

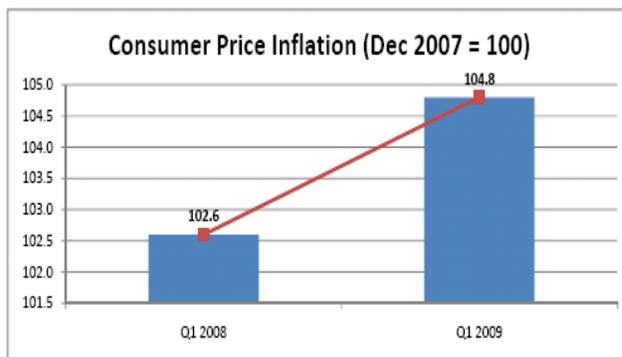


THE LEBANESE ECONOMY is expected to witness a slowdown in 2009 compared to 2008, following the effects of the financial crisis on the global economy and its trickledown impact on Lebanon; but no recession is expected based on performance of the economy in Q1 2009.

	2008	2009e	2010e
IMF	8.5%	3%	4%
EIU	6.3%	2.4%	3.3%
Standard Chartered	8%	3%	-
Blakeney Investors	7%	4-5%	-

⇒ Economic indicators of the real sector such as tourism and construction, the external sector and the banking sector were on the rise in Q1 2009. As for fiscal performance, the figures for Q1 2009 indicate a deficit.

⇒ The data in the side table illustrates the most recent estimates made by the International Monetary Fund (IMF), the Economic Intelligence Unit (EIU), Standard Chartered and Blakeney Investors.



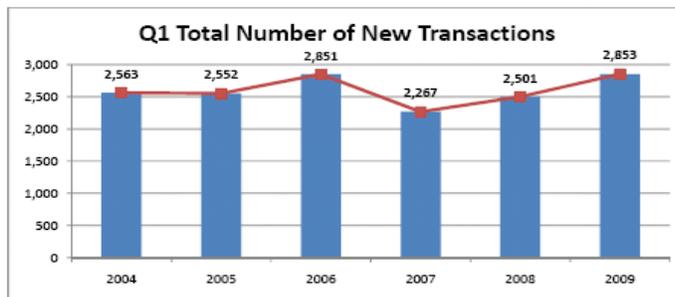
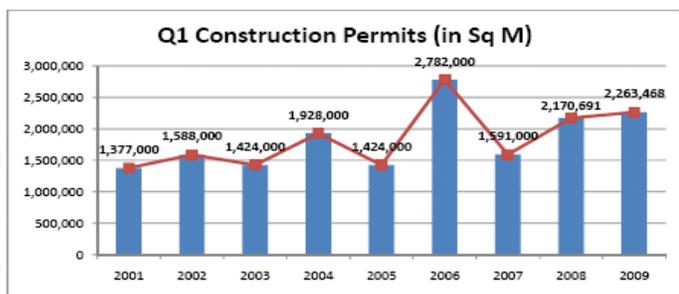
INFLATION in the first quarter of 2009 rose compared to the same period in 2008.

⇒ By the end of Q1 2009, inflation reached 4.8% compared to a mere 2.6% a year earlier.

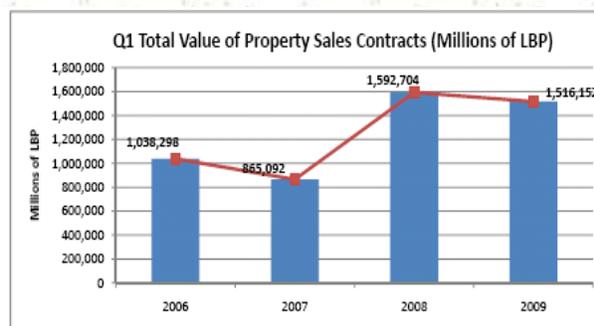
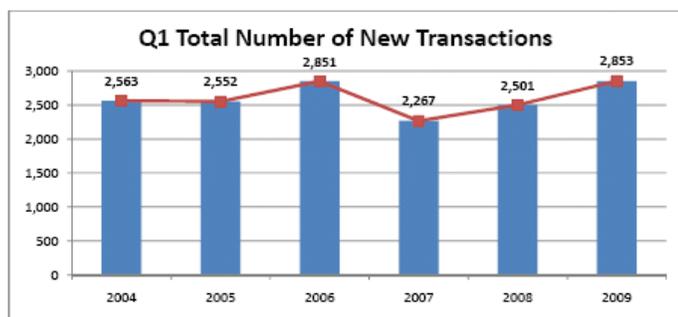
⇒ This Q1 2009 increase in consumer prices is mainly attributed to the rise in the price of restaurants and hotels and in the clothing and footwear divisions, both up by 16.6% and 16.3% respectively compared to Q1 2008. The thriving tourism sector is a factor that may have supported the rise in the price of hotels and restaurants.

	% Change in CPI between March 2008 & March 2009
Food and Non Alcoholic Beverages	6.50%
Alcoholic Beverages and Tobacco	-0.80%
Clothing and Footwear	16.30%
Housing, Water, Electricity, Gas and other Fuels.	
Housing	4.80%
Water, Electricity, Gas and other Fuels.	-16.50%
Furnishings, Household Equipment and Routine Household Maintenance	5.00%
Health	10%
Transportation	-1.50%
Communication	-0.60%
Recreation, Amusement and Culture	-0.90%
Education	4.10%
Restaurants and Hotels	16.60%
Miscellaneous Goods and Services	2.70%
Consumer Price Index	2.10%
SOURCE: Central Administration of Statistics	

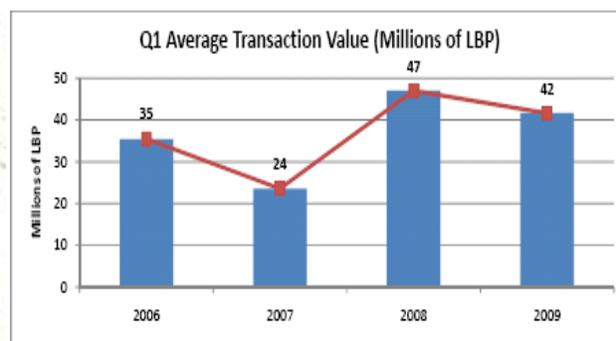
THE REAL ESTATE AND CONSTRUCTION SECTOR has been performing relatively well in the first quarter of 2009, despite the effects of the global financial crisis, which has severely hurt real estate markets around the world.



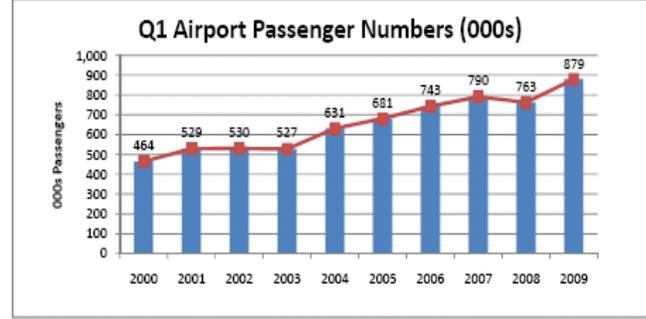
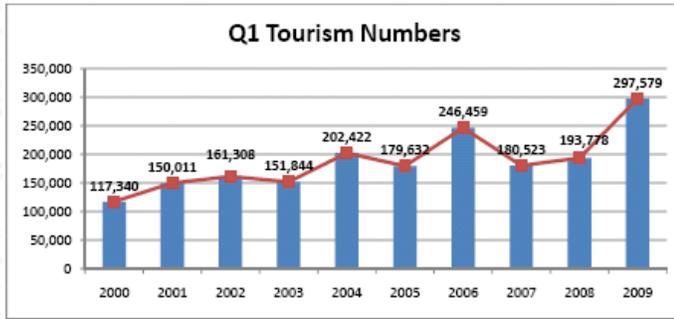
- ⇒ Building activities are still ongoing as shown by the rise in **construction permits**, which totaled 2.26 millions of square meters in Q1 2009, up by 4% relative to Q1 2008. The **number of new transactions** registered at the Order of Architects and Engineers in Beirut and Tripoli, increased by 14% reaching a total of 2,853 transactions in Q1 2009.
- ⇒ Real estate prices are expected to remain unchanged due to the consistent demand for housing, which is still exceeding supply. First, land has become relatively scarce, especially in Beirut and its surrounding suburbs, in comparison to the massive internal demand for housing -especially following the July 2006 War - and external demand for "pied-à-terre". Second, the meager profits of the high risk Lebanese Treasury Bills has prompted many investors to overinflate the demand for real estate investments. Third, the original intention of Gulf and Lebanese expatriates has always been geared towards investing in this sector.
- ⇒ In this respect, the Central Bank took several measures to control the price fluctuations of the local real estate sector including requiring institutions and individuals wishing to take a real estate loan to place a 40% cash down-payment.



- ⇒ However, the Real Estate Directorate figures depict that the average property value per sale in Q1 2009 has fallen relative to Q1 2008. It went down by 10.6% , reaching LBP 42 Million in Q1 2009 from an average of LBP 47 Million in Q1 2008. This may be an indication that the real estate market is beginning to react to the current situation in the global economy.

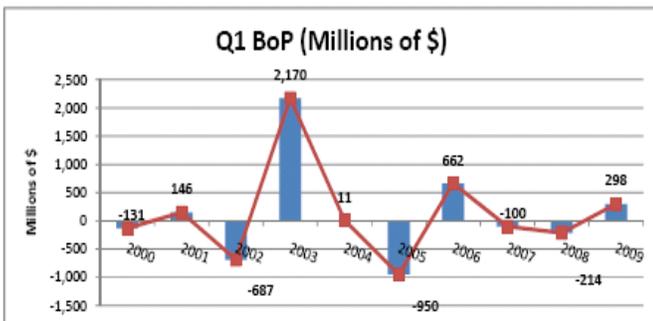
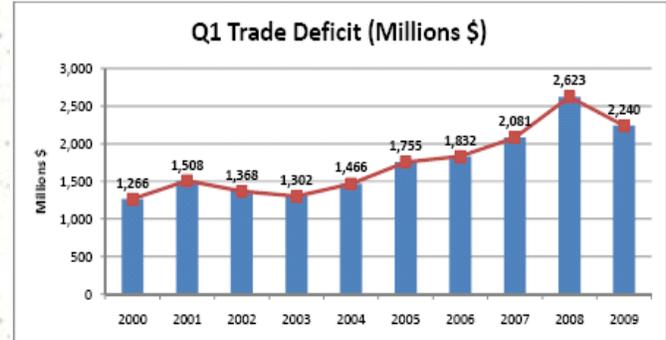
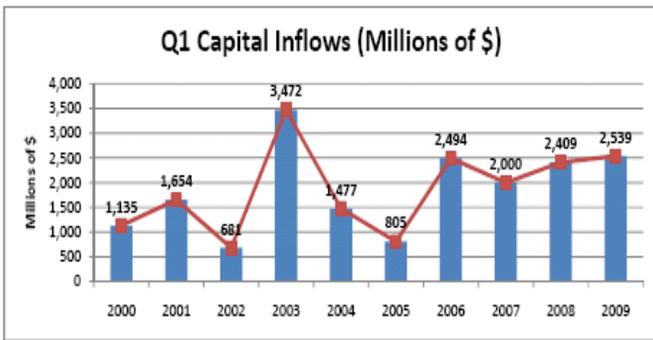


THE TOURISM SECTOR has seen a great improvement in Q1 2009 relative to the same period in 2008. In fact, the number of tourists and airport passengers peaked at an all time high when the first quarters of 2000-2009 are compared.



⇒ According to the Ministry of Tourism, the **number of tourists** rose from around 194 thousand in Q1 2008 to 298 thousand in Q2 2009, up by 54%. The same upward trend was followed by the **number of airport passengers**, with a Q1 year-on-year rise of 15%, from 763 thousand in Q1 2008 to 879 thousand in Q1 2009, as depicted by the statistics compiled at the Rafic Hariri International Airport.

THE EXTERNAL SECTOR continues to perform well with improvements in the trade balance and in the amount of capital inflows reaching the economy in the Q1 2009.

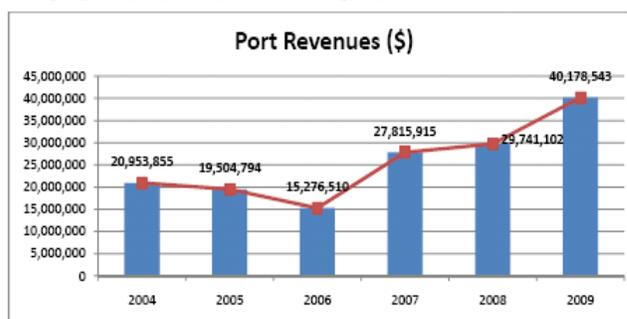
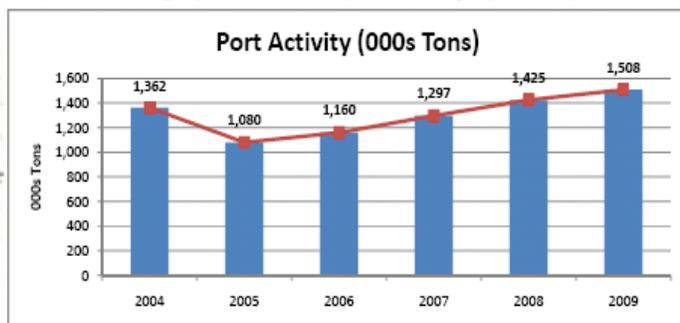


⇒ The **balance of payments** recorded a surplus of US\$298 million in the first three months of the year compared to a deficit of US\$214 million in the same period last year, thus increasing by 239%.

⇒ The surplus can be attributed to an improvement in the trade balance and capital inflows, as the trade deficit fell by 14.6% and the latter increased by 5.4% year-on-year.

⇒ The contraction in the value of trade is mainly due to the fall in the price of primary raw materials and to the depreciation of the Euro over the last couple of months.

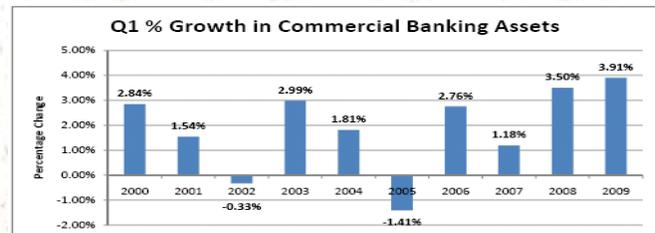
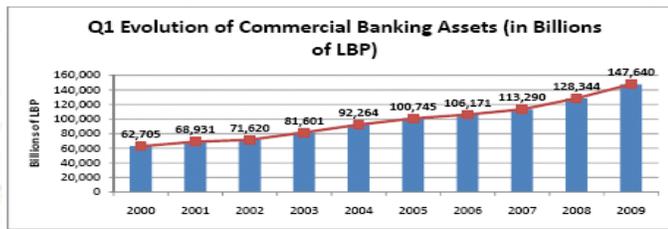
MARITIME TRANSPORT SERVICES also saw a significant improvement in the first quarter of 2009 relative the same period in 2008.



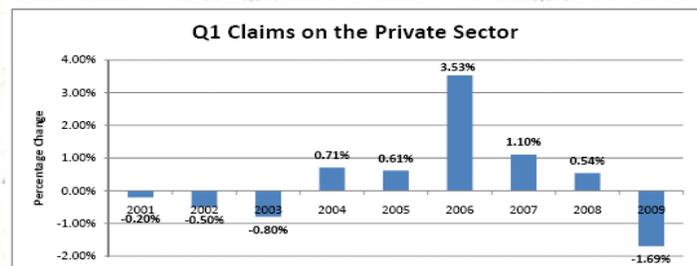
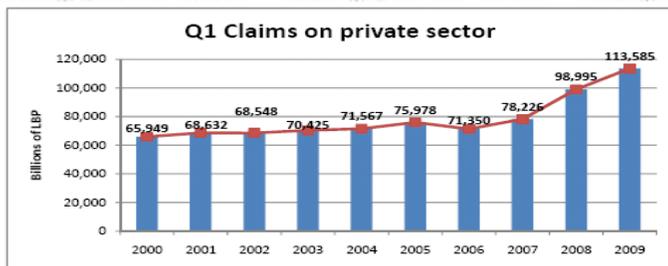
- ⇒ Port activity, defined as the number of goods (incoming and outgoing) in thousands of tons, rose by 5.8% in Q1 2009 relative to Q1 2008, even reaching a peak since 2004.
- ⇒ More noteworthy is the 35.1% jump in the Q1 2009 Port revenues relative those witnessed in the same period last year. Again, the first quarter of 2009 has recorded the greatest amount of revenues over the last six years.
- ⇒ Trade Activity is expected to visibly improve with the revival plan of Tripoli Port, the expansion plan of Beirut Port and the re-launching of TMA.
 - Bidding offers have been received to expand the Port of Beirut to accommodate for the increasing number of containers and to reduce port traffic.
 - The re-launching of a cargo airline business, Trans-Mediterranean Airline (TMA) following a 25 year discontinuation, may encourage an improvement in Transport and Export/Import services. In this regard, the Ministry of Public Works and Transport announced that preparations started to launch a training centre for aerial shipping services and another center for improving air trade, especially for products that need specific technical rules and regulations.

THE FINANCIAL SECTOR continues to show resilience to the global financial crisis as indicated by a record high growth in banks' consolidated activity, deposits, lending and profits. The sector also saw buoyant activity in favor of the Lebanese pound, supported by the wave of FX to LBP conversions, which has led to an excess of local currency and a further drop in dollarization rates. Conversion was encouraged by the recent development in the financial markets following the global crisis as FX interest rates followed a downward path and LBP interest rates remained relatively stable.

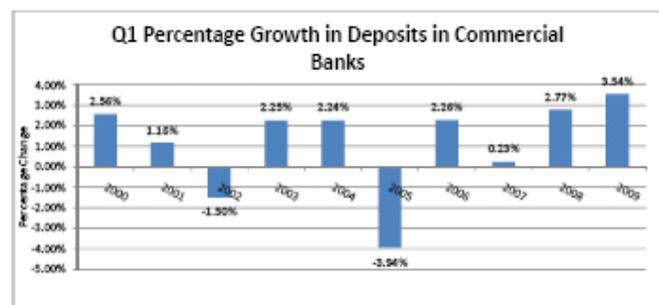
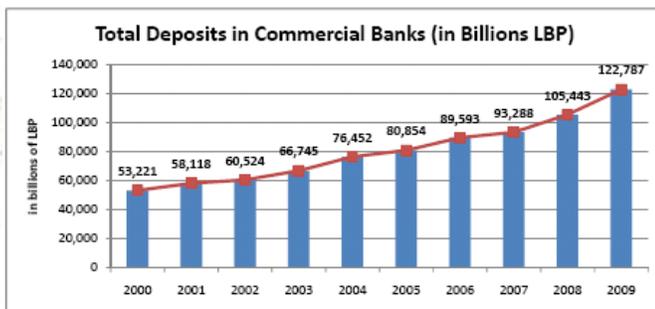
- ⇒ **Commercial Bank Assets** have been increasing at a steady stream over the first quarter of the last ten years. By Q1 2008, they reached LBP 128,344 Billion and rose by LBP 5,550 Billion since the beginning of 2009, thus growing by 3.91% in the first quarter of the year. This compares to a rise of LBP 4,344 Billion, equivalent to a growth 3.50%, in the same period last year. In fact, Q1 2009 has witnessed the greatest amount of growth in commercial bank assets in the last ten years.



⇒ By March 2009, **Claims (lending) to the private sector** reached LBP 38,363 Billion, representing a 13.3% increase as of March 2008. In Q1 2009, they rose by 14.7% compared to a more fruitful 26.5% increase in Q1 2008. But in terms of percentage growth, claims on the private sector rose by 0.54% in Q1 2008 compared to a fall of -1.69% in Q1 2009.

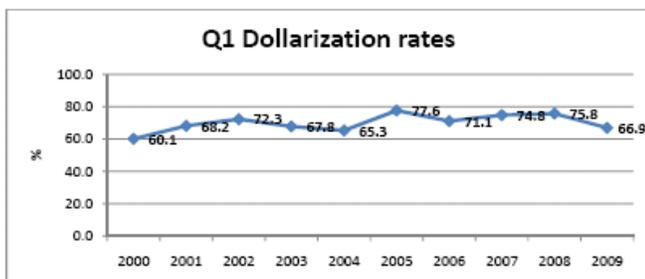


⇒ **Deposits in commercial banks** have also been increasing at a steady stream over the first quarter of the last ten years. By Q1 2008, they totaled LBP 105,443 Billion and rose by LBP 4,203 Billion since the beginning of 2009, thus growing by 3.54% in the first quarter of the year. This compares to a rise of LBP 2,845 Billion, equivalent to a growth 2.70%, in the same period last year. In fact, Q1 2009 has witnessed the greatest amount of growth in deposits in the last ten years.

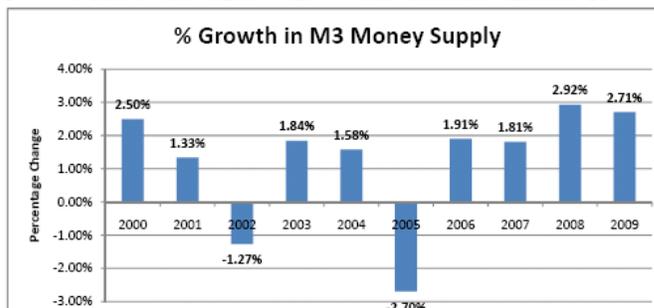
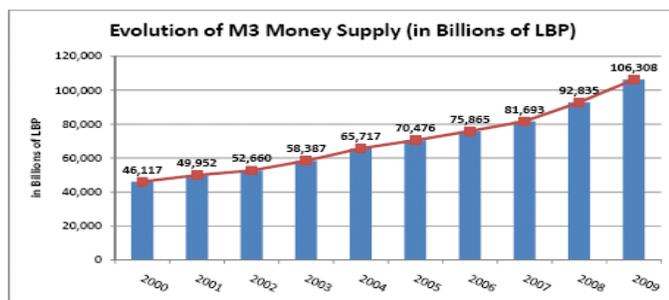


⇒ **The dollarization rate** fell by 11.75% from 75.8% to reach 66.9% by the first quarter of 2009.

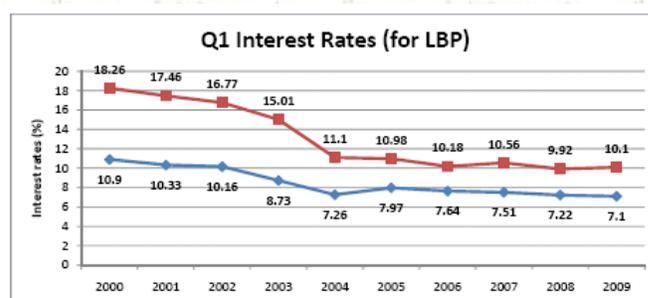
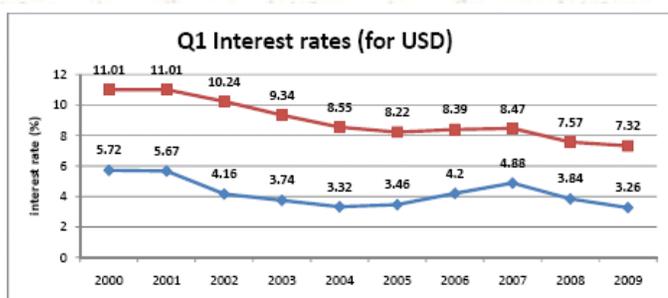
This denomination of dollars came as a result of the Central Bank buying around US\$8 Billion in 2008 and US\$3 Billion in the first quarter of 2009, thus reducing the supply of dollars in the open market and leading to this dedollarization. The Central Bank was able to take this route as the increased inflow of deposits at Lebanese Commercial Banks have been converted into the Lebanese Currency. The ability of the Lebanese banking sector to weather a number of violent events has resulted in great confidence in the sector, which is what led to deposits being poured into the sector from the outset.



⇒ **Liquidity** is abundant as illustrated by the money supply indicator. **The money supply in its broad sense (M3)** grew by LBP 2,802 Billion or 2.71% during the first quarter of 2009. The observed expansion in the money supply is the largest seen since the year 2000.



⇒ **The Cumulative Q1 interest rates on LBP denominated and USD denominated deposits at commercial banks** decreased to 7.1% and 3.26% respectively from 7.22% and 3.84% correspondingly for the same period last year. Similarly, the Q1 interest rates in USD denominated loans fell to 7.32% from 7.57% while those in LBP rose from 9.92% to 10.1% for the same period last year.



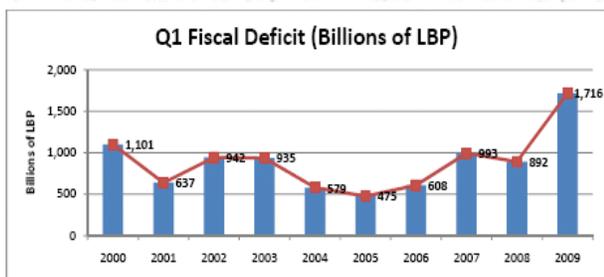
⇒ It is interesting to note that Q1 rates for USD deposits and loans have been at their lowest for the last nine years, while the rates on LBP denominated deposits increased slightly from the lowest point reached in nine years in the Q1 of 2008.

⇒ The average 3-month USD LIBOR slightly rose to 1.24 percent in February 2009, from 1.21 percent a month earlier.

⇒ Furthermore, the Association of Banks in Lebanon (ABL) suggested two new recommendations in order to strengthen the Lebanese Lira and encourage an interest rate subsidy scheme offered by the Central Bank on loans to the private sector. The first recommends to raise interest rates on the dollar by 3 basis points from 5.24% to 5.27% while the second advocates a reduction in the rates on LBP by 1 basis point from 9% to 8.99%.

⇒ The central bank has been working on strengthening the Lebanese Lira. By freeing Lebanese banks from mandatory reserves for projects financed in Lebanese Lira (excluding real estate projects and consumer loans), this would result in an indirect fall in interest rates, thus lowering the cost of borrowing in local currency by 2.25%.

THE FISCAL SECTOR saw a decline in the Fiscal Deficit and an increase of the Public Debt in Q1 2009 compared to the same period in the previous year.

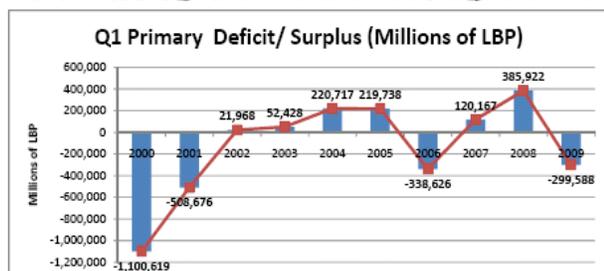


⇒ **Fiscal Deficit** increased by 92.52% in Q1 2009 relative to Q1 2008. In fact, the Q1 2009 fiscal deficit is the highest figure witnessed in 9 years. This came about due to higher current expenditures, capital expenditure and treasury expenditures, which allowed expenditures to rise by 35% while total revenues increased by 14%.

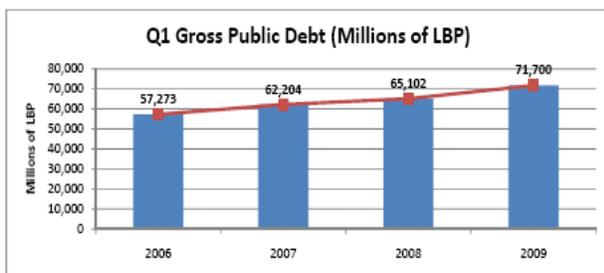
⇒ The **main expenditures** were represented by:

- (a) An increase in salaries and wages of LBP 200,000 which underestimates the future burden of the retroactive effects expected to be accounted for at a later date,
- (b) an increase in retirement and end of service compensations,
- (c) Transfers to the Lebanese University and
- (d) Rise in the payments to hospitals
- (e) interest rate payments also rose by LBP 278 Billion due to the increase in interest payments on domestic currency debt and foreign currency debt and
- (f) Treasury expenditures represented by high transfers to EDL and the High Relief Committee to compensate July 2006 war victims.

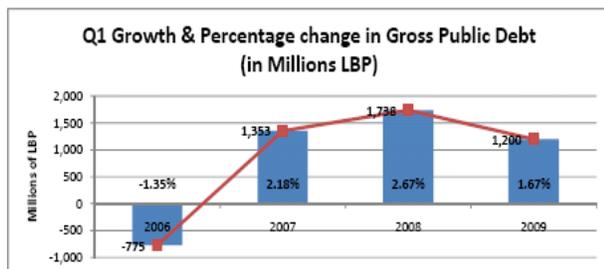
⇒ The **main source of revenue** came from tax revenues, which consisted of a 21.8% rise in Q1 2009 compared to Q1 2008 for taxes on income, profits and capital gains, 5.59% for taxes on property, 15.78% for taxes on domestic goods and services and 105.3% for taxes on international trade.



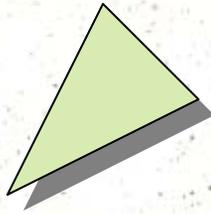
⇒ The **Primary Deficit** in Q1 2009 has also turned negative for the first time since 2007, having registered a deficit of LBP 299,298.



⇒ Lebanon's **Gross Public Debt** reached LBP 71,700 Million (or US\$47.9 Billion) by the end of Q1 2009. This constitutes an increase of 1.67% since the end of 2008. This deterioration in the public debt however fairs well relative to the Q1 figures witnessed in 2007 and 2008, which recorded increases of 2.18% and 2.67% respectively since the end of their corresponding previous year.



⇒ The state has over the years been induced to borrow in order to finance expenditures and pay back the public debt. At present, this debt is around US\$47.9 Billion and is expected to reach US\$51 Billion by the end of 2009.



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

For more information or assistance, please do not hesitate to contact the Economic Research Unit at the Ministry of Economy and Trade:

Tel: +961 1 982 294 (Ext. 1609 -1610)

Fax: +961 1 982 297

hanouti@economy.gov.lb

cbitar@economy.gov.lb

www.economy.gov.lb

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