

Quarterly Bulletin

THE LEBANESE ECONOMY has continued to show resilience by the end of the third quarter considering the dire state of the global economic environment. A sustained upward revision in GDP growth rates has painted a positive picture for the Lebanese economy. Growth is maintained by the thriving tourism and banking sectors.

Institution	2009e	2010e
IMF	7.00%	4.00%
Central Bank of Lebanon (BdL)	7.00%	-
Institute of International Finance	6.00%	7.00%
Barclays Bank	6.00%	5.00%
EFG Hermes	6.00%	4.00%
Merrill Lynch	5.80%	4.50%
World Bank	2.50%	4.50%

⇒ The data in the table illustrates the most recent estimates of economic growth for 2009 by a variety of institutions. In its latest Global Economic Outcome Report, the IMF has predicted that Lebanon will achieve the second highest growth rate in the MENA region in 2009.

⇒ The real estate, tourism and banking sectors continue to be the main drivers of economic growth. However, fiscal performance and trade figures by the end of Q3 2009 continue to maintain a deficit.



INFLATION in the third quarter of 2009 fell compared to the same period in 2008.

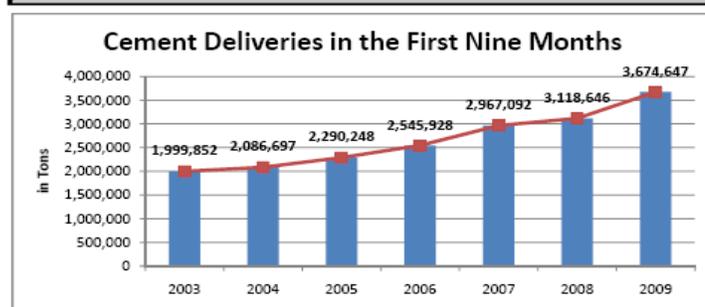
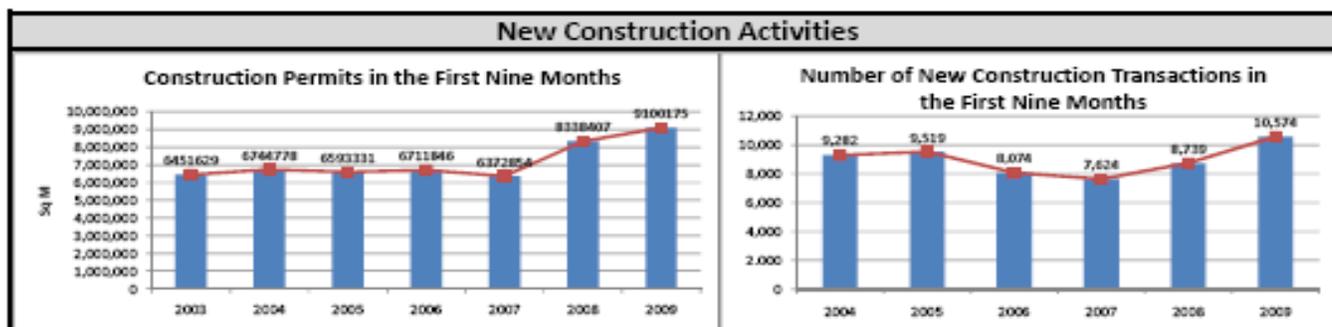
⇒ By the end of Q3 2009, inflation reached 6.7% compared to 8.3% a year earlier, a fall of 1.4%.

⇒ The Central Administration of Statistics attributes this Q3 2009 fall in consumer prices to the 17% drop in the price clothing and footwear and the drop in water, electricity and gas and in telecommunications, both down by 13.2% compared to Q3 2008.

⇒ According to an article in the Daily Star, Makram Bou Nassar, deputy director of the foreign affairs department at the Central Bank of Lebanon, has forecast inflation at 3% for 2009.

	% Change in CPI between Sept 2008 and Sept 2009
Food and Alcoholic Beverages	-2.0%
Alcohol Beverages and Tobacco	6.7%
Clothing and Footwear	-17.0%
Housing, Water, Electricity, Gas and other Fuels	
Housing	6.1%
Water, Electricity, Gas and Other Fuels	-13.2%
Furnishings, Household Equipment and Routine Household maintenance	1.0%
Health	-0.5%
Transportation	5.0%
Communication	-13.2%
Recreation, Amusement and Culture	0.1%
Education	4.0%
Restaurants and Hotels	4.5%
Miscellaneous Goods and Services	-0.1%
Consumer Price Index	-1.4%
<i>Source: Central Administration of Statistics</i>	

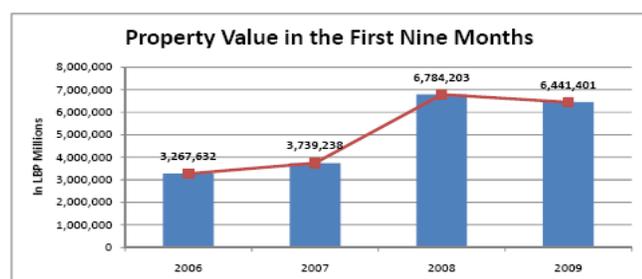
THE REAL ESTATE AND CONSTRUCTION SECTOR has continued to perform relatively well in the first nine months of 2009, despite the effects of the global financial crisis, which have caused severe harm to real estate markets around the world. In fact, property wire, a premier global property news service, has forecast Lebanese property values to grow by 10-15% annually until 2013.



⇒ New construction activities increased by both size and volume. Building activities in size are still ongoing as shown by the rise in **construction permits** at the Order of Architects and Engineers of Beirut and Tripoli, which totaled 9.1 million square meters by the end of September 2009, up by 9.2% relative to the same period in 2008.

The **volume of new transactions** registered at the Order of Architects and Engineers in Beirut and Tripoli increased by 21%, reaching a total of 10,574 transactions in the first nine months of 2009.

⇒ **Cement deliveries**- an indicator of construction demand and performance- also showed a strong increase relative to the rise witnessed in the first nine months of the previous year- an increase of 17.8% by the end of Q3 2009 compared to 5.1% by the end of Q3 2008.



⇒ However, the Real Estate Directorate figures depict that the **average property value per sale** went down by 3.6%, reaching LBP 54 Million for the first nine months of 2009 from an average of LBP 56 Million a year earlier. This may be a result of a fall in number of transactions and value of sales, with the latter being due to the continued availability of cheaper construction materials (cement, fuel and steel) and imported equipments.

Banque du Liban has also given incentives to the Commercial Banks to increase house loans at very competitive rates, that is, mortgages of 20-30 years with a maximum interest rate of around 5.9%.

THE TOURISM SECTOR continued to witness a positive trend by the third quarter of the year. In fact, the number of tourists and airport passengers peaked at an all time high when the cumulative figure for the first 9 months of 2003-2009 are compared.

⇒ According to the Ministry of Tourism, **the number of tourists** in the first nine months of 2009 reached just over 1.4 Million tourists, a 48.3%, 87.7% and 65.6% increase compared to the first nine months of 2008, 2007 and 2006 respectively. According to a report by Deloitte and Touche, Lebanon reached a **hotel occupancy rate** of 69% during this period, an improvement of 38% relative to the same period last year. Furthermore, the opening of the Beirut Souks is also expected to pick up tourism by the end of the year.

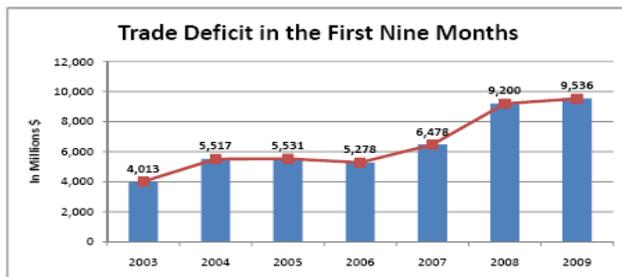
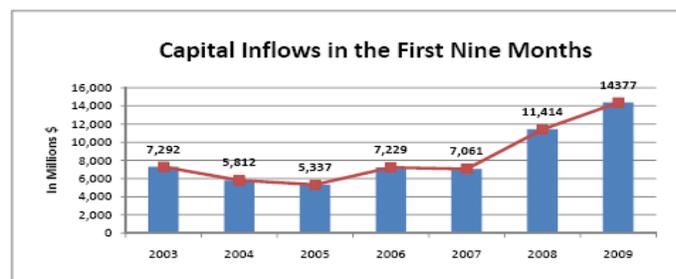
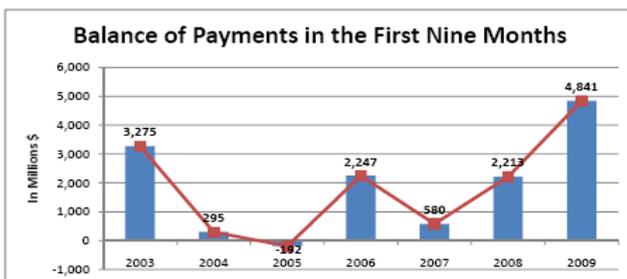


⇒ The same upward trend was followed over the same period by the **number of airport passengers**, with an year on year rise of 26%, from just over 3 Million in 2008 to 3.8 Million in 2009, as depicted by the statistics compiled at the Rafic Hariri International Airport.

⇒ This strong performance in the Tourism industry is recognized by the United Nations World Tourism Organization (UNWTO). Following the release of its World Tourism Barometer which measures the year to

date variation in the number of visiting tourists, it stated that Lebanon came first worldwide amongst countries that witnessed an increase in tourism. Among the 165 countries studied, only 15 beat the overall negative trend, Lebanon being in the top spot.

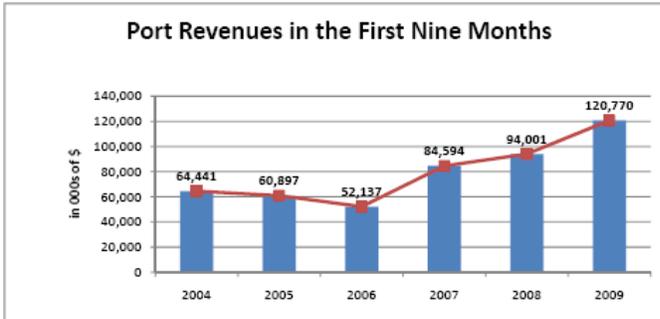
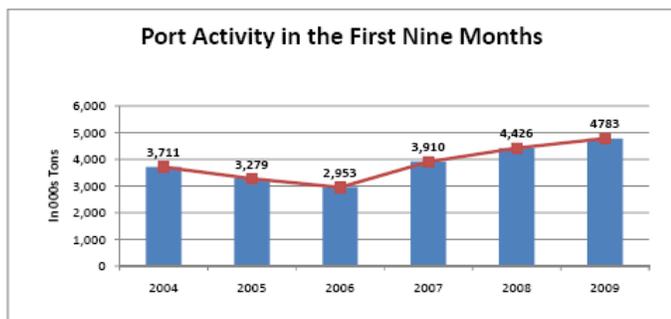
THE EXTERNAL SECTOR continued to perform well with improvements in the trade balance and in the amount of capital inflows reaching the economy by the end of Q3 2009.



⇒ **Capital Inflows** over the first nine months of 2009 have managed to contain the ever-growing **trade deficit**, resulting in a **Balance of Payment** (BoP) surplus in excess of US\$4.8 Million. This compares to a mere BoP surplus of US\$2.2 Million in the same period last year, thus increasing by 118.7%. The large **Capital Inflows** into Lebanon have appeared through several channels, namely via non resident deposit flows as well as foreign direct investments and cash transfers from the record number of visiting tourists. In fact, the World Bank's "Migration and Remittances Factbook" has estimated inward remittances will reach US\$7 Billion for Lebanon in 2009.

⇒ Although the **trade deficit** rose by 3.7% by the end of Q3 2009 relative to 2008, this increase is minute compared to the 42% increase observed over the same period a year earlier. This small yet significant increase is attributed to a yearly increase in imports of 1.2%, signifying strong domestic demand, especially since imports of investment goods rose by 13%. Although exports saw a rise up until H1 2009, the first nine months of 2009 saw a 7.2% fall, suggesting a fall in external demand due to the effects of the financial crisis on Lebanon's main exporters.

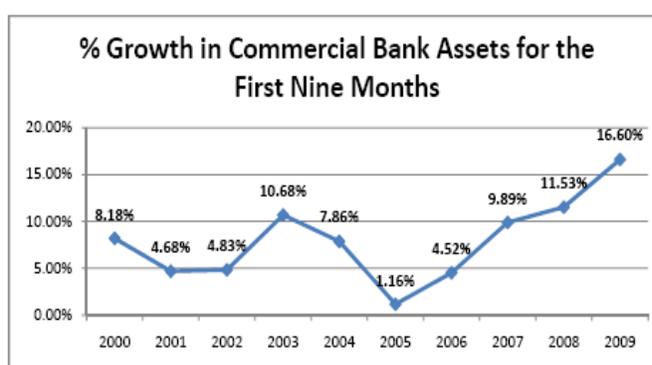
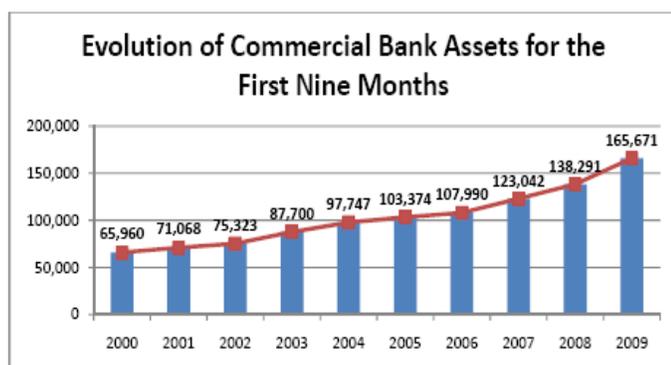
MARITIME TRANSPORT SERVICES also saw a significant improvement in the first three quarters of 2009 relative the same period in 2008, as shown by the Port of Beirut Statistics.



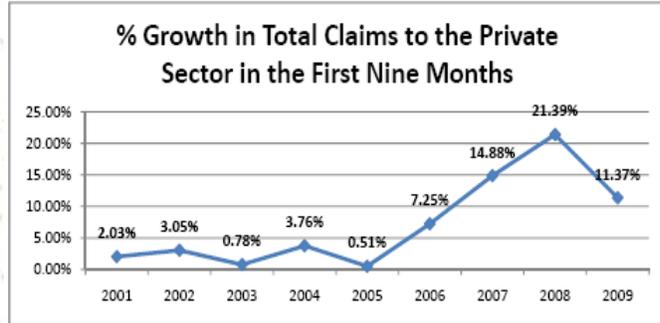
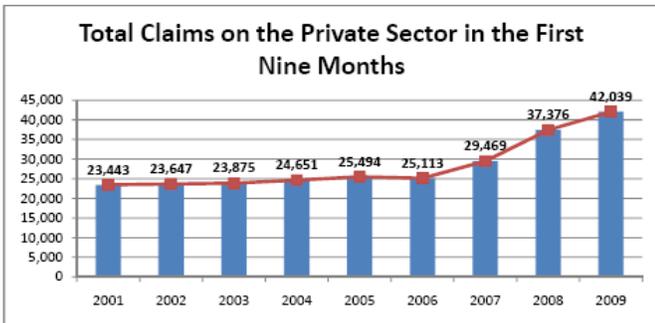
⇒ The noteworthy jump in **Port Revenues** in the first nine months of 2009, amounting to an 28.5% increase, came as a result of increases in port activity. **Port activity**, defined as the number of goods (incoming and outgoing) in thousands tons, rose by 8.1% by September 2009 relative to the same period in 2008. Again, the end of Q3 2009 has recorded the greatest amount of revenues and activity over the last six years.

THE FINANCIAL SECTOR continued its resilient pattern into the third quarter of 2009. **Commercial Bank Assets, Deposits and the Money Supply** clearly demonstrate this trend as they all show record growth for the first nine months of 2009.

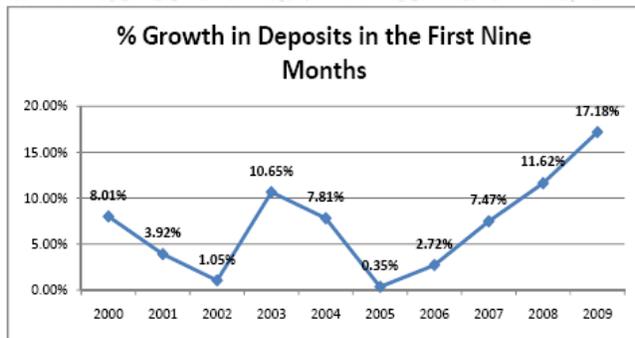
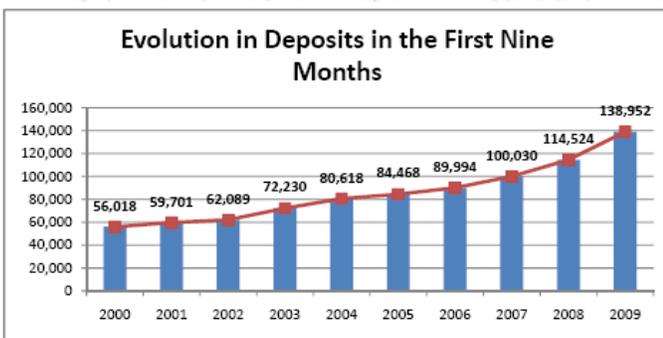
⇒ **Commercial Bank Assets** have been increasing at a steady stream over the first nine month period of the last ten years. BdL figures show that by the end of Q3 2009, they reached LBP 165,671 Billion, rising by LBP 23,581 Billion since the beginning of 2009, equivalent to a growth of 16.6%. This compares to a rise of LBP 14,291 Billion, comparable with a growth 11.53%, over the same period last year. In fact, the period covering the first nine months of 2009 has witnessed the greatest amount of growth in commercial bank assets in the last ten years.



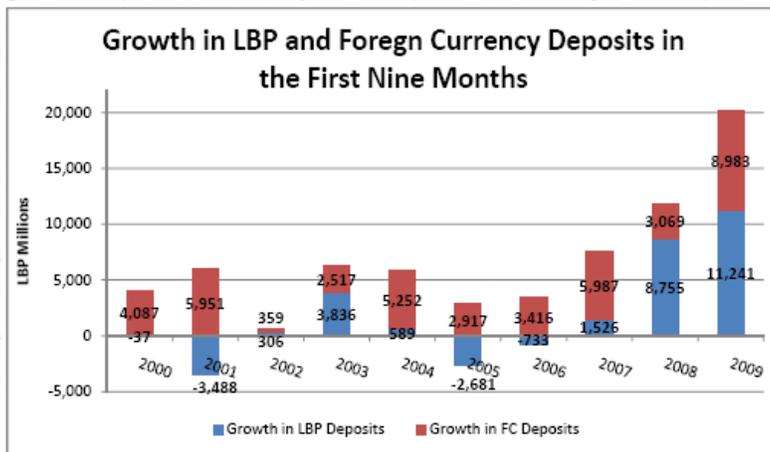
⇒ Data compiled by the association of Banks in Lebanon shows that by September 2009, **Claims (lending) to the private sector** reached LBP 42,039 Billion, representing a year on year decrease of 46.9%. Growth in total claims since the outset of 2009 reached LBP 4,291 Billion compared to LBP 6,585 Billion over the same period in 2008 thus, rising by only 11.37% compared to a more fruitful 21.39% increase in 2008.



⇒ **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 Q3 2008, they totaled LBP 114,524 Billion and rose by LBP 20,368 Billion since the beginning of 2009, thus growing by 17.18% by September 2009, as shown by BdL statistics. This compares to a rise of LBP 11,925 Billion, equivalent to a growth 11.62%, in the same period last year. In fact, the period covering the first nine months of 2009 has witnessed the greatest amount of growth in deposits in the last ten years.



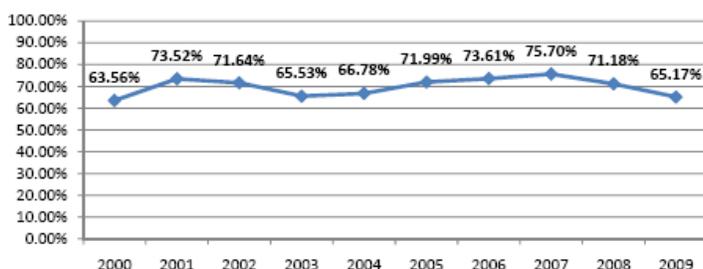
⇒ What is even more interesting is the jump in LBP Deposits relative to Foreign Currency (FC) deposits. As the opposite graph shows, the former increased by LBP 11,241 Million in the first nine months of 2009 compared to the less significant LBP 8,989 Million witnessed by those of the latter. This is 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.



⇒ Furthermore, the opposite table shows that over the same period in 2009, the non-resident private sector was the category with the greatest percentage increase in deposits (33.12%), behind resident private deposits (14.49%) and public sector deposits (10.84%). Although this pattern follows the one observed a year earlier, the figures greatly differ. In 2008, they amounted to 13.9%, 11.28% and 8.74% respectively. This confirms Lebanon's banking sector as providing a relatively safe haven to non residents following the global financial crisis.

Type of Deposit	By end Q3 2009 Growth	By end Q3 2008 Growth
Resident Private	14.49%	11.28%
Non Resident Private	33.12%	13.90%
Public	10.84%	8.74%

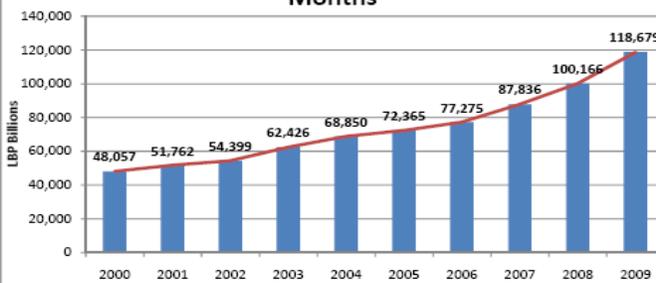
Dollarization Rates in the First Nine Months



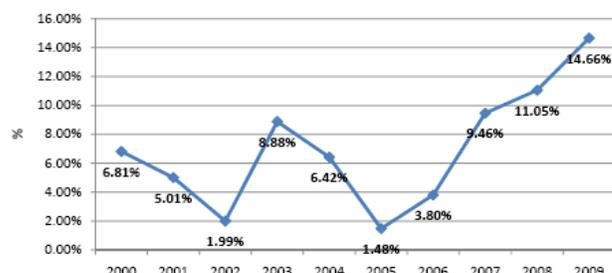
⇒ As a result of the high levels of LBP deposits making their way into the Lebanese banking sector, **dollarization rates** have continued to follow a downward trajectory since early 2008. By the September 2009, the dollarization rate reached 65.17%, its lowest level in the last nine years.

⇒ Liquidity maintains its abundance as illustrated by the money supply indicator. The **money supply** in its broad sense (M3) grew by LBP 15,173 Billion or 14.66% during the first nine months of 2009 according to BdL figures. The observed expansion in the money supply is the largest seen since the year 2000.

Evolution of M3 Money in the First Nine Months

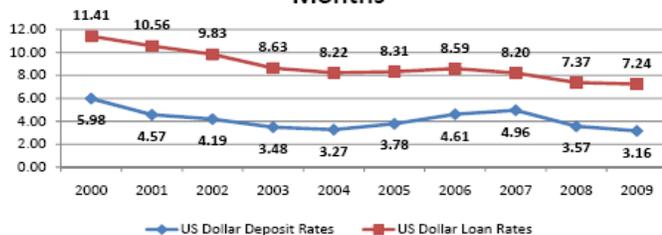


% Growth in M3 Money Supply in the First Nine Months

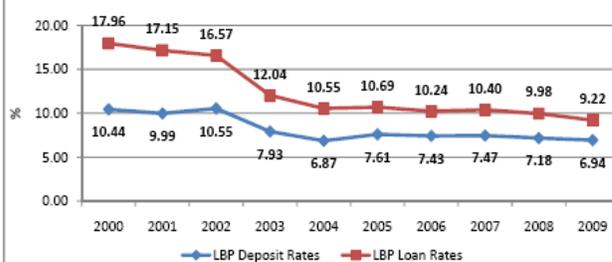


⇒ In the first nine months of 2009, **interest rates** on LBP denominated and USD denominated deposits at commercial banks decreased to 6.94% and 3.16% respectively from the 7.18% and 3.57% figures observed in the same period in 2008, as depicted by BdL. Similarly, the interest rates in USD denominated loans fell from 7.37% to 7.24% while those in LBP fell from 9.98% to 9.22% over the same period in 2008.

US Dollar Interest Rates in the First Nine Months



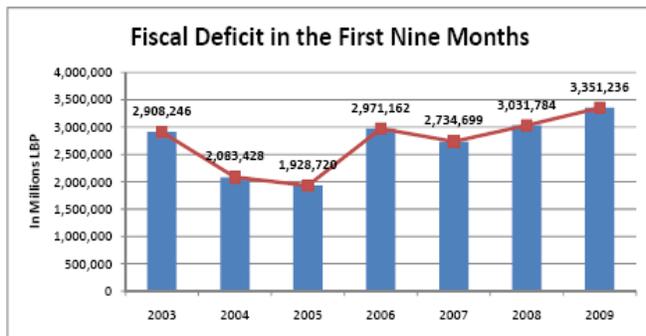
LBP Interest Rates in the First Nine Months



⇒ The relatively high interest rates on Lebanese pound and US dollar deposits as well as the safe haven status of Lebanese banks at this time of crisis have played an important role in attracting funds to domestic commercial banks. Furthermore, attempts by the central bank to reduce interest rates on LBP loans by exempting them from reserve requirements and on loans used to finance first home purchases and capital investments has been working since rates on LBP loans have fallen by 76 basis points, the highest since 2004.

THE FISCAL SECTOR saw an increase in the Fiscal Deficit as well an increase of the Public Debt by the end of Q3 2009 compared to the same period in the previous year.

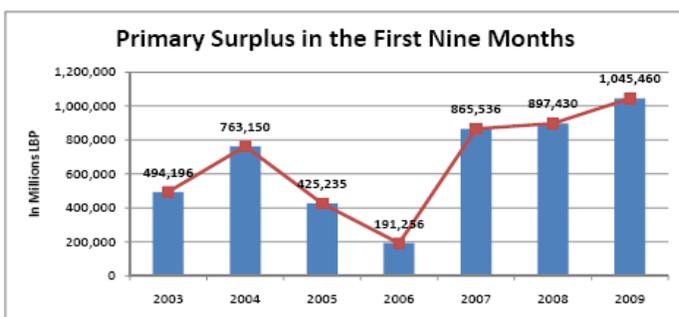
⇒ Ministry of Finance figures show that the **Fiscal deficit** increased by 10.5% in the first nine months of 2009 relative to 2008, reaching LBP 3,351 Billion. In fact, the fiscal deficit figure over this period is the highest witnessed since the year 2000.



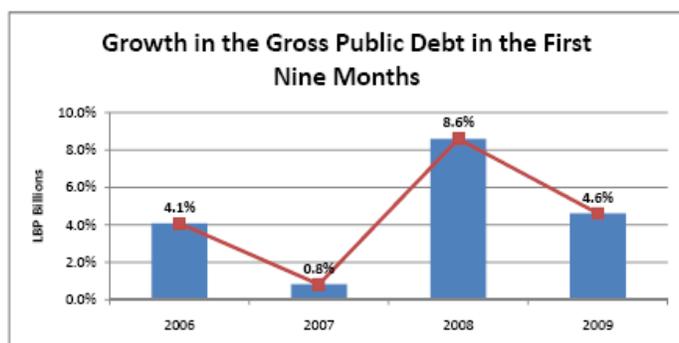
⇒ On the spending side, **public expenditures** (Budgetary and Treasury spending) increased by 20.3% by the end of Q3 2009 to reach LBP 12,800 Billion. This was mainly due to a 24.13% surge in Treasury expenditures, as well as a 18.95% rise in Budgetary expenditures. LBP 3,319 billion reached in The rise in Treasury expenditures over the said period was mainly due to a 122% rise in Guarantees. EdL's contribution on the other hand, rose by

LBP 53 Billion relative to the same period in 2008, reaching LBP 1,742 Billion- a mere 3.12% increase.

⇒ On the revenue side, **public revenues** (Treasury and Budget receipts) increased by 24.1% relative to the first nine months of 2008, thereby reaching LBP 9,449 Billion. Treasury revenues registered a drop of LBP 91.3 Billion to become LBP 487,241 Billion. As for Budget revenues, they moved up 27.4% to reach LBP 8,961 Billion, driven by a rise in both tax revenues and non-tax revenues. Total tax revenues went up by 30.07%, due to a year-on-year rise of 91.7% in custom revenues as well as a 14.7% increase in VAT revenues. The former reflects a significant rise in receipts from increased international trade while the latter indicates an improvement in aggregate private consumption. Other tax revenues also went up by 14.5%. Non-tax revenues went up by 19.95% due to an increase in telecom revenues. This comes despite a fall in telecommunication prices, indicating an increase in the quantity of lines being sold to the public.



⇒ **The Primary surplus** by the end of 2009 registered a surplus of LBP 1,045,460, that is, an increase of 16.5% relative to the same period in 2008.



⇒ Lebanon's **Gross Public Debt** reached LBP 74,144 Million (or US\$49.1 Billion) by the end of the first nine months of 2009. This constitutes an increase of 4.6% since the end of 2008. This deterioration in the public debt however fares well relative to the figure witnessed over the same period in 2008, which recorded an increase of 8.6% since the end of 2007.

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

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