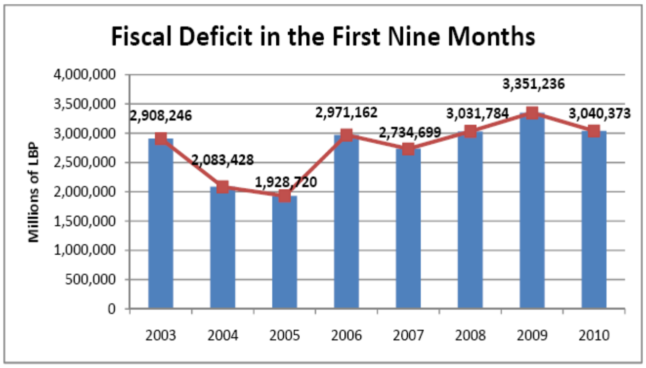
⇒ In the first nine months of 2010, **interest rates** on LBP denominated and USD denominated deposits at commercial banks decreased to 5.7% and 2.78% respectively from the 6.94% and 3.16% figures observed in the same period in 2009, as depicted by BdL. Interest rates in USD denominated loans remained at the 7.24% rate while those in LBP fell from 9.22% to 8.11% 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.





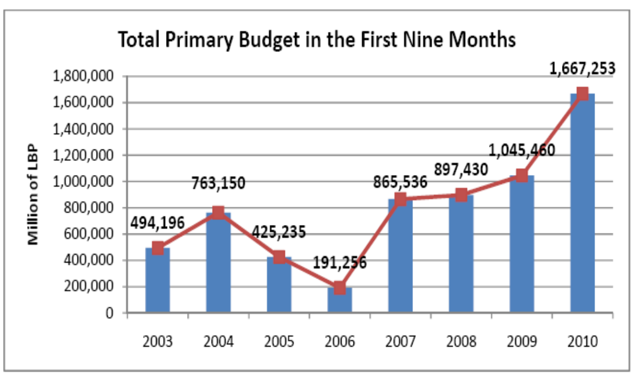
THE FISCAL SECTOR saw a fall in the Fiscal Deficit as well a fall in the Public Debt by the end of September 2010 compared to the same period in the previous year.

⇒ Ministry of Finance figures show that the **fiscal deficit** fell by 9.3% in the first nine months of 2010 relative to 2009, reaching just over LBP 3,040 Billion (US$ 2,016 Million) compared to the LBP 3,351 Billion (US$ 2,223 Million) attained a year earlier.

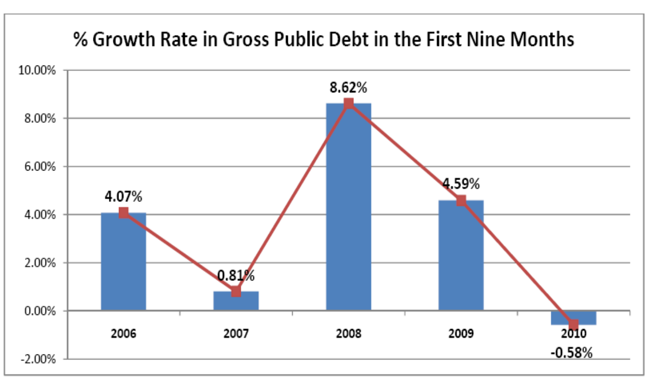


⇒ On the spending side, **total fiscal expenditures** (budgetary and treasury spending) decreased by 3.41% by the end of September 2010 to reach LBP 12,364 Billion (US$ 8,201 Million). This was mainly due to a fall in Treasury expenditures, which saw a 28.3% fall, as well in budgetary, which decreased by 1.7%. The fall in Treasury expenditures over the said period was mainly a result of a respective 85.3% and 35.7% fall in guarantee and deposit withdrawals, which reached LBP 72,617 Billion (US$ 48.2 Million) and LBP 45,657 Billion (US$ 30.28 Million) respectively relative to the LBP 494,339 Billion (US$ 327.9 Million) and LBP 71,005 Billion (US$47.1 Million attained in the same period a year earlier. The fall in budgetary expenditures was mainly due to lower transfers to EdL by LBP 493 Billion (US$ 326.8 Million), as a result of lower quantities of oil being used following its substitution by natural gas oil, the absence of natural gas payments in 2010 and lower debt service on behalf of EdL.

⇒ On the revenue side, **Total Fiscal Revenues** (Treasury and Budget receipts) decreased by 1.33% in the first nine months of 2010, reaching LBP 9,323 Billion (US$ 6,184 Million). This minute downturn was mainly the result of fall in the non tax revenues of the budgetary expenditures. This was due to a reduction in transfers from the telecom budget surplus as of end of September 2010. On the other hand, total tax revenues rose by 13.7%, as items such as VAT receipts increased by 11.2% due to higher VAT on imports and an internal increase in VAT collected as well as an increase in real estate registration fees by 61%. Similarly, treasury revenues registered a rise of 5.5%, to reach LBP 514 Billion (US$ 341 Million).



⇒ **The Primary Surplus** by the first nine months of 2010 registered a surplus of LBP 1,667 Billion (US$ 1,106 Million), that is, an increase of 59.5% relative to the same period in 2009.



⇒ Lebanon's **Gross Public Debt** reached LBP 76,581 Billion (US$ 50.8 Billion) by the end of September 2010. This constitutes a 0.58% decrease in the growth of the Gross Public Debt since the end of 2009 relative to the 4.59% increase witnessed over the same period in 2009.

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