

Quarterly Economic Bulletin

ECONOMIC SUMMARY: The Lebanese economy continues experience a challenging first half in 2011. Despite the political developments observed in Q2 2011 with the formation of the new government, concerns still remain regarding its effectiveness and longevity. Furthermore, the persisting regional instability, especially seen through the deterioration in the Syrian Political environment, creates even more uncertainty for the Lebanese economy.



REPUBLIC OF LEBANON
MINISTRY OF ECONOMY & TRADE

Institution	2011 Annual Real GDP Growth forecasts as released by the end of 2010	2011 Annual Real GDP Growth forecasts as released by the end of Q1 2011	2011 Annual Real GDP Growth forecasts as released by the end of Q2 2011
International Monetary Fund	5%	no change	2.5%
World Bank	7%	no change	4.8%
Economic Intelligence Unit	5.8%	5.3%	4.6%
Institute of International Finance	6%	4%	1.1%
EFG Hermes	5%	no change	3.5%
HSBC	6.4%	3.2%	2.7%
Merrill Lynch	5.9%	6%	no change
Standard Chartered Bank	6.5%	5.5%	3%
Barclays Capital	6.5%	5.5%	3%
AVERAGE	6.01%	5.17%	3.46%

In fact, forecasts of the 2011 annual economic growth were reduced by the end of H1 2011. Estimates made over Q2 2011 averaged around 3.46% versus the 6% and 5.2% estimated by the end of the 2010 and the end of Q1 2011 respectively. The table above displays estimates made by major international institutions. The IMF, for instance, forecasted by the end of Q2 2011 that 2011 economic growth would reach 2.5% relative to the 5% it had estimated by October 2010. This low estimate compared to an average annual rate of 8.2% over the last four years is basically attributed to political uncertainty.

Signs of difficulties over H1 2011 period essentially appeared in the real and external sectors.

Real sector economic indicators - which include those related to real estate and construction, tourism and transport services- registered overall negative growth rates in H1 2011 relative to H1 2010. Inflation also continued to follow an upward trend over this period.

The external sector also witnessed a decline, as reflected by the deterioration in the balance of payments, which continued to post a deficit in the second half of the year. This deficit resulted from a decline in inflows of capital such that they were not sufficient to cover the widening trade deficit. Actually, inflation and the weakening foreign demand for Lebanese products also negatively impacted trade dynamics. Inflows of capital, which soared over the period of the global financial crisis, continued to fall as a result of investor's uncertainty towards Lebanon's political situation as well as the regional instability.

Performance on the fiscal front however improved following the transfer of telecoms revenues. Unlike in 2010, Public debt in H1 2011 continued to deteriorate in both absolute terms and in relative terms following the slowdown in 2011 expected growth rates.

The financial sector was the main economic entity that displayed a positive activity growth in H1 2011, albeit at a slower pace than in the previous years.

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1. The Real Sector contracted in H1 2011, due to the prevailing political tensions in the country and to the regional turmoil that is negatively impacting investor sentiment at large. Real estate, construction, tourism and transport of passengers continued to deviate from their upward trend observed since 2007 into 2011. The activity of the performance of these sectors was also affected by rising inflation, most notably in commodities and their derivatives.

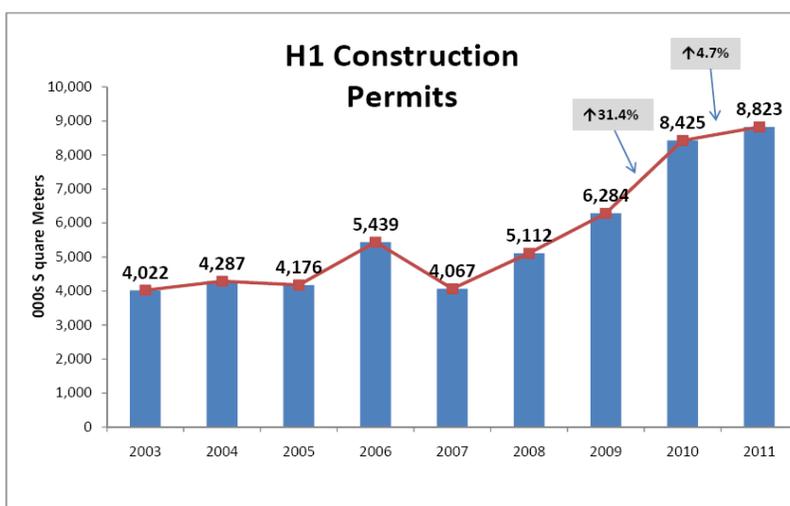
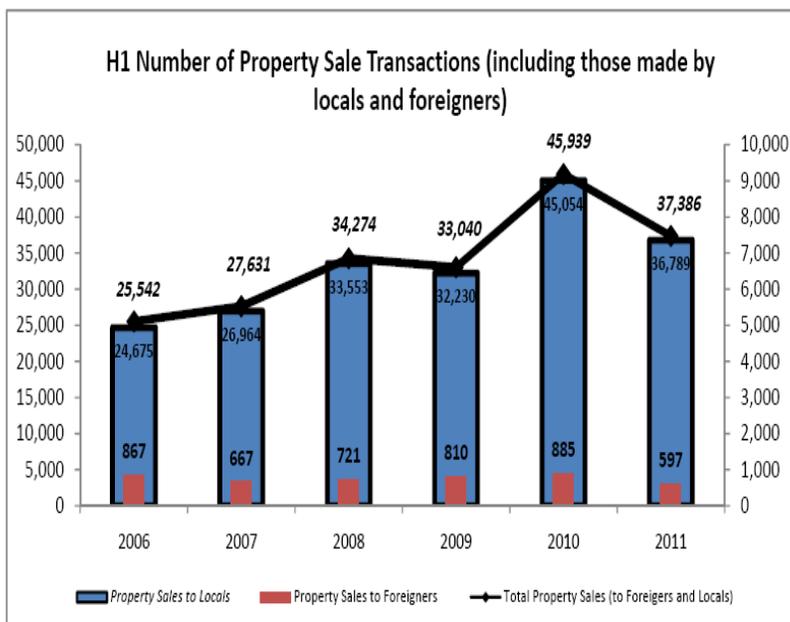
1. Real Estate and Construction

By the first half of 2011, the real estate and construction sector recorded a slowdown in activities relative to the same period in 2010. This is noticeable in the year-on-year evolution of the related indicators, but mainly from the demand perspective.

In H1 2011, the number of **total property sales**, which reflects demand for real estate, went down by 18.6% to reach 37,386. This was mainly due to the political tensions in the country, which lasted up until the new government was formed in June, and to the regional turmoil that continued to have a negative impact on investor confidence at the domestic level, which is evident through the yearly drop of 32.5% in **sales transactions to foreigners** over H1 2011.

The decline in the demand for Lebanese property sales was further accompanied by a fall in the **value of real estate sales** in the first half of the year. The latter declined by 18.3% relative to H1 2010, to reach US\$ 3,850 Million. Considering that in the first half of 2011, a similar drop was witnessed in both the value and number of property sales relative to those attained in the first half of 2010, the price trend has consequently remained relatively stable. The average value of property sales in H1 2011 reached US\$ 103,000, up 0.4% from H1 2010.

In terms of the supply of new property developments, indicators show that there was a small rise of 4.7% in H1 2011 in terms of the number of **new construction permits** and a rise of 19.6% in terms of the **number of new transactions**. The former however, expanded at a slower pace when compared to the level it reached in the previous year, when it grew by 31.4%. This slower growth could be attributed to the political stalemate and the consequent attitude of contractors to take less risk. Tons of cement deliveries, a second supply indicator of building activity, also saw an increase in H1 2011 of 2.9% relative to the same period in the previous year.



2 Tourism

Tourism activity, which includes number of tourists, tourist spending figures, hotel occupancy rates and revenues per average room (RevPAR)— a function that accounts for room and occupancy rates used for measuring the financial performance of the hospitality sector— all experienced a slowdown in H1 2011, following a breakdown in the domestic political situation and the regional turmoil.

According to the Ministry of Tourism and as the graph below shows, the **number of incoming tourists** fell in H1 2011 compared to H1 of the previous year, that is, a fall of 19.7%. However, this figure remains 16.8%, 63.5% and 87.9% higher than the ones attained in 2009, 2008 and 2007 respectively. According to the figures collected by Global Refund in the table below, Arabs continue to represent the main tourists to Lebanon.



Breakdown of Tourists by Country of Origin

	End of H1 2009	End of H1 2010	End of H1 2011
Arabs	37.8%	39.9%	31.9%
Europe	24.3%	24.4%	28.5%
Asia	16.2%	18.9%	19.3%
America	14.3%	12.1%	13.5%
Africa	2.4%	1.9%	3.6%
Oceania	3.8%	2.7%	3.2%

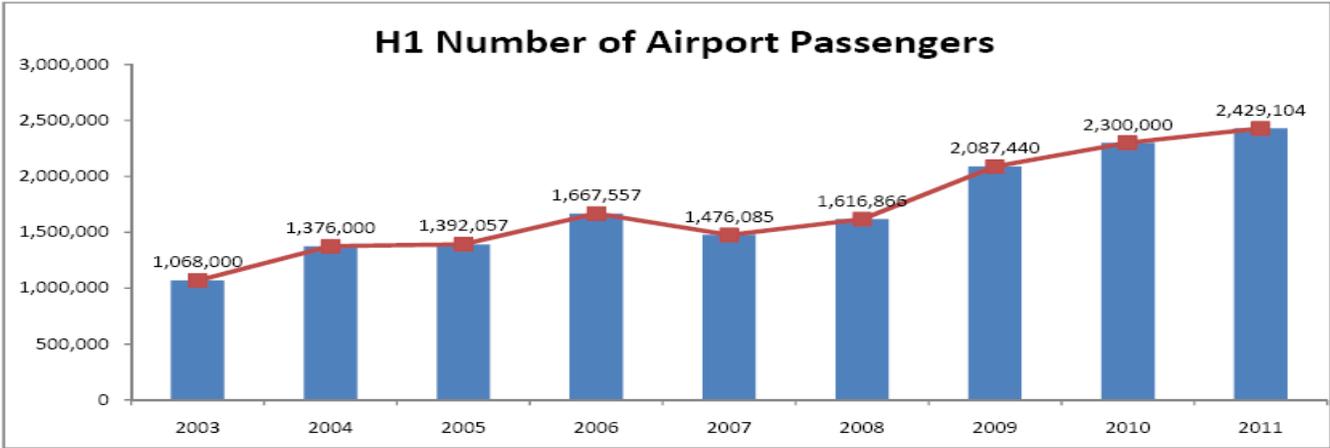
According to the Global Refund Firm, the figure representing purchases by tourists in Lebanon whose VAT was claimed, otherwise known as **tourism spending**, is a reliable method of following tourist spending trends. As the below table illustrates, figures for the main spending players, which include tourists originating from Arab countries such as Saudi Arabia, Syria, UAE, Egypt and Kuwait, saw a deterioration in H1 2011 relative to the available figures for H1 2010 and H1 2009, hence reflecting a fall in tourism activity. For instance, Saudi Arabia, which represents approximately 21.5% of total tourists by June 2010-2011, saw a fall of 6% in H1 2011 relative to H1 2010 in terms of tourism spending.

Countries	Average Ranking (%)	YTD % Change in Tourism Spending for June 2011	YTD % Change in Tourism Spending for June 2010	YTD % Change in Tourism Spending for June 2009
Saudi Arabia	21.5	-6%	43%	74%
UAE	11	10%	17%	9%
Kuwait	9.5	-3%	2%	43%
Syria	8.5	2%	62%	93%
Egypt	7.5	-22%	45%	54%
Jordan	-	-12%	27%	18%
Qatar	-	-4%	10%	58%

Furthermore, a report by Ernst and Young recently shows that Beirut witnessed a significant decline in its hotel indicators since the start of the year. **Hotel room yield (RevPAR) reached US\$112 in H1 2011**, a 37.5% fall compared to the same period in 2010, which reflects a fall in hotel profitability. This decline was the combined effect of a drop in **hotel occupancy rates** in Beirut, which only reached 54% in H1 2011, relative to the 72% attained in H1 2010, and a 15.6% fall in **average room rates**, to reach US\$ 207, over the same period.

Furthermore, Prime minister Mikati recently instructed Cabinet members to come together and implement wide-ranging reforms that would support the Lebanese tourism sector which he branded a national priority. He noted that many areas should be focused on to turn tourism into an industry. The agenda included various issues which he wants ministers to combat as part of a new strategic plan to boost tourism, namely traffic congestion, food pollution, visa restrictions on incoming travelers, and pricing discrimination. In this context, plans to develop major routes in Lebanon to help clear traffic congestion, moves to make entry visas available to the majority of nationalities— in which a decision to lift visa restrictions on all GCC countries was reached— and teaming up with the Ministry of Economy and Trade to carry out inspections on food quality, services, cleanliness and hospitality prices, were all discussed.

3- Passenger Transport



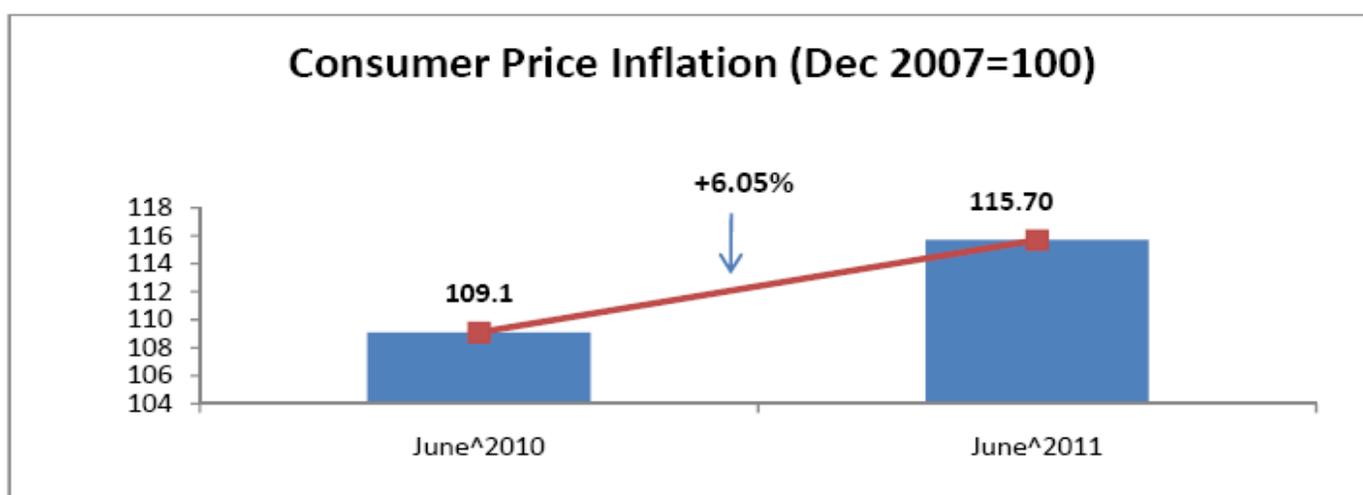
Transport of passengers continued to witness a weakening in H1 2011. This constitutes a reversal in the positive trend that dominated in the previous three years. The number of passengers passing through Rafic Hariri International Airport saw a year on year fall of 0.02%, from just over 2,429,558 in H1 2010 to 2,429,104 in H1 2011, as depicted by the statistics compiled at the Airport. This minute decline was the result of a slight deterioration in the number of departure and arrival components that make up the number of passengers, which saw a 0.48% and 0.24% respective decrease. The fall in the number of airport passengers follows the rationale behind the explanation in the reduction in the number of tourists. The overall decline in the arrivals of passengers especially reflects how the political stalemate and the regional turmoil mainly governing the first quarter of 2011 have led to lower amounts of activity in Lebanon from foreign tourists, expatriates and businessmen, who in one way or another, add value to consumption and investment through their spending. However, it can be seen from second quarter figures that activity rebounded, which could be attributed to the beginning of the summer and the relative stabilization in political conditions.

4. Inflation

According to official estimations as indicated by the **Consumer Price Index (CPI)** issued by the Central Administration of Statistics (CAS), the CPI reached a high of 15.7% since the new basket of goods was introduced in Dec 2007 and a rise of around 6.1% relative to the inflation figures observed a year earlier. COI measures the price of goods in an economy by tracking the cost of a basket of goods over time and is used as a proxy for inflation.

The continuous rise witnessed over this period comes as a result of the persistent rise in commodity prices, mainly food and oil. This has consequently led to a year on year increase in inflation in the following categories in Lebanon: 21.1% rise in the price of clothing and footwear, a 13% rise in water, electricity, gas and other fuels and a 7.6% rise in food and beverages.

As always, since most of Lebanon's inflation is either imported inflation in commodities or due to currency fluctuations, the global rise in commodity prices and exchange rates with the US\$ have had a significant effect on the value of domestic goods and consequently, on the value of imports and exports. This will be analyzed more thoroughly in the next section.



	Weights	% Change in CPI between June 2011 and June 2010	% Change in CPI between June 2011 and Dec 2007
Food and Non-Alcoholic Beverages	19.9	7.59%	26.20%
Alcohol Beverages and Tobacco	2.1	0.55%	9.00%
Clothing and Footwear	6.2	21.09%	17.70%
Housing, Water, Electricity, Gas and other Fuels:			
Housing	16.2	0.00%	11.20%
Water, Electricity, Gas and Other Fuels	9.5	13.12%	12.10%
Furnishings, Household Equipment and Routine Household maintenance	3.9	1.30%	9.40%
Health	6.8	5.88%	6.20%
Transportation	12.3	5.78%	26.30%
Communication	4.8	0.00%	-13.70%
Recreation, Amusement and Culture	3.7	3.09%	6.90%
Education	7.7	6.66%	21.70%
Restaurants and Hotels	2.7	6.03%	40.60%
Miscellaneous Goods and Services	4.2	1.79%	8.10%
Consumer Price Index	100	6.05%	15.70%

II. The External Sector continued with its poor performance in the second half of the year as the

Balance of Payments registered a deficit following insufficient inflows of capital to cover the ever growing shortfall in the trade balance. Although aggregate trade activity rose by 6.1% in H1 2011, imports were the key component driving this expansion, while exports remained almost constant, thus putting a constraint on the performance of the sector, as the goods trade deficit consequently rose by 9.9%.

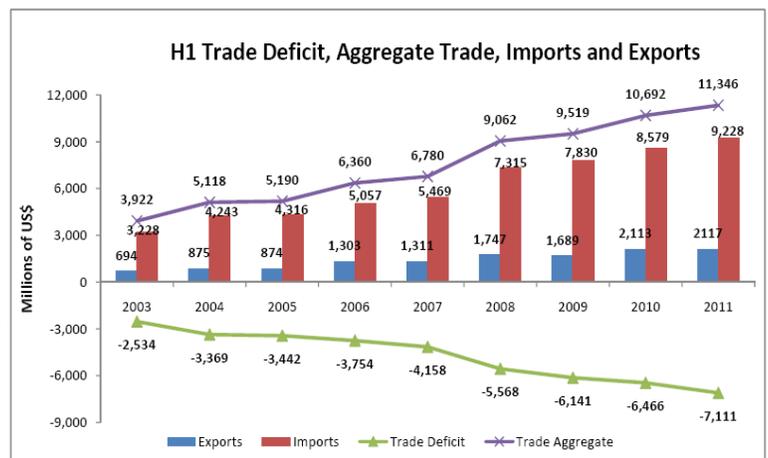
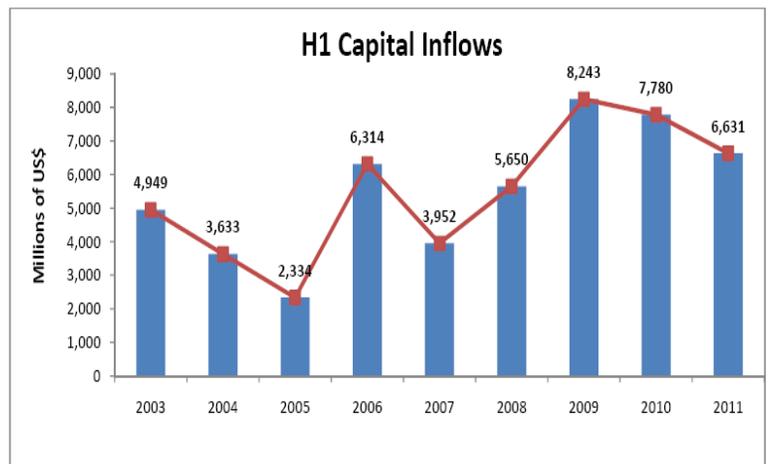
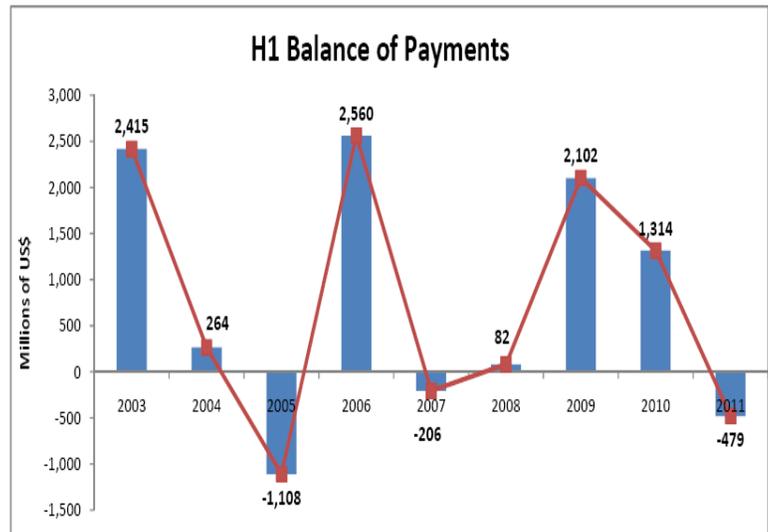
2a- Balance of Payments, Capital Inflows and Trade

The balance of payments continued on a downward path as it registered a deficit in the first half of the year, falling from US\$ 1,314 Million in H1 2010 to US\$ -479 in H1 2011, that is, a 136% decline. This comes following the combined effects of a sharp downturn in capital inflows and a rise in the trade deficit.

For the first time since the beginning of the year, the month of June witnessed a positive change in the capital inflows, increasing by 47.4% relative to June 2010. This expansion is probably the result of regained investor confidence following the formation of the government in June 2011. Overall, capital inflows in H1 2011 however, fell by 14.8% relative to the same period in 2010, reaching US\$ 6,631 Million.

The BoP also worsened following the year on year increase in the trade deficit of 9.9%, to reach US\$ 7,110 Million. This increase was the result of a rise in imports together with a fall in exports. Imports rose by 7.6% in H1 2011 relative to H1 2010, to reach US\$ 9,228 Million. The increase in the value of imports was due to inflationary pressures on the international price of commodities, such as food and oil, as well as a result of the decline in the value of the US\$ - to which the Lebanese Lira is pegged- with other currencies such as the Euro. In addition, the fact that imports of consumer goods grew by 15.4% indicates that the political disruptions did not have a major impact on aggregate consumption. However, imports of investment goods fell by 0.9%, which reflects uncertainty in investor sentiments.

Exports, on the other hand, rose by a meager 0.2% to reach US\$ 2,117 Million by the end of H1 2011. This decrease indicates a fall in the demand for Lebanese products abroad, mainly due to the regional turmoil affecting some countries in the Middle East and North Africa at present.



2c- Maritime Transport Services

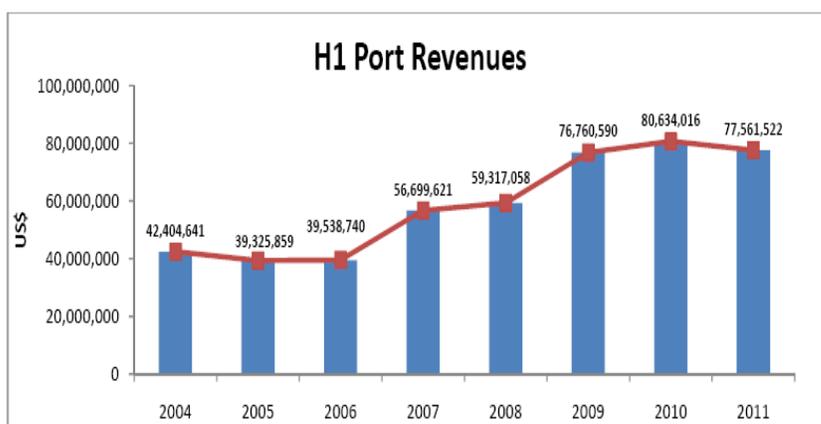
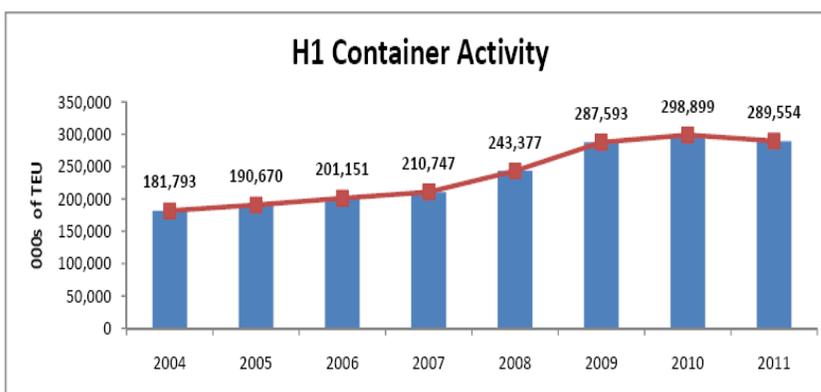
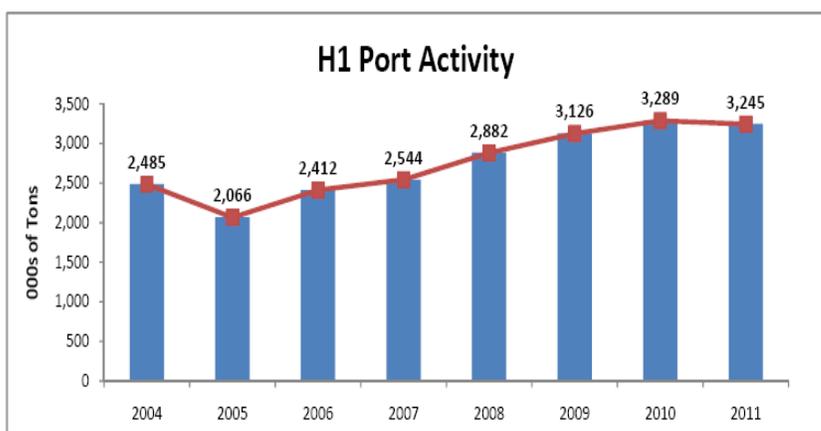
In terms of the main maritime transport services, port activity indicators at the Port of Beirut in H1 2011 reflect a slowdown in trading activity relative to those seen in the second quarter of the previous year. Figures representing the tons of goods (incoming and outgoing) transported, the total number of containers (loaded and unloaded) at the port and the amount of revenues generated by the Port of Beirut show that in each case, activity has decreased in H1 2011, most probably due to the regional turmoil that has led to a slowdown in trading activity.

Throughout H1 2011, port activity- measured in total tons of goods transported- fell by 1.3% relative to the same period in the previous year. The volume of containers quantified in TEU- a measure of capacity in container transportation otherwise known as Twenty Foot Equivalent Unit- also witnessed a decline of 3.1% in H1 2011 relative to the previous year. Similarly, the total amount of revenues generated by the port of Beirut also decreased in H1 2011 by 3.8%.

In addition to this, data obtained from Customs shows that the value of goods in transit reached US\$199 Million in H1 2011 relative to the US\$191 Million attained in H1 2010, that is, a 3.9% increase. The weight (in KGs) of the goods in transit also witnessed a 151% rise. An increase in both the value and volume of transit figures indicates a lower value per KG in transits at the port from US\$2.17/KG in H1 2010 to US\$0.89/KG in H1 2011.

The transport of goods will be evaluated more thoroughly in the next section. However, the main modes of transportation are analyzed at this point. In terms of imports of goods, the most widely used points of entry for the first half of each year into Lebanon since 2007 are the Port of Beirut and the Beirut Rafic Hariri International Airport, which averaged 64% and 19% respectively in the last 5 years. In terms of exports of goods, the most widely used points of entry for the first half of each year into Lebanon has shifted from being the Port of Beirut- which averaged 34% in the years 2007 and 2008 relative to the 23% average attained by the Beirut Rafic Hariri International Airport- to the Beirut Rafic Hariri International Airport- which averaged 41% since 2008 relative to the 29% average attained by the Port of Beirut for the same period. This shows the importance of both maritime and air transport to the Lebanese economy and that that investment in both sectors should continue to grow in order to continue expanding trade in goods.

BEIRUT PORT ACTIVITY



III- FISCAL Performance witnessed some improvements by the end of H1 2011 as a result of a year-on-year rise in government revenues relative to expenditures. Despite the fact that the public debt continues to rise in absolute terms and that there is a reported slowdown in Lebanon's rate of economic growth for 2011, the public debt has witnessed a decline in H1 2011, which is expected to maintain this falling trend in the Debt-to- GDP ratio.

<i>in Millions of LBP</i>	H1 2010	H1 2011	%
Total Revenues	6,546,574	7,186,017	10%
Total Expenditures	7,916,458	8,490,443	7%
Total Fiscal Deficit	-1,369,884	-1,304,426	-5%
Total Primary Surplus	1,651,778	1,706,267	3%
Budget Revenues	6,210,085	6,835,139	10%
<i>incl. Transfer of Telecom Surplus</i>	331,000	1,062,000	221%
Budget Expenditures	7,288,673	7,956,923	9%
<i>incl. Transfers to EdL</i>	849,000	1,031,000	21%
<i>incl. Personnel Costs</i>	2,402,000	2,743,000	14%
Budget Primary Surplus	1,943,074	1,888,909	-3%
Treasury Revenue	336,489	350,878	4%
Treasury Expenditures	627,785	533,520	-15%

H1 2011 relative to H1 2010:

VAT revenues fell by 0.8%.

Custom Revenues fell by

3a- Fiscal Deficit

Fiscal Deficit reached LBP 1,304 Billion in H1 2010, a fall of 5% relative to H1 2010. This improvement in the fiscal performance comes subsequent to a reverse in the trend, which began in H1 2010, following a period of deterioration. Since 2007, fiscal expenditures shot up following the rise in global commodity prices (which subsequently led to a rise in EdL transfers) and the increase in the salary and wages of civil servants.

In H1 2011, public finances improved following a significantly higher percentage increase in total revenues relative to total expenditures. **Total revenues** rose by 9.8% to reach LBP 7,186 Billion (US\$ 4,767 Million) in H1 2011 while **total expenditures** rose by a slighter 7.3%, to reach LBP 8,490 Billion (US\$ 5,632 Million) in the same period. This led to the ratio of total deficit to expenditures to fall slightly from 20.86% in H1 2010 to 20% in H1 2011.

The improvement in total revenues was largely due to the expected telecom transfer being accounted for by the Ministry of Finance in June 2011, although an actual transfer to the treasury accounts at BdL has not transpired. As a result, **non-tax revenues** improved by 84% in H1 2011 relative to H1 2010. **Tax revenues**, on the other hand, fell by 2.6% which led to an overall rise of 10.1% in budget revenues. **Tax revenues** saw a 3% year on year drop due to a decline in the following items:

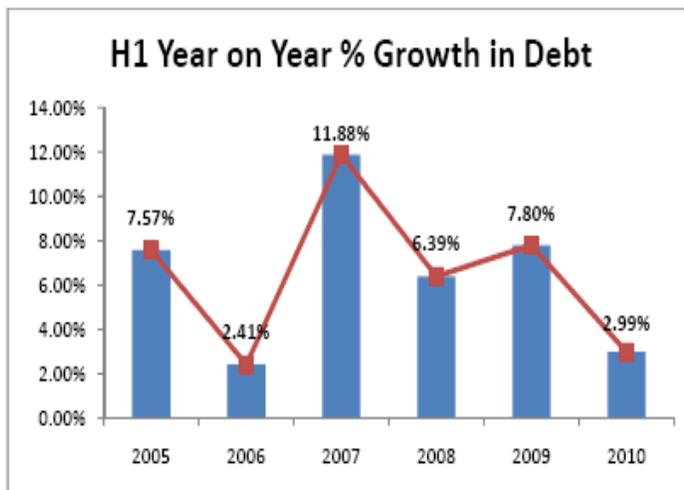
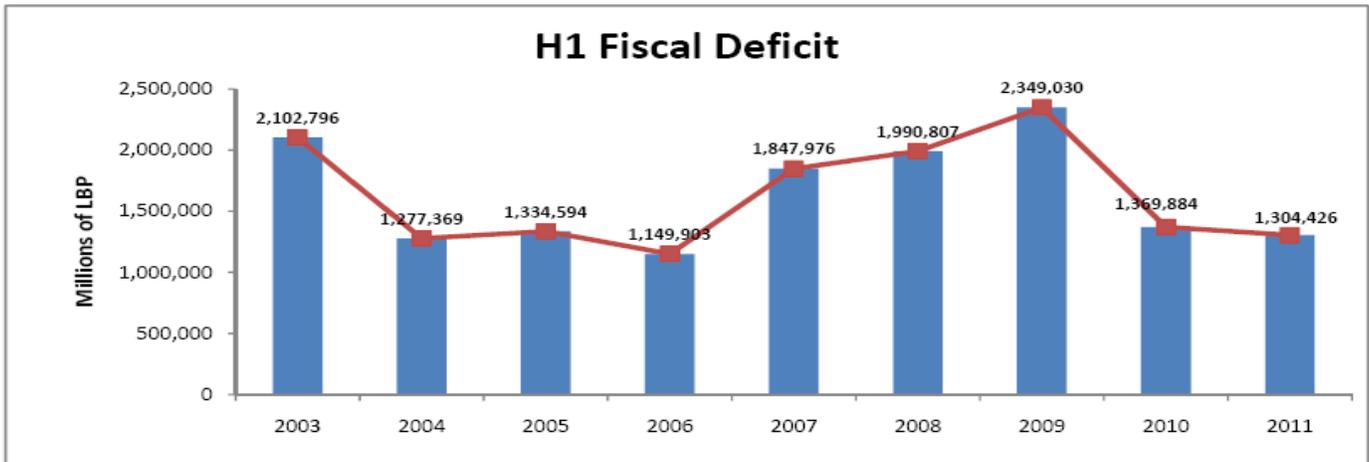
- A. **22% fall in taxes on International Trade**, which include custom duties (-4%), excise on gasoline (-43%) and cars (-27%). The former comes despite a rise in imports, which is explained by lower effective custom duties. The second comes as a result of the government's decision to reduce the price of gasoline by LBP5,000/ 20L while the latter is due to a slowdown in the car market.
- B. **3% fall in domestic taxes on goods and services** such as VAT(-1%), Passenger departure tax (-23%), which fell due to the reduction in the number of passengers passing through Rafic Hariri International Airport and car registration fees (-17%), due to the market plummet in the car industry.
- C. 5% fall in taxes on property.

The year on year **taxes on income, profits and capital gains** however improved by 18%, but could not make up for the losses on the items described above. **Treasury revenues** however, increased 4.3%.

On the **spending side**, the rise in total expenditures came as a result of an increase in budgetary spending, which was 9.2% greater than the figure obtained a year earlier. This rise was fuelled by the following items:

- A. 9% increase in current expenditures, which includes personnel costs (14%), foreign debt principal repayment (3%), transfers to EdL (22%) and transfers for the NSSF and wheat subsidy payments.
- B. 2% rise in capital expenditures, which includes infrastructure maintenance (66%) and acquisitions for construction projects (61%).

Interest payments however saw a 0.53% drop, as concessional loan interest payments and payments on Eurobond coupons dropped, while payments to various funds and public institutions fell by 3%. Similarly, treasury expenditures also dropped 15%.



<i>in Billions of LBP</i>	June 2010	June 2011	% Change
Gross Public Debt	76,910	79,208	2.99%
Gross Domestic Debt	45,439	47,955	5.54%
Central Bank Debt	10,573	15,975	51.09%
Commercial Bank Debt	27,396	24,067	-12.15%
T-Bills	7,470	7,913	5.93%
Gross Foreign Debt	31,471	31,211	-0.83%
Bilateral, Multilateral and Foreign Private Sector Loans	2,498	2,701	8.13%
Paris II Related Debt (Eurobonds and Loans)	4,416	3,856	-12.68%
Paris III Related Debt (Eurobonds and loans)	na	1,832	na
Market-Issued Eurobonds	21,764	22,357	2.72%
Accrued Interest on Eurobonds	449	432	-3.79%
Special T-bills in Foreign Currency	471	74	-84.29%
Public sector debt	10,368	10,448	0.77%
Net debt	66,542	68,580	3.06%
Gross Market Debt	51,561	48,294	-6.34%

3b-Gross Public Debt

Gross Public Debt continued to rise in absolute terms as it reached LBP 79,208 Billion (US\$ 52.5 Billion) by the end of H1 2011, a 3% rise relative to the level it had attained by the end of H1 2010.

The 3% increase in **Gross Public Debt** is primarily due to a 5.54% increase in **local domestic debt**, which grew by LBP 2,516 Billion (US\$ 1.66 Billion) over this period. Former expenditures were financed through an increase in borrowing, which was mainly carried out by the Central Bank in the form of REPOs and loans to EDL to finance fuel purchases as well as through the financing of T-Bills. These increased by 51% and 5.9% respectively by the end of June 2011 relative to the end of June 2010. Local Commercial Banks saw a 12.2% drop in financing. **Foreign currency debt**, on the other hand, fell by a meager 0.83% for the same period. In this context, Bilateral and Multilateral Debt rose by 8.1% whilst Paris II related loans shrunk by a respective 12.7% over this period. Market issued Eurobonds together with the interest accumulated on such bonds however saw a 2.7% rise and a 1.6% fall respectively over the similar period. Taking account of the 0.77% increase in **public sector deposits** for the same period, the **Net Public Debt** becomes LBP 68,580 Billion (US\$ 45.5 Billion).

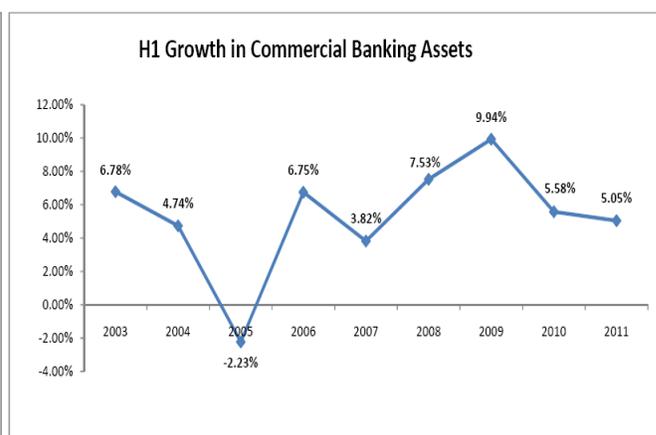
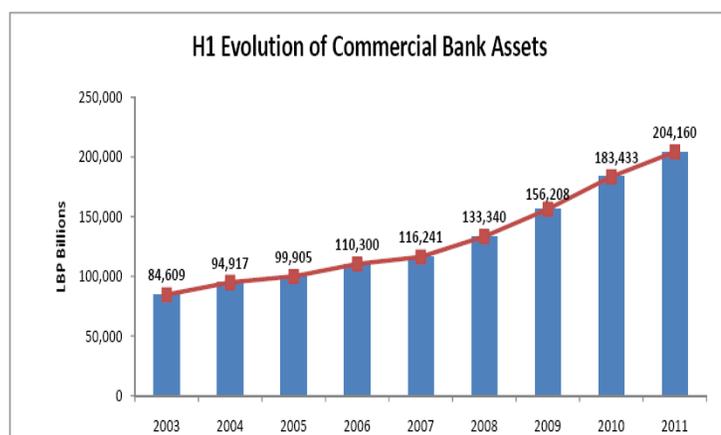
Despite its deterioration in absolute terms, it is important to recognize that by June 2011, the growth in the public debt saw a fall of LBP 87 Billion (US\$ 58 Million) since the beginning of the year relative to a fall of LBP 114 Billion (US\$ 76 Million) attained in the same period in 2010. Together with the fact that we use the most recent IMF 2011 forecast of 2.5% since 2011 Official National Account forecasts for Nominal GDP and GDP growth rates are still unavailable, the Debt-to-GDP Ratio consequently continues to fall from 134% by the end of 2010 to an expected 132% for the end of 2011.

2003	2004	2005	2006	2007	2008	2009	2010	Exp 2011
168%	167%	176%	180%	168%	156%	146%	134%	132%

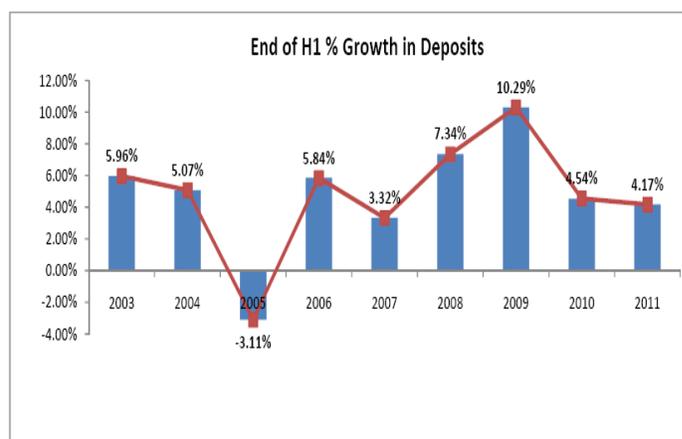
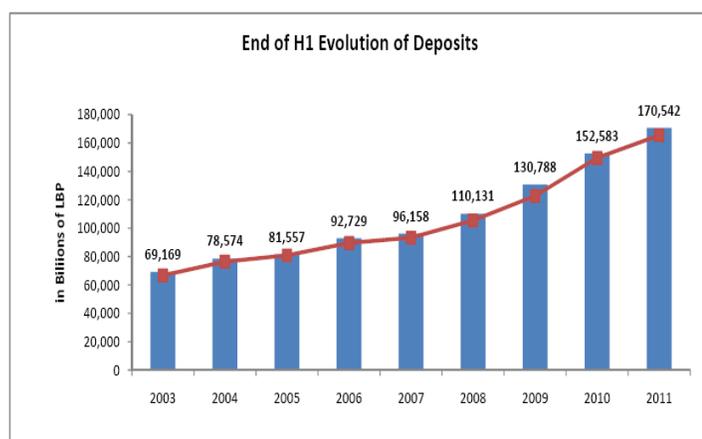
IV- The Financial Sector witnessed a slowdown in its performance during the second half of 2011, albeit continued growth in the last year. Banking and Financial indicators such as **Commercial Bank Assets**, **Liquidity**- as shown via the inflow in **Deposits**- and the **Money Supply** clearly demonstrate this trend, as growth rates fell despite a positive evolution in absolute numbers. The Beirut stock exchange also saw a slowdown by the end of H1 2011.

4a- Banking and Financial Institutions

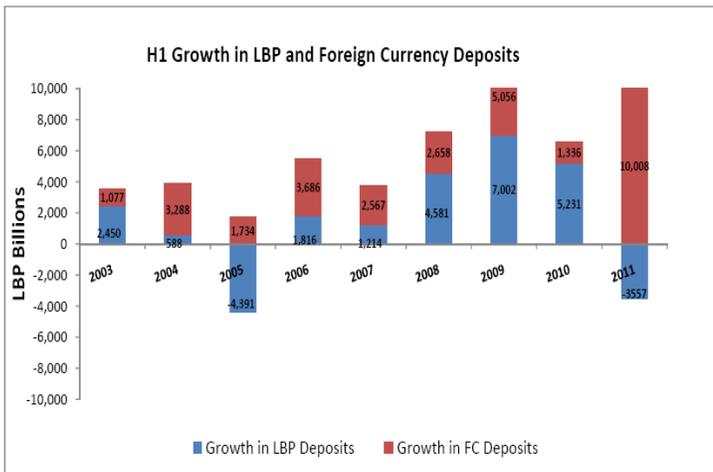
Commercial bank assets continued to grow in H1 2011, reaching LBP 204,160 Billion (US\$ 135.4 Billion) by the end of the period, indicating a year on year growth rate of 1.2%. In H1 2011, commercial banks assets increased by LBP 9,805 Billion (US\$ 6.5 Billion) relative to the LBP 9,693 Billion (US\$ 6.4 Billion) attained in the same period a year earlier. That is, commercial banks witnessed a slowdown in growth in H1 2011 relative to the same period in 2010, as assets grew by 5.05% in the former relative to the 5.58% reached in the latter period.



The evolution in **Customer deposits** continued to move in an upward direction, increasing by 12% year on year to reach LBP 170,542 Billion (US\$ 113.2 Billion) by the end of H1 2011. Similarly however, H1 deposits witnessed a slowdown in growth following a 4.17% increase in H1 2011 relative to the 4.54% increase attained in H1 2010. In the presence of the regional tensions, Lebanese banks could not attract deposits at similar rates of the previous years, which mostly took the direction of European markets, or even UAE and Qatar in the Arab world, which did not experience a revolution.



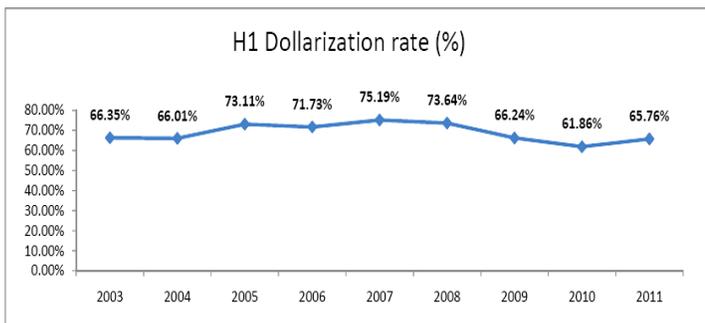
Absolute growth in Bank Deposits was mainly in Lebanese Deposits, as they grew by 15.8% relative to that seen by Foreign Currency Deposits, which only grew by 9.8%. Foreign Currency Deposits however, remain the lion share of bank deposits, totaling 62.5% of Total Deposits whereas Lebanese Deposits make up 37.5% of Deposits.



Lebanese Pound deposits witnessed a fall in their growth relative to the increase observed in **Foreign Currency Deposits** growth over the H1 2011 period relative to H1 2010. As the graph aside shows, the former fell by LBP 8,788 Billion (US\$ 5.83 Billion), or 168%, while the latter rose by LBP 8,672 Billion (US\$ 5.75 Billion), or 649%, in H1 2011 relative to the same period in the previous year. The reduction in the growth of Lebanese pound deposits relative to the increase in the growth of FC deposits came about following considerable LBP-FC conversions during H1 2011 on the back of an increase in political discords.

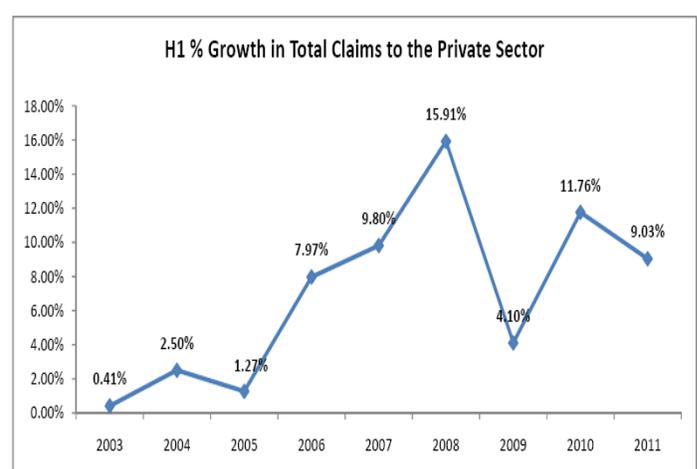
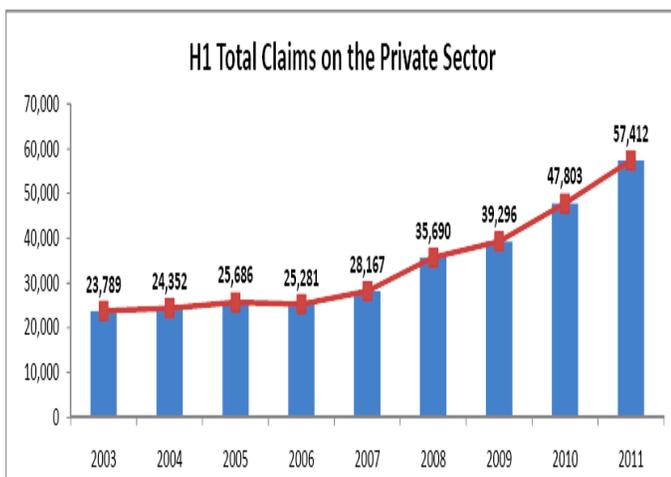
Type of Deposit	H1 2011 Growth	H1 2010 Growth
Resident Private	3.22%	5.31%
Non-Resident Private	7.68%	0.94%
Public	22.56%	3.72%

Furthermore, over the same period in 2011, the **Public sector** was the category with the greatest percentage increase in deposits (22.56%), followed by the **Non-resident private sector** deposits (7.68%) and the **resident private sector** deposits (3.22%).

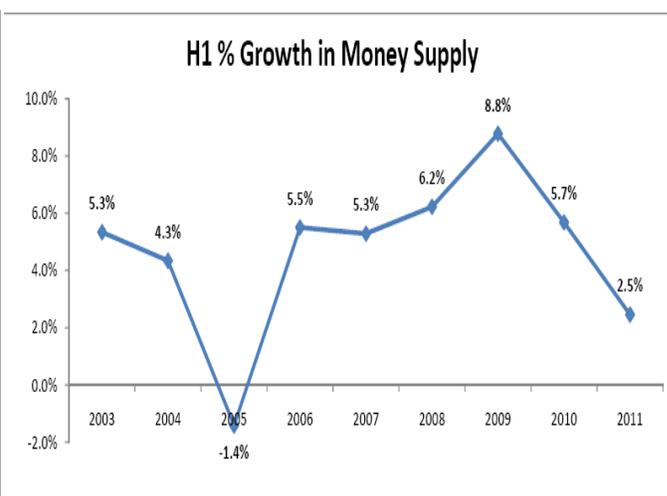
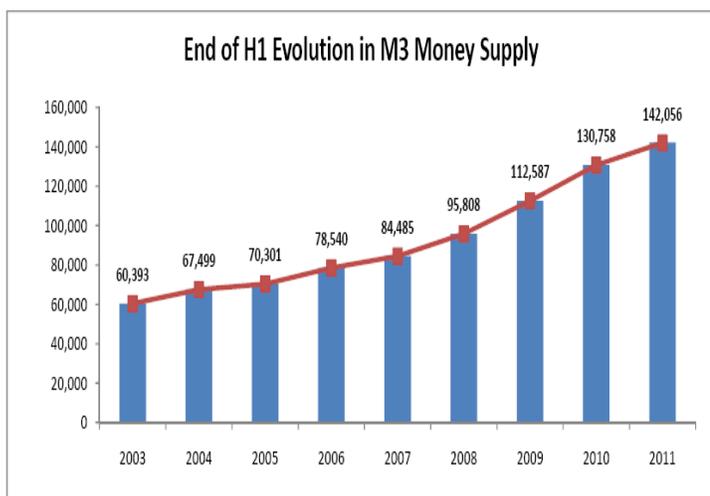


This fall in the growth of LBP deposits relative to the growth of FC deposits in H1 2011 has consequently led to a rise in dollarization rates in the Lebanese Banking system. According to the total deposits and deposits in LBP obtained from the central bank, **dollarization rates** have recorded a high level reaching 65.76% by the end of H1 2011.

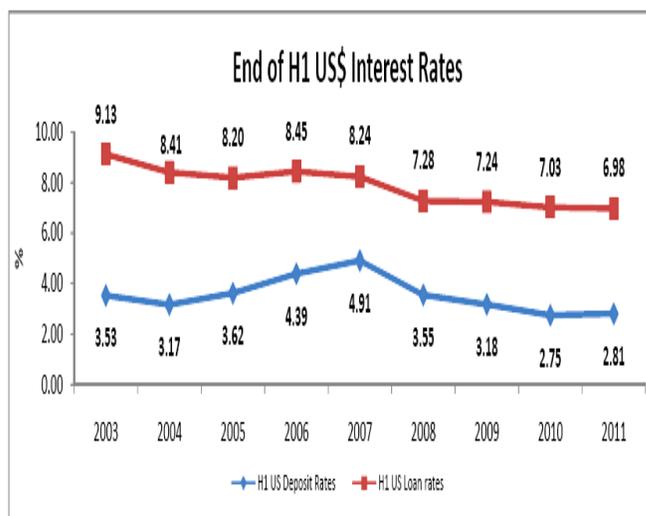
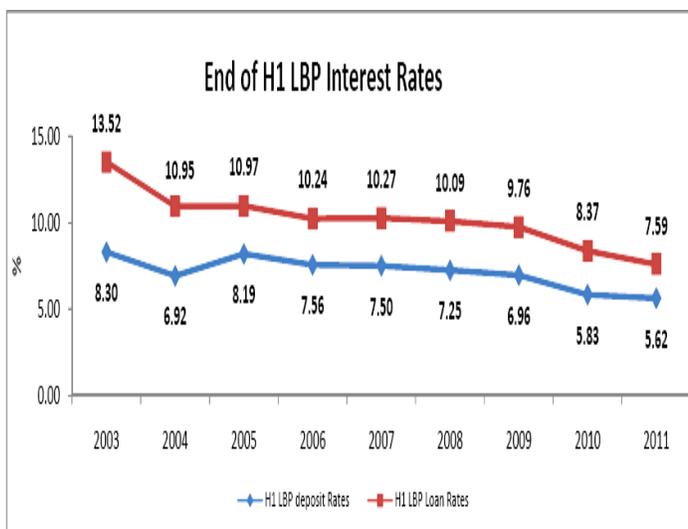
Regarding the uses side of the consolidated balance sheet, data compiled by the Association of Banks in Lebanon shows that over H1 2011, **Claims (lending) to the private sector** reached LBP 57,412 Billion (US\$ 38.1 Billion), representing a year on year rise of 20.1%. Growth in total claims by H1 2011 reached LBP 4,756 Billion (US\$ 3.15 Billion) compared to LBP 5,029 Billion (US\$ 3.34 Billion) attained over the same period in H1 2010, that is, a YTD increase of 9.03%.



The stock of money and quasi money (M3) grew to reach LBP 142,056 Billion (US\$ 94.2 Billion) by the end of H1 2011. However, growth in M3 attained LBP 3,146 Million (US\$ 2,086 Million) in H1 2011, a rise of 2.5% when compared to H1 2010. This fall in the growth rates in M3 is the result of a contraction in the following components: a) the growth of net foreign assets (excluding gold), b) net claims of the public sector and c) net bank lending to the private sector relative to H1 2010.



Interest rates continued to follow the downward trend on both LBP denominated and USD denominated deposits. In H1 2011, LBP Deposit rates decreased to 5.62% from the 5.83% observed in H1 2010 while US Deposit rates increased to 2.81% from the 2.75% observed in the same period last year for the first time since H1 2007. Interest rates on LBP denominated loans by the end of H1 2011 fell to 7.59% from the 8.37% observed in the same period a year earlier. Similarly, interest rates on USD denominated loans decreased from 7.03% to 6.98%.



Furthermore, interest rates on LBP instruments remained the same by the end of H1 2011 on both 45 and 60 day certificates of deposits issued by BdL. Interest rates on 45 Day and 60 Day certificated remained unchanged at 3.57% and 3.85% respectively. The yields on T-Bills were further cut by the end of H1 2011 to the following rates: 3.93% for three month bills, 4.5% for six month bills, 4.81% for one year bills, 5.41% for two year bills and 6.03% for three year bills. As the table on page 13 shows, interest rates have fallen consistently year after year since the beginning of the decade for Certificates of Deposits and Treasury Bills.

	H1 T-Bills						
	H1 45 day CD	H1 60 day CD	3 Months	6 Months	12 Months	24 months	36 months
2003	5.00	5.50	6.96	8.18	9.13	9.41	-
2004	4.40	4.89	5.29	6.40	6.76	7.95	8.85
2005	4.40	4.89	5.22	7.24	7.75	8.68	9.56
2006	4.40	4.89	5.22	7.24	7.75	8.68	9.54
2007	4.40	4.89	5.22	7.24	7.75	8.68	9.54
2008	4.40	4.89	5.22	7.24	7.75	8.68	9.54
2009	4.40	4.89	5.07	6.96	7.27	8.12	9.04
2010	3.57	3.85	4.44	5.50	5.58	6.13	6.98
2011	3.57	3.85	3.93	4.50	4.81	5.41	6.03

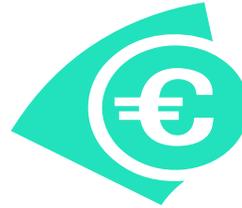
The **total value of checks cleared** in the banking system, an indicator of overall spending patterns in the economy, increased to USD 34,748 Million (LBP and FC combined) in H1 2011, from the USD 34,023 Million observed in H1 2010- an increase of 2.13%. The number of checks cleared witnessed a 6% decrease to 6.35 million from the 6.75 Million attained in H1 2010. This has consequently led to a 8.6% increase in the average value of cleared checks in H1 2011.

	H1 Value of cleared checks	H1 Number of cleared checks	Average Value of Cleared Checks (\$)
2006	17,695,554,218	4,609,353	3,839
2007	17,742,445,305	5,263,160	3,371
2008	24,427,323,538	5,481,061	4,457
2009	25,183,133,997	5,852,963	4,303
2010	34,022,942,200	6,756,205	5,036
2011	34,748,034,108	6,353,437	5,469

4b- Beirut Stock Exchange

The performance of the Beirut Stock Exchange (BSE) is measured by looking at its market capitalization. This measures the dollar value of this entity by accounting for the value and volume of the stocks listed. The local political stalemate and regional political turmoil has put downward pressure on the BSE's equity prices. The BSE market capitalization by June 2011 was consequently down 10.03%, reaching US\$ 11,247 Million relative to the US\$ 12,501 Million attained a year earlier. This indicates slower rates of activity and hence, economic growth.





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

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SOURCES:

- **Growth rates:** Estimates based on figures from Various Sources:
 1. IMF : "Regional Economic Outlook"- April 2011.
 2. World Bank: Global Economic Prospects- Middle East and North Africa, June 2011
 3. Economic Intelligence Unit: Audi Bank LWM 24 2011
 4. International Institute of Finance: BLOM Brief II 04-09 July 2011
 5. EFG Hermes: Audi Bank LWM 22 2011
 6. HSBC: Audi Bank LWM 28 2011
 7. Standard Chartered Bank: Audi Bank LWM 22 2011
 8. Barclays Capital: Byblos Bank LTW 208 2011

Economic Highlights:

- **Real Sector**
 - **Area of Construction Permits and Number of Transactions:** Order of Architects and Engineers of Beirut and Tripoli: <http://ordre04.oeanet.org> and www.mouhandess.org.lb
 - **Cement Deliveries:** Banque du Liban: <http://www.bdl.gov.lb/edata/elements.asp?Table=t51-12>
 - **Real estate sales, value of sales and number of properties:** Directorate of Real Estate- Ministry of Finance

- **Inflation:** Estimates based on figures from June 2011
 - The Central Administration for Statistics: www.cas.gov.lb

- **Airport Activity:**
 - Banque du Liban: <http://www.bdl.gov.lb/edata/subseries.asp?SIID=1>
 - Rafic Hariri International Airport statistics

- **Tourism**
 - ⇒ Ministry of Tourism
 - ⇒ Ernst and Young: Audi Bank LWM 32 2011
 - Global Blue Lebanon S.A.L- Insight into Tourism Spending June 2011 YTD

- **External Sector**
 - ⇒ Trade: <http://www.finance.gov.lb/en-US/finance/EconomicDataStatistics/Pages/TradeStatistics.aspx>
 - ⇒ Balance of Payments: <http://www.bdl.gov.lb/edata/elements.asp?Table=t54-2>
 - ⇒ Capital Inflows: Ministry of Economy and Trade DataFile Computations
 - ⇒ Port of Beirut: <http://www.portdebeyrouth.com/stat.htm>
 - ⇒ Custom Entry- Exit Points: <http://www.customs.gov.lb/customs/index.htm>

- **Fiscal Sector**
 - June 2011 YoY Fiscal Performance— <http://www.finance.gov.lb/en-US/finance/EconomicDataStatistics/Pages/FiscalPerformance.aspx>

- June 2011 YoY Public Debt- <http://www.finance.gov.lb/en-US/finance/ReportsPublications/DocumentsAndReportsIssuedByMOF/Pages/PublicFinanceReports.aspx>
- **Monetary and Banking sector**
 - **Monetary survey:** BDL: http://www.bdl.gov.lb/edata/elements.asp?Table=q_BDL_SID2
 - **Commercial Bank Assets:** BDL: http://www.bdl.gov.lb/edata/elements.asp?Table=q_BDLa_SID4
 - **Commercial Bank Deposits- by type of deposit:** BDL: <http://www.bdl.gov.lb/edata/subseries.asp?SIID=4>
 - **Commercial Bank Deposits- by currency of deposit:** BDL: <http://www.bdl.gov.lb/edata/subseries.asp?SIID=6>
 - **Claims on private sector:** BDL: <http://www.bdl.gov.lb/edata/subseries.asp?SIID=4>
ABL: <http://www.abl.org.lb/Library/Files/Files/Economic%20Letter%20December%202009.pdf>
 - **Interest Rates:** BDL: <http://www.bdl.gov.lb/edata/subseries.asp?SIID=7>
 - **Cleared Checks:** BDL: <http://www.bdl.gov.lb/edata/subseries.asp?SIID=1>
 - Dollarization rates: Ministry of Economy and Trade DataFile Computations
 - Beirut Stock Exchange June 2011 Monthly Bulletin—<http://www.bse.com.lb/Market/HistoricalData/MonthlyBulletins/tabid/151/Default.aspx>