Issue 7

H1 2010

Half year Bulletin

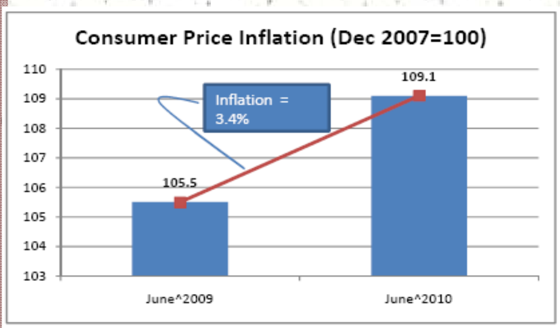
MINISTRY OF ECONOMY AND TRADE

THE LEBANESE ECONOMY is showing continued strength into 2010. According to the IMF, growth has been driven by construction, tourism, retail trade, and financial services, which are benefitting from rising confidence owing to the relatively stable political and security environment.

Institution	2010e by first half of the year
International Monetary Fund	8%
World Bank	6%
Economic Intelligence Unit	5.60%
Business Monitor International	6.50%
Blom Bank	6-6.5%
HSBC	6.90%

⇒The data in the table illustrates the most recent **estimates of economic growth for H1 2010** by a variety of institutions. The World Bank has also recently projected that Lebanon's growth rate in 2010 would make it the fourth fastest growing economy in the MENA region behind Qatar, Yemen and Iraq.

⇒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 the continued high levels of capital inflows, the public and trade sectors continue to pose the key burden on the economy.



INFLATIONARY PRESSURES

have so far remained limited.

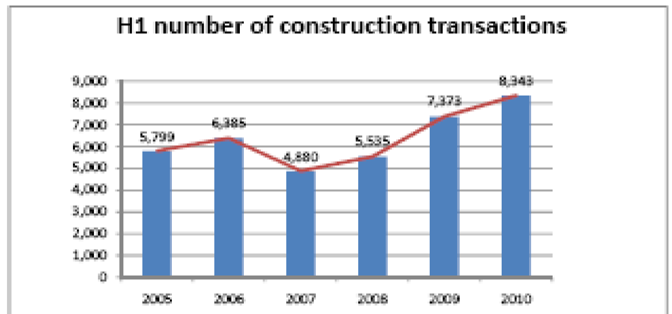
⇒ According to the Central Administration of Statistics in Lebanon, the June 2010 inflation index reached 109.1 (taking December 2007= 100) compared to the 105.5 attained a year earlier and 110 in May 2010. Thus, **H1 year on year inflation** reached 3.4% whereas on a monthly basis, fell 0.8%.

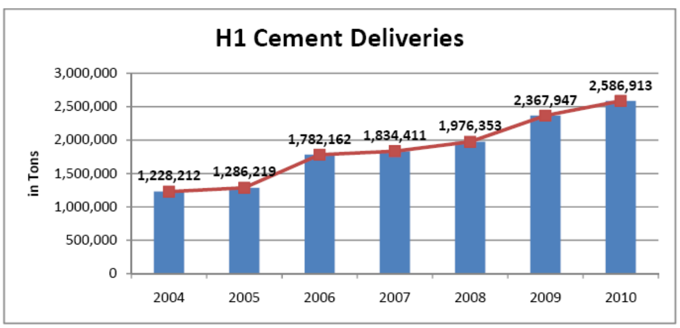
	% Change in CPI between June 2009 and June 2010
Food and Non-Alcoholic Beverages	1.90%
Alcohol Beverages and Tobacco	2.60%
Clothing and Footwear	1.30%
Housing, Water, Electricity, Gas and other Fuels	
Housing	6.10%
Water, Electricity, Gas and Other Fuels	7.60%
Furnishings, Household Equipment and Routine Household maintenance	1.20%
Health	-3.40%
Transportation	3.40%
Communication	-0.30%
Recreation, Amusement and Culture	3.40%
Education	9.60%
Restaurants and Hotels	4.70%
Miscellaneous Goods and Services	1.70%
Consumer Price Index	3.50%
Source: Central Administration of Statistics	

⇒ The year on year **rise in consumer prices** is mainly due to a 7.6% rise in water, electricity, gas and other fuels prices and due to education charges, which increased 9.6%, as maintained by the statistics office. On the other hand, health costs fell an annual 3.4 % while communication declined 0.3%.

THE REAL ESTATE AND CONSTRUCTION SECTOR in Lebanon continued to register record levels in H1 2010. Amid a global economic and a rare political détente in the normally turbulent Mediterranean country, construction permits, property transactions, property sales and cement deliveries all reached an all time high.

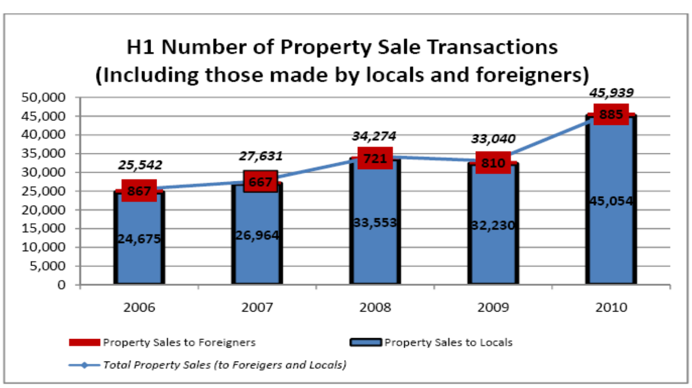
⇒ According to the Order of Architects and Engineers, the area in Sq Kilometers of new construction permits and the associated number of transactions jumped by 41% and 13% respectively in the first half of 2010 relative to the same period in 2009, depicting an increase in the supply of real estate and therefore, a continued incentive for real estate developers to build new projects.

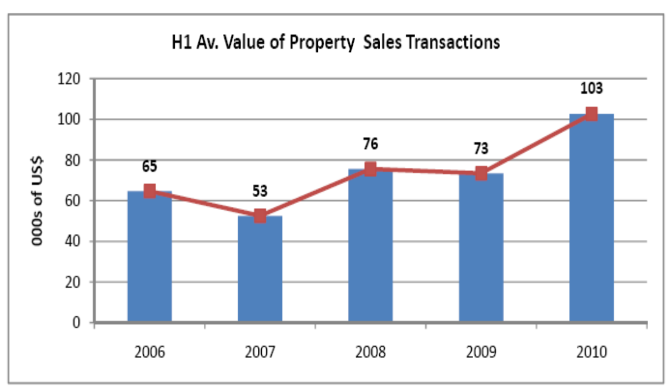




⇒ The dynamism in the real estate sector is also reflected by the rise in the ton of cement deliveries, an indicator of construction activity, increased by 9.2% and 30.9% in H1 2010 relative to H1 2009 and H1 2008 respectively. This rise reflects a growth in infrastructure and real estate investments, which suggests that contractors are continuing to develop new projects to cater for the high demand for Lebanese real estate.

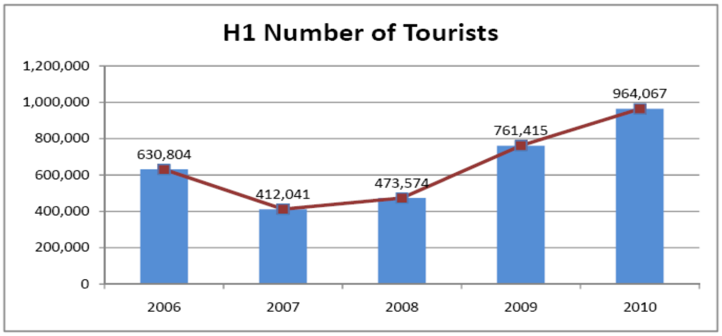
⇒ In terms of existing property, figures registered at the Real Estate Directorate depict a rise in property sales of 39% in the first half of 2010 compared with the same period last year, with transactions among foreigners rising by 9.3% and among locals by 39.8%. Transactions also registered a record value of US$4.7 billion with average property sale transactions consequently amounting to US$103,000, a 41% increase compared to H1 2009. This illustrates the continued rise in demand for real estate in Lebanon and the important role played by locals and foreigners alike.

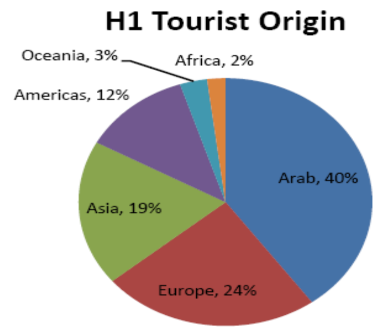




THE TOURISM SECTOR continued to witness a positive trend in the first half of 2010.

⇒ According to the Ministry of Tourism, **the number of tourists** in H1 2010 reached over 964,000 tourists, the highest attained in over a decade, and more precisely, a 26.6%, 103.6% and 134% increase compared to H1 of 2009, 2008 and 2007 respectively. Tourists mainly came from Arab countries and Europe.

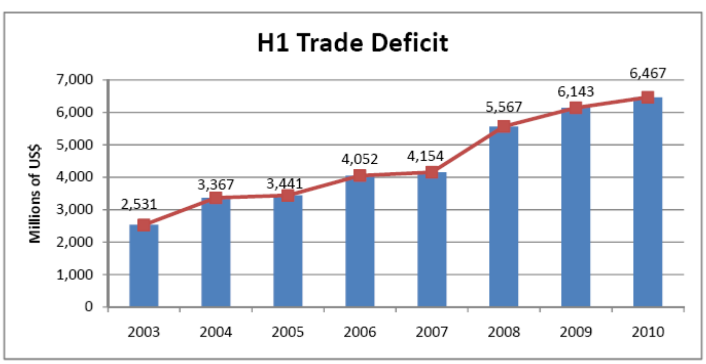




⇒ The booming tourism sector in the country has continued to have an advantageous effect on the **hotel industry** in terms of profitability. In a report by Ernst and Young, it was indicated that Beirut hotels witnessed the highest year-on-year growth rate in average room rates in the Middle East region. These reached US$ 246 in the first half of 2010, up by 15.9% relative to the same period in 2009, leaving Beirut with the 4th highest room rate in the Middle East. Furthermore, hotel occupancy rates also witnessed a slight increase in the first half of 2010, reaching 72% compared to the 69% attained in H1 2009, thus positioning Lebanon in 8th place in terms of occupancy rates in the Middle East. The combined rise in both room occupancy rates and average room rates consequently led to a 21.6% rise in room yields, reflecting hotel profitability.

⇒ Meanwhile, **the number of airport passengers** saw a year on year rise of 10%, from just over 2.08 Million passengers in H1 2009 to 2.3 Million in H1 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 H1 2010 trade balance. This came about following an improvement in the amount of capital inflows reaching the economy in H1 2010 relative to the H1 of previous years.



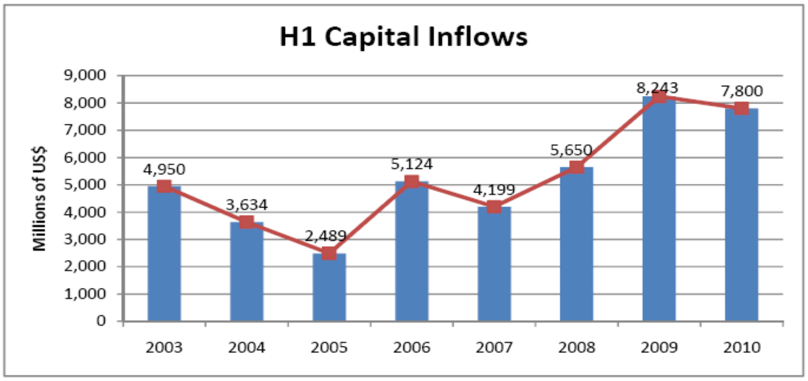
⇒ **According to Ministry of Finance figures, imports** increased by 9.6% to US$8.58 Billion and **exports** increased by 25.2% to US$2.11 Billion in H1 2010, leading to a **trade deficit** of US$6.47 Billion, up 5.3% year on year.

⇒ The **rise in the value of imports** can be attributed to several factors: the higher price of oil as well as the weakening of the Euro relative to the Dollar over the H1 2010 period when compared to the H1 2009 period and the increase in demand by local consumers and investors.

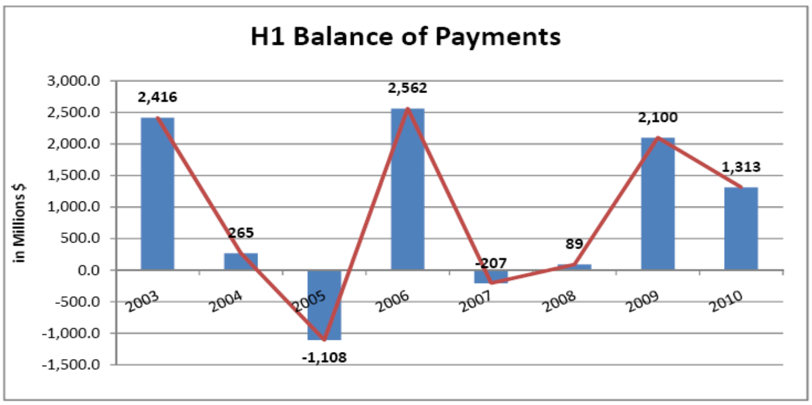
⇒ The **rise in the value of exports** is a result of a significant increase in external demand for Lebanese products by the country's main exporters: Arab and European nations. This comes as a result of both main trading partners witnessing a recovery from the global financial crisis.

⇒ Although the trade balance continues to post negative results, the considerable growth in exports in the first half of the year relative to the growth in imports has led to a gradual reduction in the trade deficit from 44.4% in Q1 2010 to 5.3% in H1 2010.

⇒ In terms of value, mineral products came at the top of the list of imports (19%) in H1 2010 as they did in H1 2009. Jewelery was the top export (29%) in H1 2010 as it was in 2009 (30.9%).

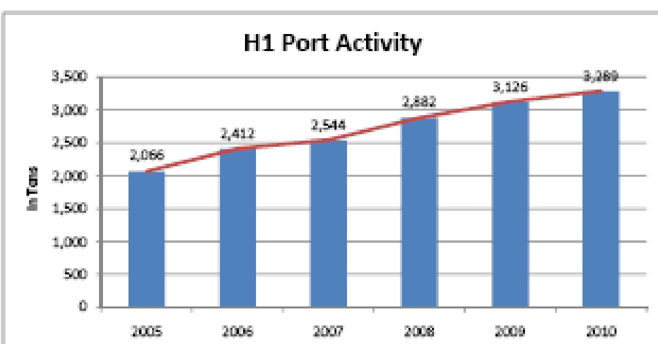


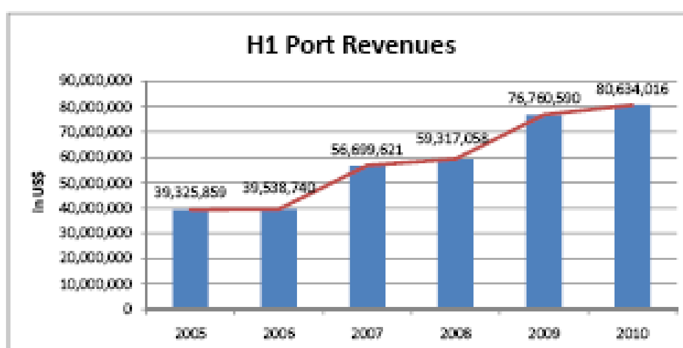
⇒ The Central Bank Of Lebanon figures show the cumulative **Balance of Payments (BoP)** figures, which reflect net foreign assets in the country, were in excess of US$ 1,313 Million. This compares to a higher BoP surplus of US$ 2,101 Million in the same period last year. Although the BoP has fallen by 37.5% 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 in H1 2010 is the result of a rise in the net foreign assets of the Central Bank of US$ 2,220 Million, which more than offset the US$ 906 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 also 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.

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



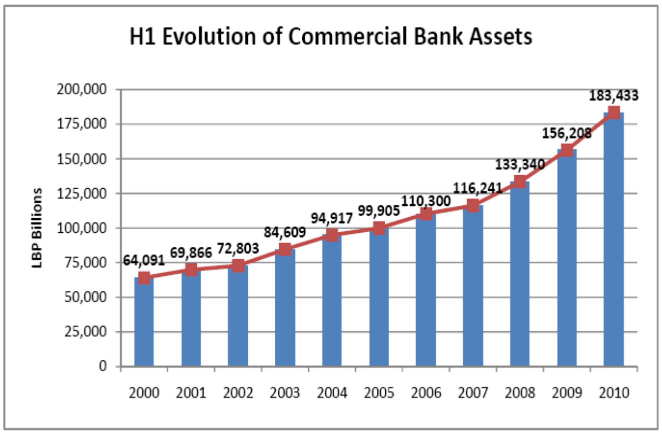


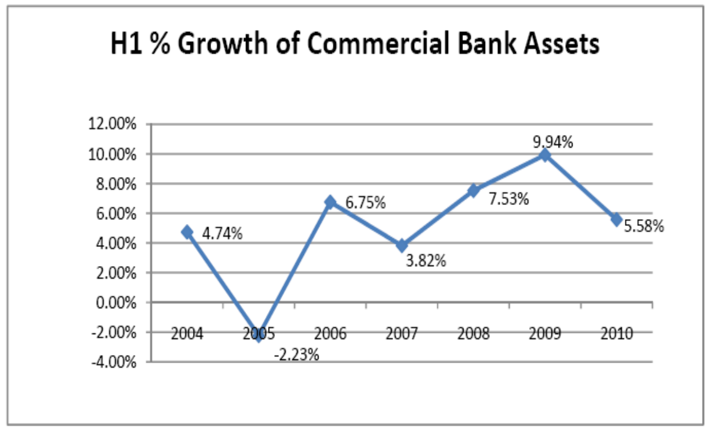
⇒ **Port Activity**, defined as the number of goods (incoming and outgoing) in thousands of tons, saw a 5.2% increase in the first half of 2010 relative to the same period in 2009- a registered high for Lebanon.

⇒ **Port Revenues** in the first half of 2010, were recorded to be just over US$ 80.6 Million, an increase of 5.1% 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 its resilient pattern into the first half of 2010. However, 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 half of 2010.

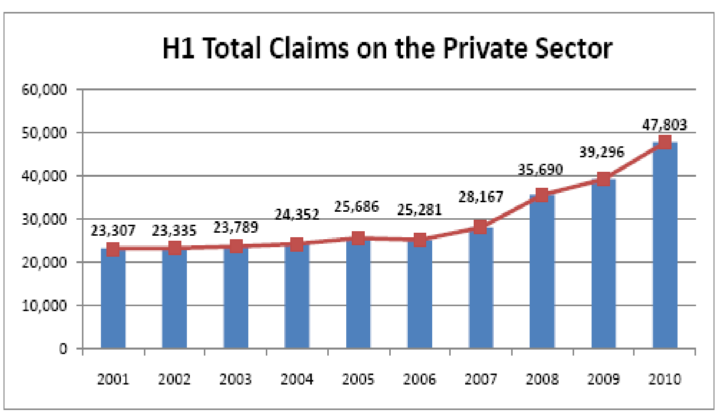
⇒ **Commercial Bank Assets** have been increasing at a steady stream over the H1 period of the last ten years. BdL figures show that by the end of H1 2010, they reached LBP 183,433 Billion (US$ 122.3 Billion), rising by LBP 9,693Billion (US$ 6,462 Million) since the beginning of 2010, equivalent to a growth of 5.58% and a year on year growth of LBP 27,226 Billion (US$ 18 billion), equivalent to a 17.4% rise.

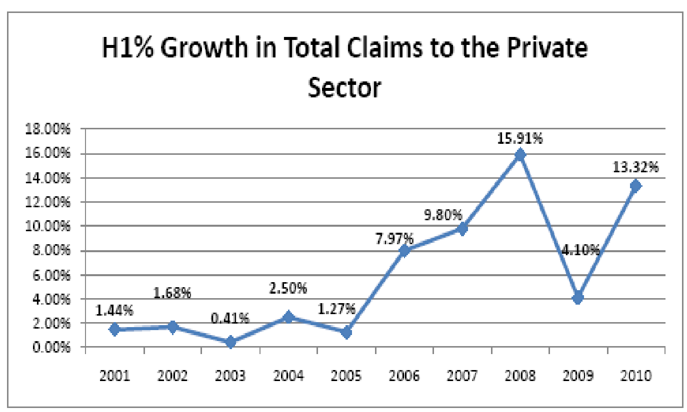




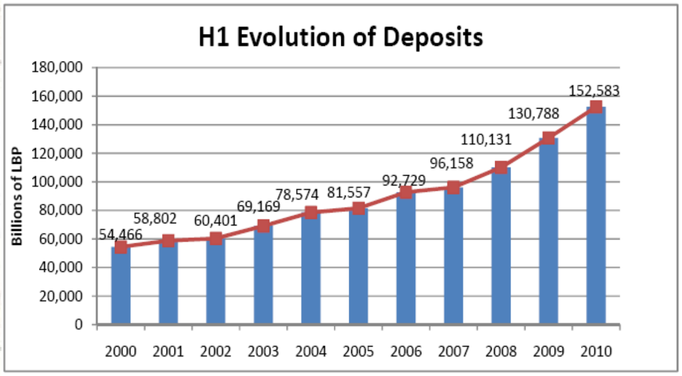
⇒ Data compiled by the Association of Banks in Lebanon show that by June 2010, bank loans to the Lebanese economy or loans to regional corporate, otherwise known as **claims (lending) to the private sector,** reached LBP 47,803 Billion (US$ 31,710 Million). Growth of claims reached a high of LBP 5,029 Billion (US$ 3,352Million) or 13.3% increase in H1 2010 compared to a mere LBP 1,548Billion (US$ 1,032 Million) or 4..1% in H1 2009.

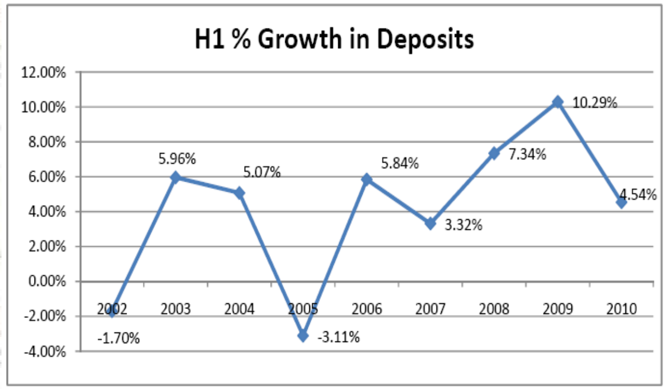
⇒ Lending activity was able to maintain this upward trend since the beginning of the year following improvements in global credit conditions in a year of gradual recovery of across the region's economies as well as healthy economic activity at the domestic level.

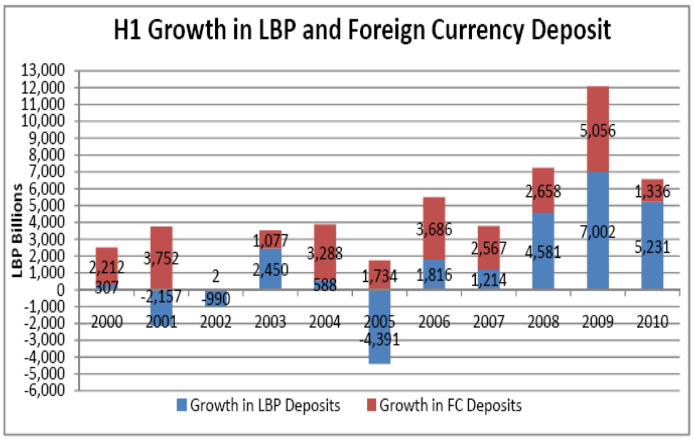




⇒ **Deposits in commercial banks** have been increasing at a steady stream over the first half of the last ten years. By the end of H1 2010, they totaled LBP 152,583 Billion (US$ 101,216 Million) and rose by LBP 6,626 Billion (US$ 4,417 Million) since the beginning of 2010, thus growing by 4.54% by the first half of 2010, as shown by BdL statistics. This compares to a rise of LBP 12,204 Billion (US$ 8,136 Million), equivalent to a growth 10.29%, in the same period last year.



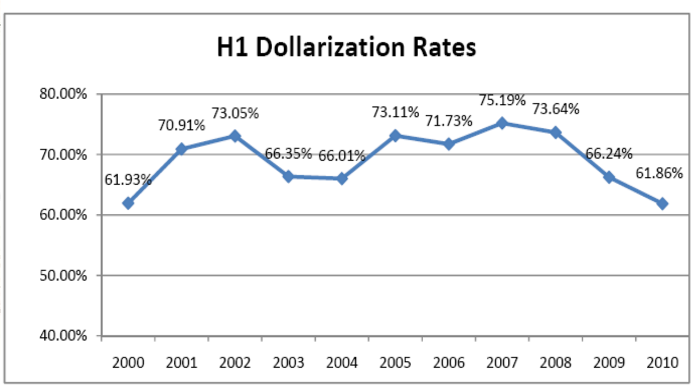




⇒ The opposite graph shows the jump in LBP Deposits relative to Foreign Currency (FC) deposits. Lebanese Pound deposits reached LBP 56,542 Billion (US$37,507 Million), having increased by LBP 5,231 Billion (US$ 3,470 Million) in the first half of 2010. FC deposits, on the other hand, reached LBP 94,392 Billion (US$ 62,615 Million), having increased by the less significant amount of LBP 1,336 Billion (US$ 886 Million) over the same period. This is due to a combination of higher interest rates 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.

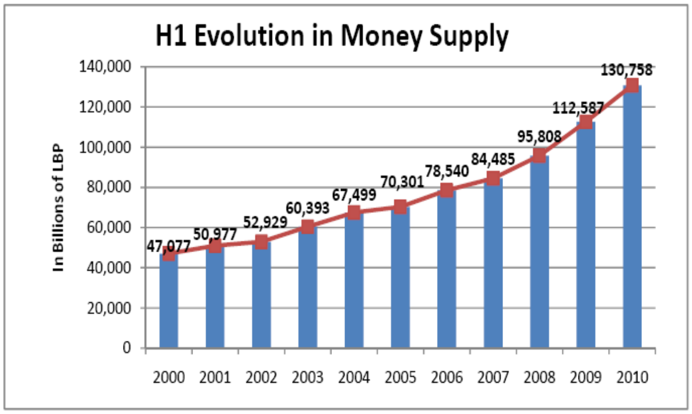
Type of Deposit	H1 2010 Growth	H1 2009 Growth
Resident Private	5.31%	8.60%
Non Resident Private	0.94%	19.99%
Public	3.72%	11.00%

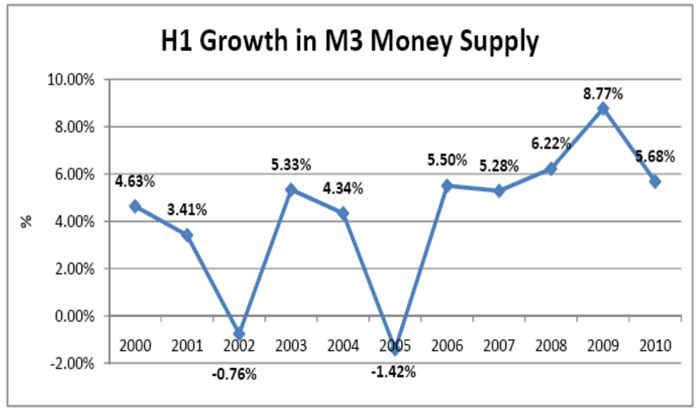
⇒ Furthermore, the opposite table shows that over the same period in 2010, growth in H1 deposits was highest for the resident private deposit category, with a rate of 5.31%. The non resident private sector and public sector categories witnessed a fall in H1 growth relative the H1 2009 growth, reaching 0.94% and 3.72% respectively.

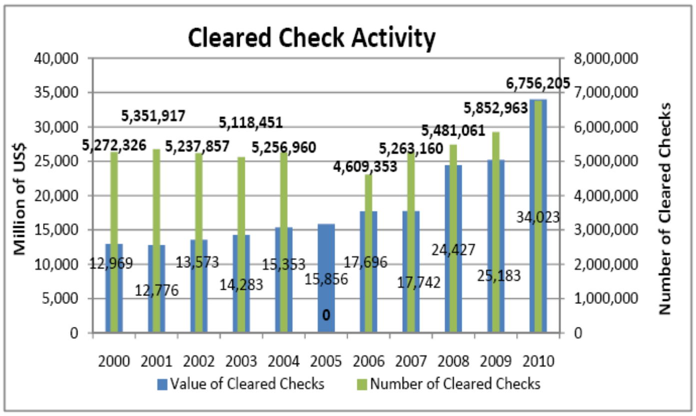


⇒ As a result of the high levels of LBP deposits making their way into the Lebanese banking sector, **dollarization rates** have continued to follow a downward trajectory since early 2008. By end of June 2010, the dollarization rate reached 61.86%, its lowest level in the last ten years.

⇒ Liquidity maintains its abundance as illustrated by the money supply indicator. The **money supply** in its broad sense (M3) grew by LBP 6,497 Billion (US$ 4,684Million) or 5.68% during the first half of 2010, according to BdL figures.

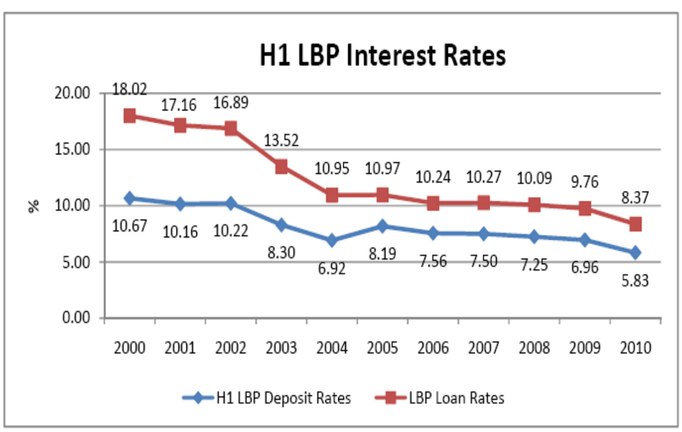


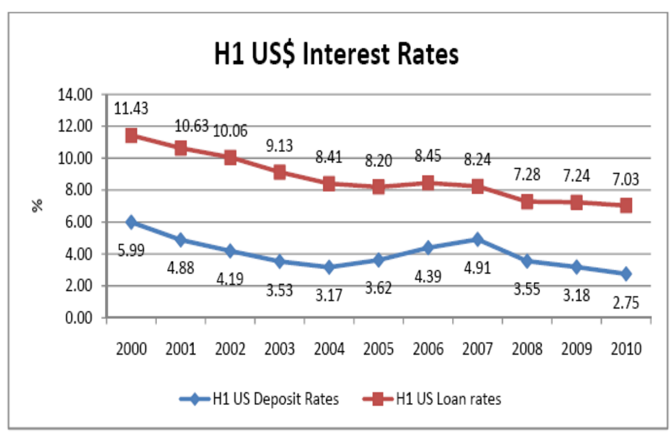




⇒ ***Check clearing activity***, an indicator of overall spending patterns and a key component in the money creation process of an economy, showed a continued rise in value and number in the first half of every year since the outset of the financial crisis. In H1 2010, value and number of cleared checks reached US$ 34,023 Million for just over 6.7 million checks, that is, a respective 35.1% and 15.4% increase relative to the same period last year.

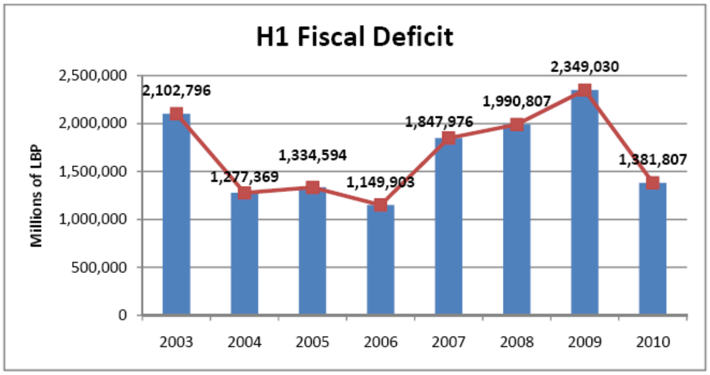
⇒ In the first half of 2010, **interest rates** on LBP denominated and USD denominated deposits at commercial banks decreased to 5.83% and 2.75% respectively from the 6.96% and 3.18% figures observed in the same period in 2009, as depicted by BdL. Similarly, the interest rates in USD denominated loans fell from 9.76% to 8.37% while those in LBP fell from 7.24% to 7.03% 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.





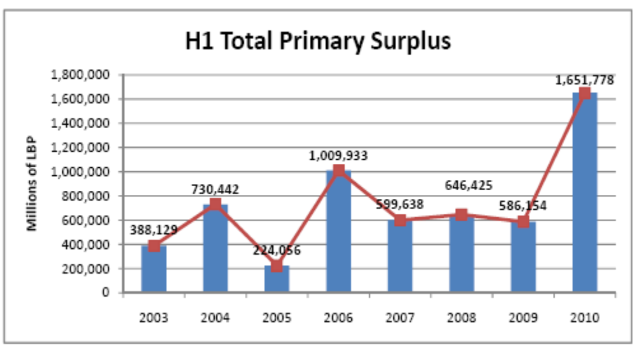
THE FISCAL SECTOR saw a fall in the Fiscal Deficit as well a fall in the Public Debt by the end of H1 2010 compared to the same period in the previous year.

⇒ Ministry of Finance figures show that the **Fiscal deficit** fell by 27% in the first half of 2010 relative to 2009, reaching just over LBP 1,379 Billion (US$ 915 Million) compared to the LBP 2,349 Billion (US$ 1,566 Million) attained a year earlier.

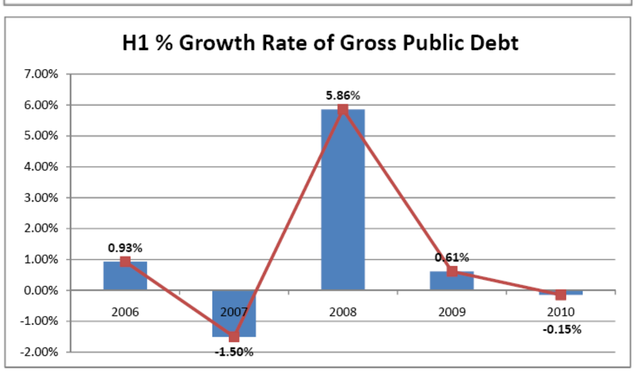


⇒ On the spending side, **Total Fiscal expenditures** (Budgetary and Treasury spending) decreased by 9.55% by the end of H1 2010 to reach LBP 7,928 Billion (US$ 5,285 Million), of which 49.59% was due to a fall in Treasury expenditures and 6.7% due to a rise in Budgetary Expenditures. The fall in Treasury expenditures over the said period was mainly a result of a 128% reduction in EDL spending, that reached LBP 662 Billion (US$ 439 Million) relative to the LBP 1,511 Billion (US$ 1002 Million) attained in the same period a year earlier.

⇒ On the revenue side, **Total Fiscal Revenues** (Treasury and Budget receipts) increased by 2.03% relative to the first half of 2010, reaching LBP 6,547 Billion (US$ 4,343Million) . Treasury revenues registered a rise of 28%, to reach LBP 240 Billion (US$ 159 Million). As for budget revenues, they moved up 8.53% to reach LBP 6,210Billion (US$ 4,119Million), driven mainly by a rise in tax revenues. Total tax revenues rose by LBP 731 Billion to LBP 5,318 Billion mainly due to a 180 Billion increase in VAT receipts as well as a 197 Billion increase in real estate registration fees. 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 decreased by LBP 596 Billion to LBP 893 Billion due to a reduction of LBP 618 Billion in income from non-financial public enterprises due to the absence of transfers from the Telecom Budget Surplus in 2010. 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 half of 2010 registered a surplus of LBP 1,652 Billion (US$ 1,096 Million), that is, an increase of 182% relative to the same period in 2009.



⇒ Lebanon's **Gross Public Debt** reached LBP 76,910 Billion (US$ 51 Billion) by the end of the first half of 2010. This constitutes an increase of 7.8 % since the end of 2009 relative to the 6.4% increase witnessed over the same period in 2009.

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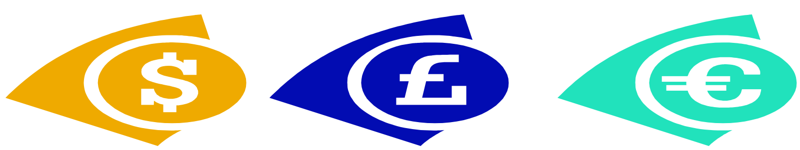

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