

Ministry Highlights

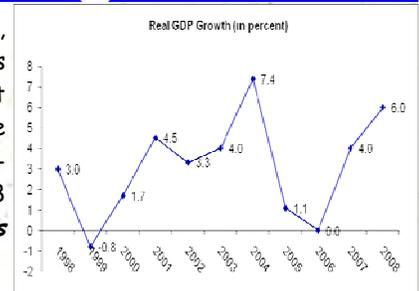
The Ministry of Economy and Trade has undertaken a number of initiatives throughout 2008 in order to boost the Lebanese economy, enhance consumer protection, encourage job creation and to meet its commitments under international agreements. These initiatives include:

1. Enacting laws that aim to encourage investment, improve the business environment and promote intellectual property.
2. Undertaking several measures towards ensuring food safety and combating inflation
3. Providing technical assistance to small businesses.



Economic Highlights

1. Despite 2008 being a turbulent year for the global economy, Lebanon fared comparatively well. While many economies were faced with frozen credit markets, stock market crashes and a sequence of insolvencies that threatened the entire international financial system, resulting in global economic growth rates to fall from 5% in 2007 to 3.7% in 2008 and a forecasted 2.2% in 2009, **Lebanon's economy has grown from an estimated 4% in 2007 to 6% in 2008**.



2. In terms of the real sector, there was a **77.8% year on year increase in construction permits** approved to contractors and a **21.8 % rise in property sales** by December 2008. **Yearly inflation was estimated at around 6%**, mainly driven by the rise in food and beverage prices. **Tourism saw a year on year jump of 31% for 2008**.
3. The US\$16.37 Billion amount of capital flowing into the country was able to cover the ever-growing Trade deficit, which reached US\$12.65 Billion in 2008. This allowed the **Balance of Payments to hit a huge surplus of US\$3.5 Billion by the end of the year** compared with a surplus of US\$2.03 Billion in 2007.
4. **The Fiscal Deficit rose by 14.7% to reach LBP 4.4 Trillion in 2008**. The yearly percentage increase in revenues was higher than that of expenditures, resulting in a **lower cumulative deficit to spending ratio in 2008 compared to 2007**.
5. **Gross Public Debt reaches LBP70.874 Billion (US\$47 Billion)** by the end of 2008, having increased by 11.9% since December 2007. It is estimated at around **179% of GDP**.
6. In terms of the World Bank's **Ease of Doing Business rankings**, Lebanon was positioned at #10 (out of 19) in MENA and #99 (out of 181) in the world for the period between April 2007 and April 2008. This compares to a ranking of #7 (out of 17) and #85 (out of 178) respectively between April 2006 and April 2007. In terms of **Starting a Business**, Lebanon was ranked at #11 (out of 19) in MENA and #98 (out of 181) in the world between April 2007 and April 2008. This compares to a ranking of #10 (out of 17) in MENA and #132 (out of 178) in the world a year earlier.



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MINISTRY HIGHLIGHTS

1. The Ministry of Economy and Trade (MoET) is responsible for the planning, coordination and implementation of all economic matters and national stockpiling needs in Lebanon. It aims to monitor developments and formulate national policies to enhance and facilitate trade, resolve stockpiling needs, protect the Lebanese consumer and create new jobs all the while, ensuring economic balance through planning, coordination and implementation. The following initiatives took place in 2008:

i. The cancellation of customs duties imposed on some basic foodstuffs. Many necessities saw a reduction in tariffs from 5% to 0%, namely cooking oils (corn, sunflower, coconut, soya, palm and sesame oils), sardines, tinned tuna, beef and chicken, refrigerated and frozen beef, spaghetti, tea, rice, dairy spreads, powdered milk and sugar.

ii. Setting the price of whole and cut out fresh chicken as follows:

- LP 4,800- Whole Chicken (cleaned but with bones)
- LP 4,500- Chicken Drums (with or without skin)
- LP 6,000- Chicken Breast (without backbone or skin)
- LP 10,000- Chicken Breast (without bones or skin)

iii. Strengthening the practice of consumer protection: The frequency of inspections in shops was increased. It is worth mentioning that examinations are underway to recruit additional 100 inspectors. Also, the Food Safety Law to create the Food Safety Agency was enacted. This is in the hope to ensure food products and standards are being met for domestic and export markets.

iv. Supporting innovative economic projects funded by the European Union such as:

A- Small and Medium-sized Enterprises project (SMEs)

The program has established the basis for numerous activities that can help Lebanese competitiveness and the SME unit is presently coordinating the activities of the three components of the program:

1) It has recommended the establishment of a competitiveness council and has conducted studies evaluating the country's competitiveness.

2) The Kalafat co-guarantee fund can be further expanded at no cost to the program in order to cover more SMEs in the productive sectors.

3) Entrepreneurship and start up programs need to be implemented through the Business Development Centers (BDCs) in order to assist in the creation of world class enterprises in the country.

B- The Quality project

The project is aimed at strengthening quality infrastructure, management and capabilities in Lebanon. The major achievements made in the project in 2008 were:

1) Development and modernization of a quality related legal framework.

2) Certification of 38 Lebanese companies (manufactures and services, including 2 public sector institutions) according to ISO 9001:2000 (Quality Management System) and ISO 22000:2000 (Food Safety Management Systems).

3) Support of 16 private and public sector laboratories in terms of equipment, training and consultancy, for international accreditation purposes (2 laboratories have already been accredited by internationally recognized accreditation bodies and 3 others have applied for accreditation).

4) Design and development of the Lebanese Excellence Award and a National Quality Management Model.

5) Publication of several issues of the *Quality Info* Newsletter and quality related ABC Guides (metrology, food labeling and packaging, accreditation, standardization, certification & inspection, EU new and global approach, conformity assessment).

6) Delivery to public and private sector representatives of intensive series of quality related seminars and training modules.

v. **The revitalization of Lebanon's foreign trade** through bilateral and free trade agreements concluded with the European Union and Arab States aimed towards accession to the WTO as well as **formulating technical assistance agreements** with the European Union and the Arab countries. Examples include:

Lebanon - Turkey

The fifth round of the Association Agreement negotiations between the Republic of Lebanon and the Republic of Turkey was held in Beirut on 12-13 January 2009. These negotiations aimed at establishing an Association Agreement between the two countries. The delegations exchanged information on national economy and foreign trade development and evaluated the current Bilateral Trade flow between Lebanon and Turkey. The delegations also exchanged information on Investments and Joint ventures.

Lebanon - Iran

The technical committee meeting between the Republic of Lebanon and the Islamic Republic of Iran was held in Beirut on 10 - 12 February in preparation for the Economic committee meeting on the Ministerial Level. During the meeting, both delegations presented their views on how to enhance the Bilateral trade flow between the two countries. The Lebanese side presented two Memorandum of understandings on Organizing Exhibitions and Consumer protection to be signed in the Sixth Economic Committee meeting that will be held in Beirut on March 10-12/2009. Ministry of Health and Ministry of Energy also presented Memorandums of understanding to enhance cooperation in these two sectors between the two governments. The Iranian delegation proposed offers to the Lebanese banking sector to better enhance cooperation in this area as well as a Draft Agreement on Cultural and Educational Issues. The Sixth Economic Committee will also discuss in its upcoming meetings the Draft Agreement on establishing a Free Trade Agreement between the two countries.

Lebanon - Qatar

The Qatari Minister of Business and Trade H.E. Sheikh Fahed Bin Jassem Al Thani visited Beirut on January 28 - 30/ 2009 in a Business Travel in-order to establish and study the areas of Investment to be promoted to the Qatari investors and Business Men. The Qatari Minister held many private meetings with Minister of Economy and Trade and Minister of Telecommunication and Minister of Energy, in addition to his visits to the Prime Minister and the President of the Council for Development and Reconstruction.

vi. **On a final note, a plan to support small and medium-sized enterprises through the design of a number of incentive packages in cooperation with the Central Bank** will be announced in 2009 by the Lebanese government following an expected return of a significant number of Lebanese workers from abroad as a result of the effects of the global financial crisis on the economies of the Arab World.

2. The engagement of MoET within the Paris-III framework has also allowed MoET to focus on implementing structural reform policies, mostly through the preparation of key laws and amendments for approval by the relevant governmental bodies. Through this initiative, a number of programs throughout the year have been authorized and implemented. The programs appear under three initiatives:

- i. To encourage investment
- ii. To enact laws that aim to improve the business environment
- iii. To Strengthen the Commercial Legal Environment
- iv. To promote intellectual property rights

Aims	Implementation of Paris III Reform Program: 2008 Progress	New initiatives added in 2008
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1. Streamlining Business Registration

This effort has included close cooperation with LibanPost, in order to gain outreach, via the distribution of brochures, as well as announcements through print and media broadcasts. It has also made way for the reduction in the time needed to start a business from 46 days to 11 days.

1. Proposals for amending the Commercial Law concerning business registration and investor protection are now under consideration for enactment into law.

2. Establishing Business Development centers (BDCs)

**Encourage
Investment**

Aim to support SMEs in their development by providing training workshops and technical assistance. BDCs were able to benefit from loan guarantees made available under the Kalafat Plus and Innovative Schemes, which have enabled Lebanese Banks to issue loans to existing and start up businesses and helped generate 4500 new jobs. The SME unit was actively involved in building the management program delivery capacities of both the SME unit and the BDCs, as well as laying the foundations of a national BDC association.

Aims	Implementation of Paris III Reform Program: 2008 Progress		New initiatives added in 2008
Improve the Business Environment	<p><u>1. Implementing Decree for the Law of protection of National Production</u></p> <p>Led to the official creation of the Trade Remedies Investigative Body (TRIB), which will work with the Trade Remedies Investigative Authority (TRIA) in evaluating petitions for protection in compliance with international standards. In other words, it aims to help defend Lebanon's industry and agriculture sectors from injurious trade practices, particularly in situations of dumping, subsidy and a sudden unexpected increase in imports.</p> <p><u>2. Information Technology Law</u></p> <p>This was submitted to parliamentary joint committees and now sits with a subsidiary joint committee for review.</p>	<p><u>1. Trade integration needs assessment</u></p> <p>Identify constraints facing Lebanon's integration into the world trade system and propose a strategy that is mindful of poverty alleviation and environmental stability.</p> <p><i>(Start: QIV 2008. Exp End: QI 2009)</i></p> <p><u>2. Digitization and Automation of Public Application Processes.</u></p> <p><i>(Start: QIII 2008. Exp End: QIV 2009)</i></p>	
Strengthen the Commercial Legal Environment for Investment	<p>At the end of 2008, parliament began considering amendments to corporate governance regulations concerning double voting rights for older shares, actions de garanties, nationality requirements for board membership, and time limits for mergers and acquisitions.</p>		

Aims	Implementation of Paris III Reform Program: 2008 Progress	New Initiatives added in 2008
Promote and Strengthen Intellectual Property	<p><u>1. Promote national awareness of Intellectual Property (IP) concepts and laws</u></p> <p>This was achieved through:</p> <p>A. Recruitment of specialized staff to promote understanding and national awareness of the Geographical Indication regime- the draft law which is currently under consideration in parliament.</p> <p>B. Engaging a variety of audiences, including government agencies, representatives of the World Intellectual Property Organization (WIPO) and the international community, private sector syndicates and trade groups including the legal, artistic and academic communities.</p> <p>C. Focusing on youth awareness by organizing a series of university and school lectures as well as a summer internship program in collaboration with the Lebanese Youth Shadow government, in which around 100 students participated.</p> <p>D. Launching a communication campaign through the print and broadcast media, including billboard advertisements.</p>	<p><u>1. Harmonization and strengthening of the border IPR verification measures.</u></p> <p>A. To ensure consistency amongst national border IPR verification regulations and their compliance with international standards.</p> <p>B. To establish a bridge with Lebanese Customs through an online database of IP registration for screening of counterfeited shipments.</p> <p><i>(Start: QII 2008. Exp End: Q2 2009)</i></p>
	<p><u>2. The IPPO expanded efforts to strengthen IP protection and enforcement measures to cover Lebanese ports of entry.</u></p> <p>In close cooperation with Lebanese customs, a shared and automated database is being created to facilitate faster and more accurate verification. The IPPO benefited from an expert mission, funded by the US agency for International Development (USAID), that produced detailed recommendations on harmonizing existing and proposed IP laws with each other, and on these laws' compliance with border measure provisions of the World Trade Organization's Intellectual Property (TRIPS) agreement.</p>	<p><u>2. Adherence to international IP treaties</u></p> <p>Prepare national legislation for adherence to the Madrid agreement on international registration of marks; the WIPO copyright treaty (WCT); and WIPO performances and Phonographs Treaty (WPPT).</p> <p><i>(Start: QIV 2007. Exp End: QII 2009)</i></p> <p><u>3. Increase Public Access to IP information</u></p> <p>Make publicly available applications.</p> <p><i>(Start: QI 2009. Exp End: QIV 2009)</i></p>

ECONOMIC HIGHLIGHTS

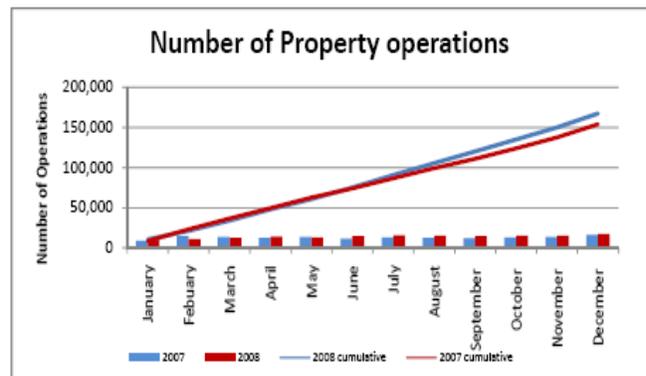
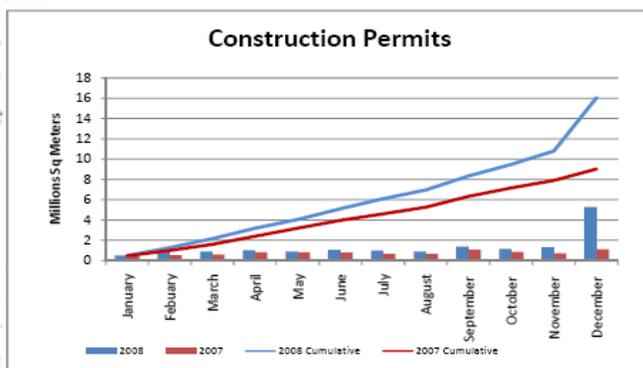
1. Real Sector

1. Real Estate and Construction

The Real Estate Sector in Lebanon did very well compared to the in the rest of the world. Contractors have kept expanding the number of real estate projects in 2008 despite the political tensions witnessed in May 2008 as well as the spiraling global economic downturn towards the third quarter of the year. This comes to show that the tough stance that the central bank has taken against cheap credit, lax regulation and low interest rates has prevented a direct and negative trickle down effect on the real estate market. But mainly, it was the Doha agreement in May 2008 that boosted the confidence of Arab Gulf investors and non-resident Lebanese to invest in the sector, and in turn, raising demand and therefore, the price ceiling of real estate.

	2006	2007	2008	% change 07/08
Construction Permits (sq meters)	8,692,834	9,037,609	16,067,786	+77.8%
Cement Deliveries (Tons)	3,422,927	3,944,945	4,219,257	+7%
Real Estate Sales Value (Millions of LBP)	4,726,757	6,329,038	9,770,233	+54.4%
Nbr Sales Operations	127,016	154,158	167,514	+8.6%
Nbr of Properties contracted	227,559	246,791	267,358	+8.3%

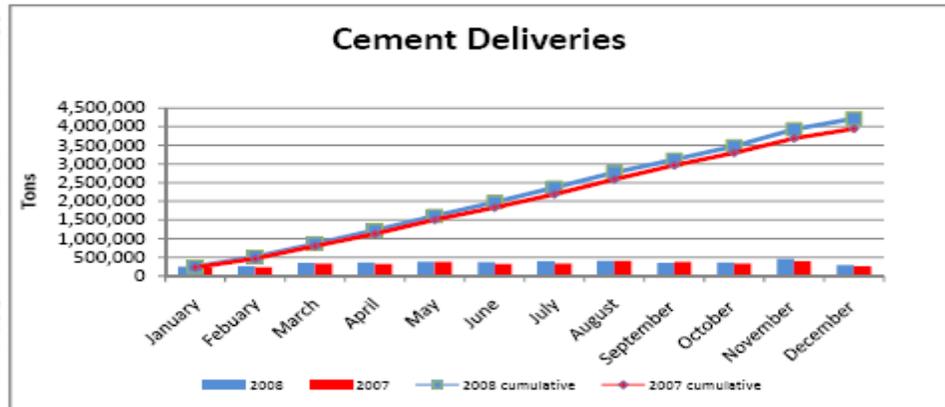
By December 2008, there was a 77.8% increase in the **Sq meters of construction permits** approved to contractors compared to the full 2007 year, therefore totaling 16.1 Million Sq meters - compared to the 9.04 Million sq meters observed in 2007. Similarly, the total value of real estate sales was 54.4% higher in 2008.



Tons of cement deliveries, an indicator of building activity, also managed to outperform the levels attained in 2007, which again shows the improvements in the construction sector and in the overall real sector.

Furthermore, the increase in the number of cement deliveries comes despite a rise in the price of cement throughout 2008, resulting from a combination in a rise in oil prices and possibly, smuggling to Syria. Illegal smuggling may have played a role in pushing up the price of cement by reducing the amount available on the local market.

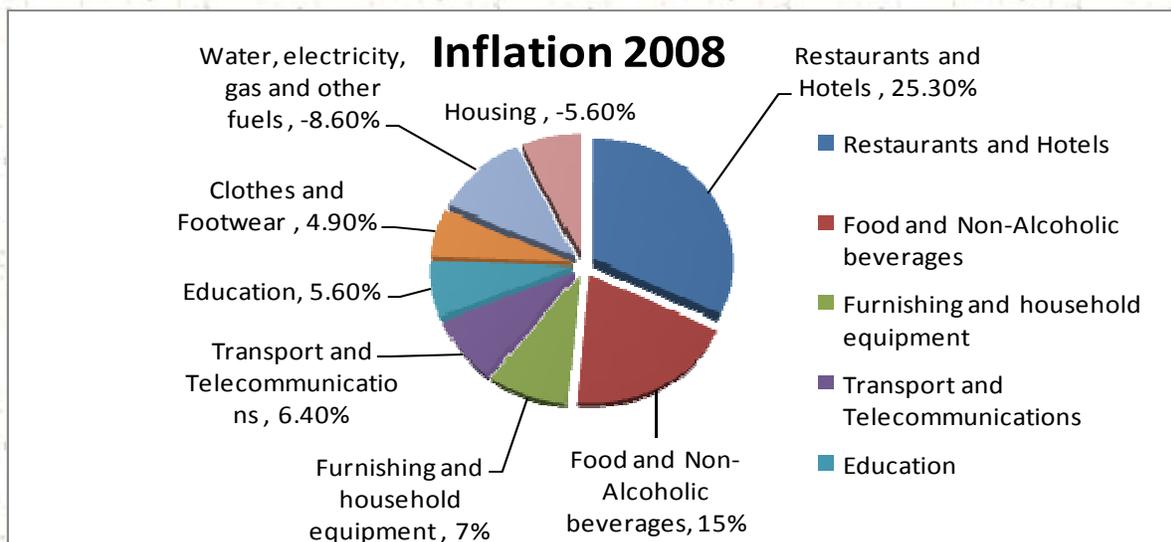
Date	Change	Cement Price
1/1/2006		US\$68
28/3/2006		US\$75
1/9/2006		US\$65
16/4/2007		US\$70
1/9/2007		US\$75
25/2/2008		US\$83
23/6/2008		US\$88



2. Inflation

Inflation rose by around 6% in 2008 according to estimation made by the Central Administration of Statistics (CAS) and the Consultation and Research Institute (CRI).

The biggest rise in prices was seen in the restaurant and hotel sector, with an increase of 25.3%, followed by food and non-alcoholic beverages, at around 15%. Next came furnishing and household equipment and transport and telecommunications with 7% and 6.4% respectively, In addition, Education and clothing and footwear displayed a 5.6% and 4.9% increase in prices over the year. On the other hand, health costs remained stable throughout 2008 while water, electricity, gas and other fuels as well as housing fell by 8.6% and 5.6% respectively.



3. Services and Transport

2008 saw a boom in trade and services, especially following the political reconciliations carried out in May. Trade and services, especially the hospitality and tourism sectors, which are particularly vulnerable to the state of the political and security arenas, all saw great improvements.

The tourism sector in 2008 witnessed a strong bounce back to pre 2006 war levels, even surpassing the recorded highs of 2004 since the 15 year civil war. A number of indicators show this outstanding performance in the tourism sector, namely number of tourists, number of airport passengers as well as the year to date evolution of tourist spending figures. Similarly, Beirut Port Activity in terms of tons of goods coming in and out and total revenues have seen an improvement compared to the previous year.

As the table below shows, all indicators have shown an improvement in their figures for 2008 compared to 2007 and even, for previous years.

	2007	2008	%
No of Tourists	1,017,072	1,332,551	+31%
Arrival (BIA)	1,677,324	2,025,547	+20.8%
Departure (BIA)	1,649,109	2,014,013	+22.1%
Transit (BIA)	82,401	45,774	-44.5%
Total Passengers (BIA)	3,515,189	4,085,334	+16.1%
Year on Year Total Tourist Spending	17%**	56%***	+39%
		** relative to 2006	***relative to 2007

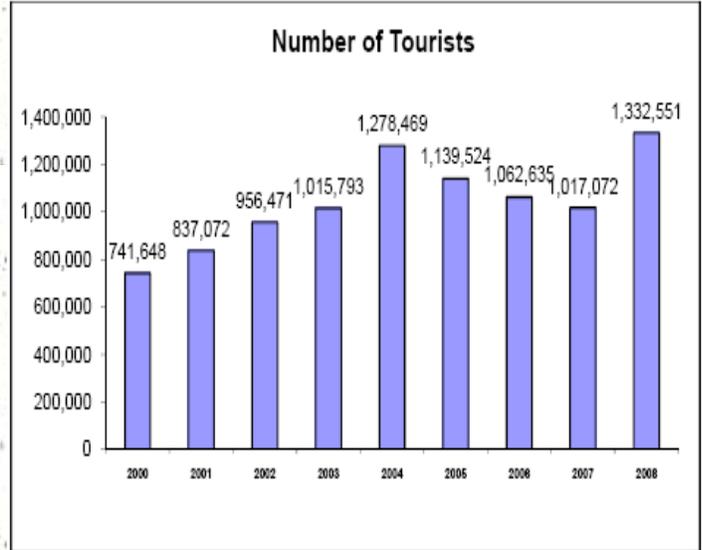
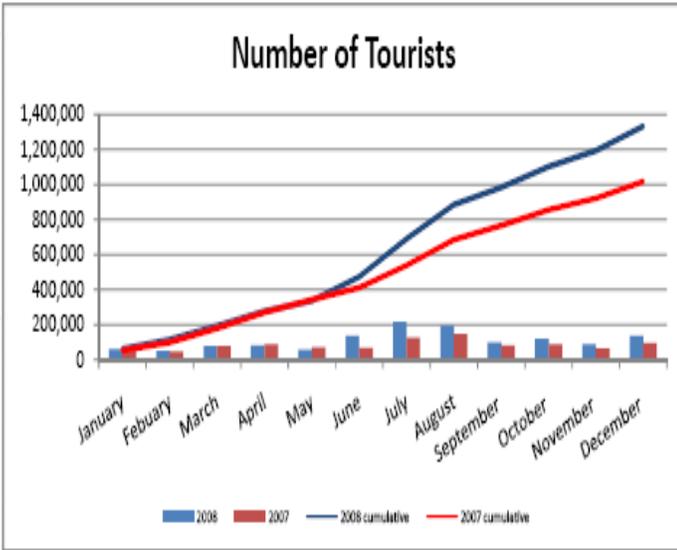
Number of tourists in 2008 totaled 1.33 Million– up by 31% relative to 2007.

▪ **Airport passengers at BIA reached 4.08 Million -up 16.1% relative to 2007.**

3a- Tourism

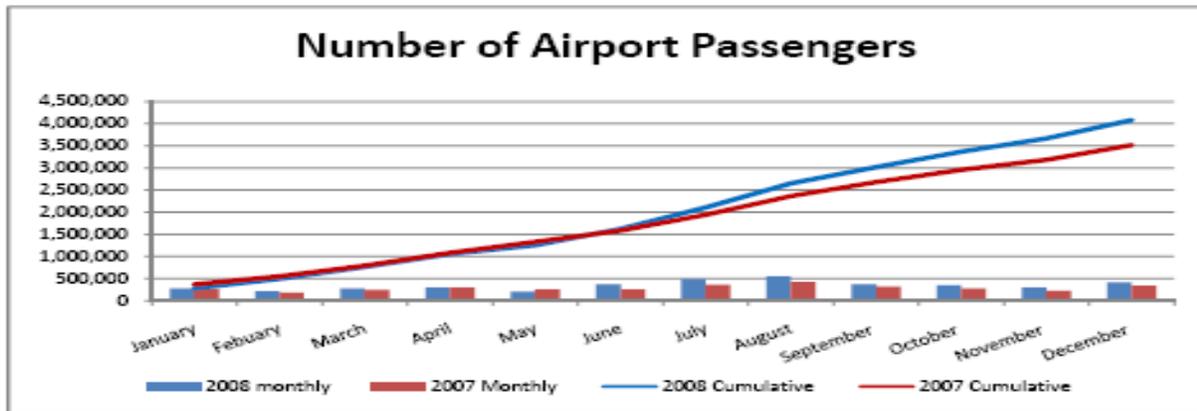
The number of tourists has reached a record level of 1.3 Million for 2008, compared to 1.01 Million in 2007, as shown in the graph above. It fared particularly well with 2007, in spite of the political tensions Lebanon faced in May 2008 even exceeded the 1.28 Million noted in 2004, the latter being the highest level since 1990.

As the monthly breakdown below depicts, the number of tourists was at a consistently higher level in 2008 relative to 2007, except for the months of March, April and May, which were characterized by political tensions. The following summer months as well as October and November, which had the Fitr and Adha holidays respectively, especially saw a boom in these numbers,



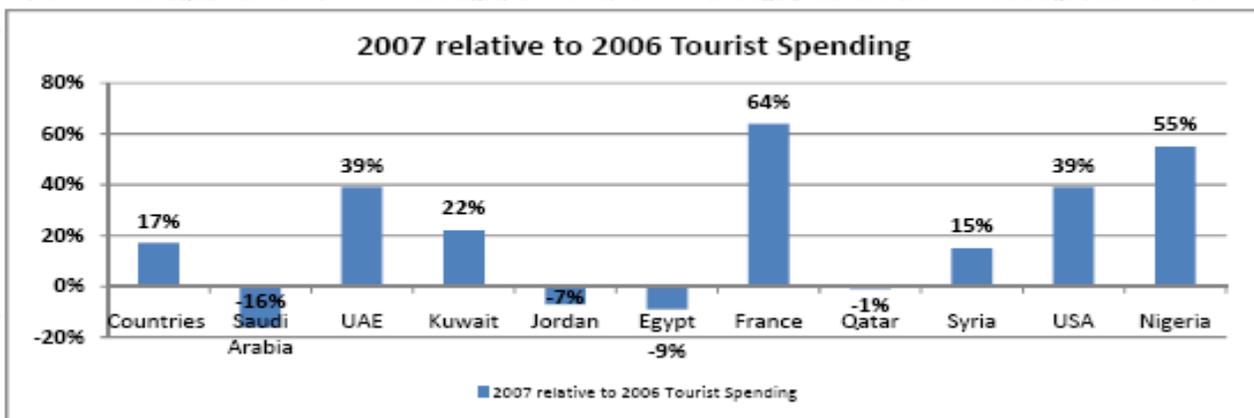
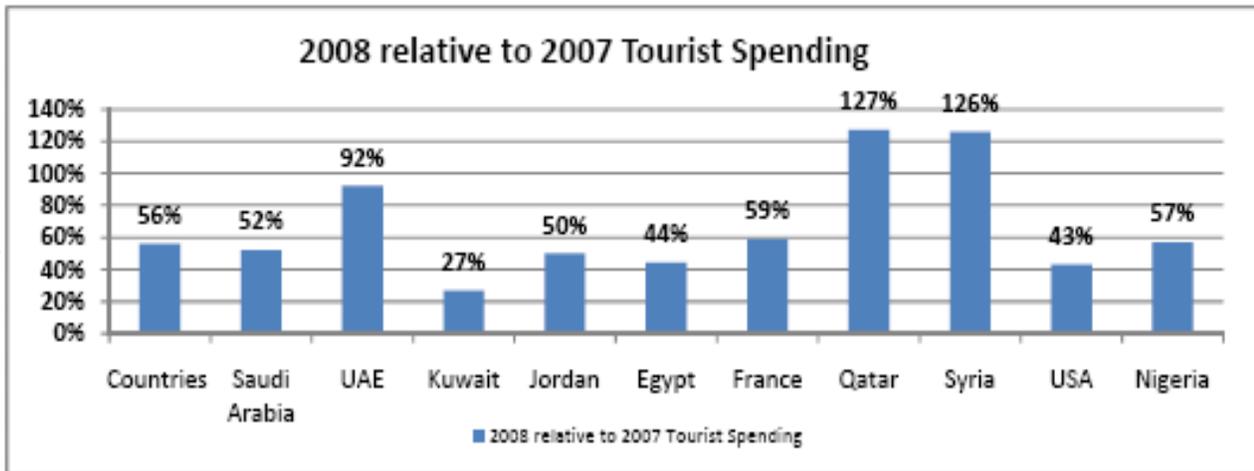
3b-Beirut International Airport

The number of airport passengers (departures, arrivals and transit) has consistently increased throughout all of the months of the year relative to 2007, except in May 2008. 2008, on the whole, saw a relative increase in airport passengers compared to previous two years. This in turn, reflects a high amount of activity in Lebanon from foreign tourists, expatriates and businessmen, who in one way or another; add value to consumption and investment.

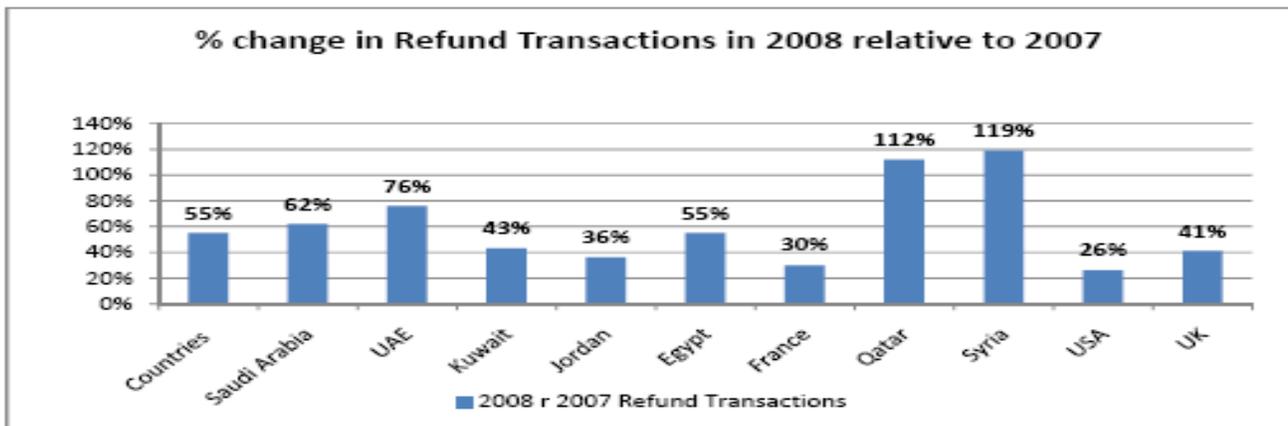


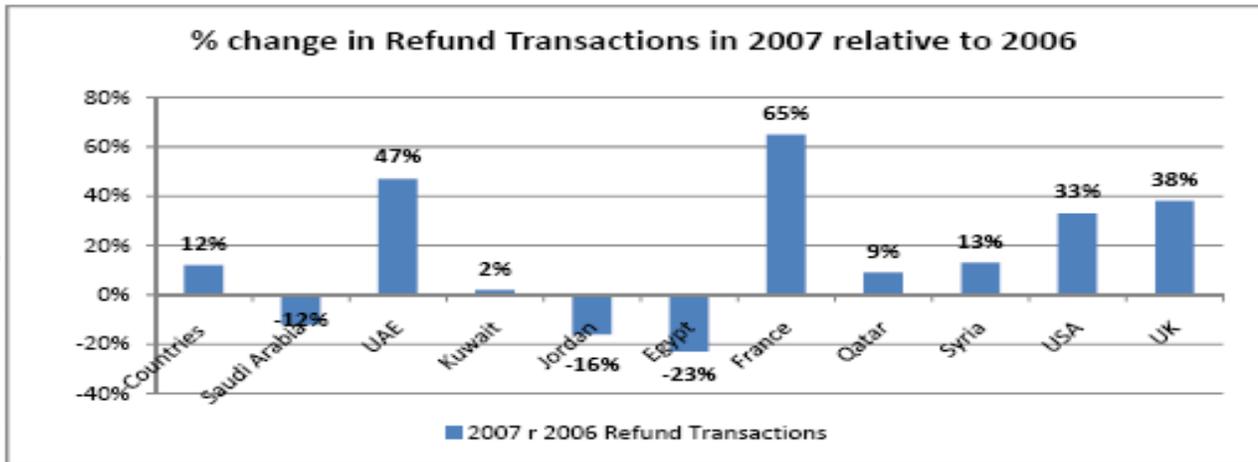
3c- Tourist Spending

The strong influx of tourists and their impacts can be seen in their pattern of spending: In 2008, this also increased compared to 2007. Data that provides an insight into tourist spending shows that the year to date spending evolution for 2007 relative to 2006 rose by 17% whereas the year to date spending evolution for 2008 relative to 2007 rose by a staggering 56%, as depicted by the figures below. The charts also shows that spending by country also entirely improved.



Furthermore, the positive spillovers of tourism, can be shown throughout the number of tax free purchases in 2008 also increased compared to 2007, a method often portrayed as illustrating the amount of spending by tourists. Global refund, the firm that reimburses VAT to tourists at Lebanese border points, further revealed that tax free purchases reported a year on year increase of 55% in 2008 relative to 2007. Overall, the number of tax free purchases took place in 2008 relative to 2006. This indicates a rise in tourist activity and spending, and therefore highlights the strengthening of this sector in the last year.





Although this might suggest that tourist spending has improved considerably in 2008, it is worth noting that 2007 was a particularly weak period following the 2006 July war and the political repercussions involved. For instance, although tax free purchases increased by 44% in the first quarter of 2008 relative to the same period of the previous year., 2007 was a relatively weak period, whereby tax free spending experienced a 39% year on year decline. By the second half of 2008, tax free purchases registered an increase of 24% compared to the same period in 2007, indicating that the first half of the year saw a more vibrant tourist season than in the first half of 2007. However, it is again worth noting that most of this increase comes from the month of June, where Tourism and its associated spending shot up following the political resolution made in May 2008.

II. External Sector

The external sector progressed in terms of aggregate activity throughout 2008, but merchandise was the key component in causing a constraint on the performance of the sector, as the goods trade deficit continued to expand throughout the year.

However, in spite of the goods trade deficit, Lebanon's economic regime allows it to enjoy the benefits of the continuing stream of remittances and capital transfers from non-resident Lebanese as well as non-Lebanese, mainly Arabs. The World Bank for instance, estimates remittances from Lebanese abroad to equal around US\$6 Billion a year. Such figures have allowed the balance of payments to carry on posting a surplus.

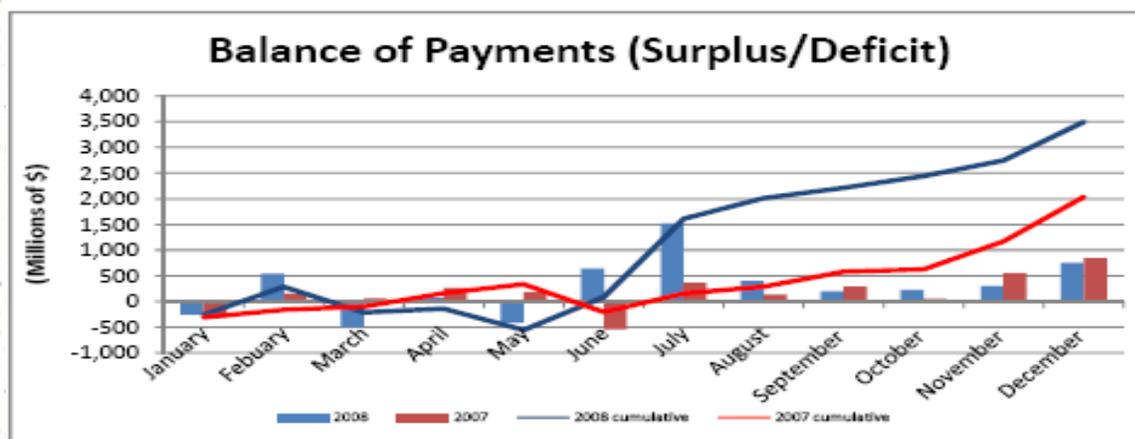
Trade deficit of US\$12.65 Billion for 2008.
2008 Capital Inflows US\$ 16.37 Billion
2007 Capital Inflows US\$11.035 Billion.

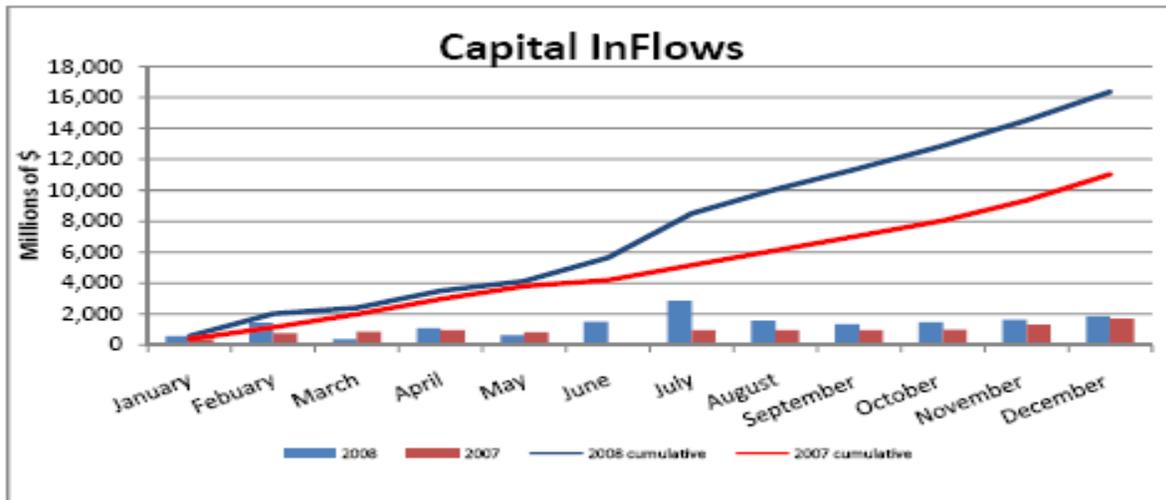
2008 cumulative BoP surplus US\$3.5 Billion
2007 cumulative BoP surplus US\$2.04 Billion

2a- Balance of Payments and Capital Inflows

By the end of 2008, the Balance of payments sheet recorded a surplus in excess of US\$3.5 Billion. This indicates a 71.9% increase in the surplus compared to 2007. In order to understand the reasons behind this surplus in the BoP, one may refer to the figures for the capital inflows and the trade deficit. Despite the latter having increased considerably in 2008, capital inflows grew considerably as a result of an increase in foreign investment, a rise in tourist spending and growth in the flow of remittances from Lebanese Expatriates.

The continuous amelioration in the BoP began simultaneously with the political resolution in Lebanon and the economic revival that came thereafter. Furthermore, with the deepening of the global economic downturn in 2008, Lebanese emigrants and Arab foreign national began to pour their money into the sound Lebanese banking system, thus resulting into an ever greater influx of foreign assets.

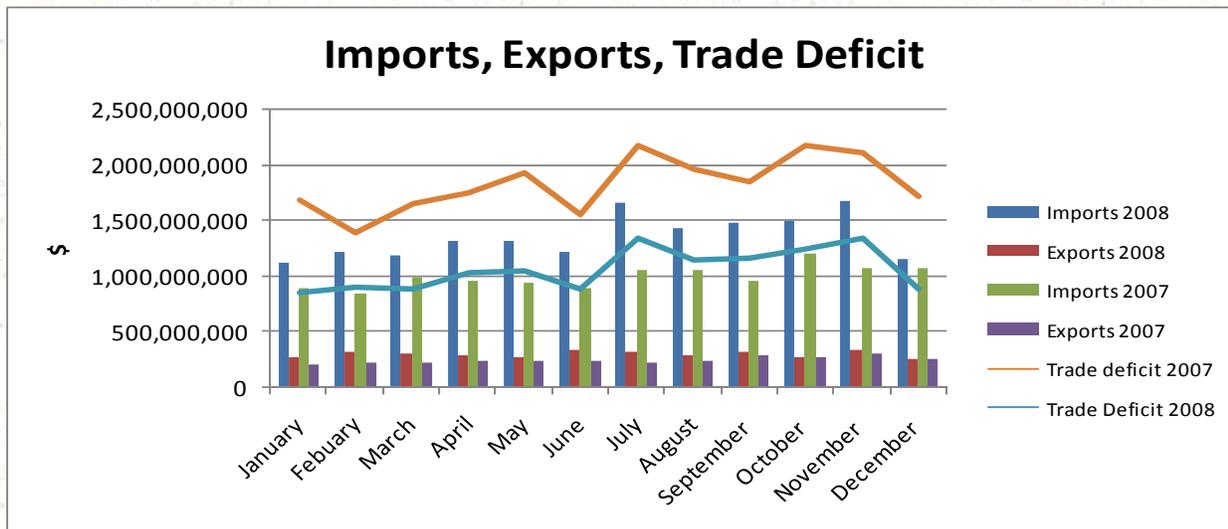




2b- Trade

Export value reached US\$3.48 Billion by Dec 2008
Import value increased to US\$16.13 Billion by Dec 2008.

The trade sector saw a rise in both export and import value in 2008 and thus led to an overall increase in the aggregate value of export and import activity relative to the same period in 2007. Export value rose to US\$3.48 Billion by December 2008 while import values grew to reach US\$16.37 Billion. Considering that the value of imports is much greater than those of exports, the trade deficit in 2008 increased by 40.6% relative to 2007, totaling US\$12.65 Billion and thus continued to pose a constraint on the performance of the external sector.



\$/Euro Exchange rate

Oil Price (\$/per Barrel)



The 2008 trend in aggregate trade activity can be attributed to the steep depreciation of the dollar against the Euro and the rising oil prices. Considering that the dollar depreciated against the Euro throughout most of 2008 (up until Q4 with the deepening of the financial crisis), this made Lebanese goods, which are pegged to the dollar, cheaper relative to Euro goods- thus improving exports. However, this depreciation of the dollar against the Euro also made Euro goods more expensive, which increased the value of imports. In addition, fuel and food prices increased dramatically in 2008, the former rising from approximately \$90/barrel in Q4 2007 and peaking at around \$150/barrel in Q3 2008- a 67% rise- while the latter increased significantly too. In view of the fact that Lebanon imports all of its fuel and a great bulk of its food products from abroad puts emphasis on the severity of this rise in prices on the trade balance.

In terms of the main maritime transport services, the activities at the Port of Beirut in 2008 also reflect a sound trading activity relative to those in previous years. By looking at the figures for the total number of containers (loaded and unloaded) at the port, the tons of goods (incoming and outgoing) transported and the amount of revenues generated by the Port of Beirut, we can see that in each case, trading activity has vastly increased.

Port of Beirut	Port Activity in Tons (000s)	Container Activity in TEU	Revenues (US\$)
2007	5,318	444,169	113,908,012
2008	5,746	527,209	132,548,141

The total number of containers in 2008 increased by 18.7%, 55.4%, 35.6% and 35.2% relative to 2007, 2006, 2005 and 2004 respectively. Total tons of goods transported in 2008 similarly increased by 8.1%, 35.9%, 28.4% and 13.6% respectively relative to 2007, 2006, 2005 and 2004. Finally, the total amount of revenues generated by the port of Beirut also increased in 2008 by 16.3%, 61.6%, 53.5% and 49.5% respectively relative to 2007, 2006, 2005 and 2004.

III-FISCAL

2008 relative to 2007:
VAT revenues rise by 28.98%.
Custom Revenues rise by 27.33%

In millions of LBP	2007	2008	%
Budget Revenues	8,093,626	9,794,988	21.02%
Budget Spending	10,070,580	11,034,010	9.57%
Primary Budget Surplus (debt)	2,983,197	4,065,408	37.2%
Treasury Revenue	655,404	808,288	23.3%
Treasury Spending	2,516,551	3,973,259	57.8%
Total Expenditures	12,587,131	14,956,796	18.83%
Total Revenues	8,749,030	10,552,801	20.62%
Total Fiscal Deficit	3,837,856	4,403,995	14.7%
Total Primary Surplus	1,102,050	900,435	-18.29%

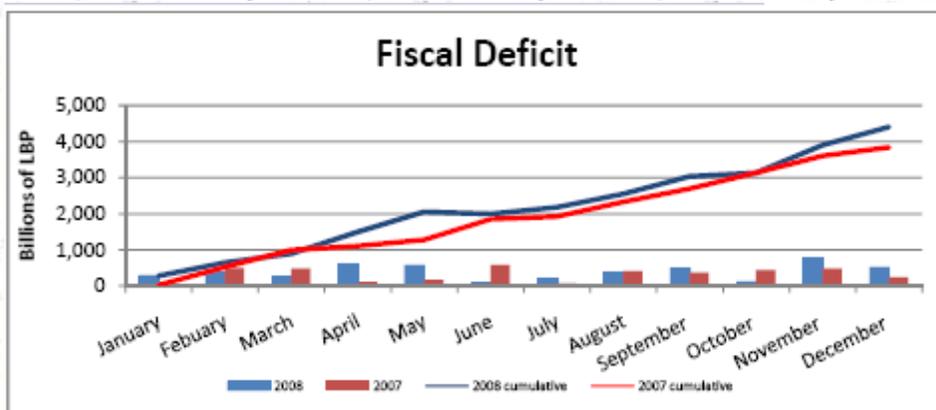
3a- Fiscal Deficit

Fiscal Deficit reaches LBP 4.4 Trillion by the end of 2008, up by 14.7% relative to the whole of 2007.

The absolute increase in the public deficit is the result of government expenditures being higher than government revenues. However, the public finances have improved in relative terms, since the percentage rise in total revenues surpassed that of total expenditures, as shown in the above table as well as the ratio of the total deficit to expenditures, which actually dropped from 30.5% in 2007 to 29.3% in 2008.

By the end of 2008, total revenues (budget and treasury receipts) reached LBP 10,552 Billion, 20.6% higher relative to the same period of 2007. The growth in tax revenues comes from the improvements in aggregate private consumption, relative to the previous year, reflected through the increases in the Value Added Tax receipts and other tax revenues.

On the spending side, total expenditures totaled LBP 14,957 Billion in 2008, up by 18.8% compared to 2007. The expenditure increases come as a result of a rise in the transfers to Electricity du Liban (EdL) and Diesel Oil subsidies as well as the increase in salaries and wages of civil servants and armed forces but also as a result of an increase in interest payments of the public debt. In light of the latter remark, it is important to distinguish between the primary budget and the expenditures resulting from the interest repayment of the public debt. Had the interest repayments been disregarded from the accounts, the Fiscal budget would have reported a surplus in both 2007 and 2008, each with a surplus of LBP 1,102,205 Million and LBP 900,435 Million respectively. This shows the huge role that interest repayments towards refinancing the public debt play in the fiscal computations.



Interest rate repayments increased by 5.6% in 2008 relative to 2007. Debt principal repayment increased by 41.32% in 2008.

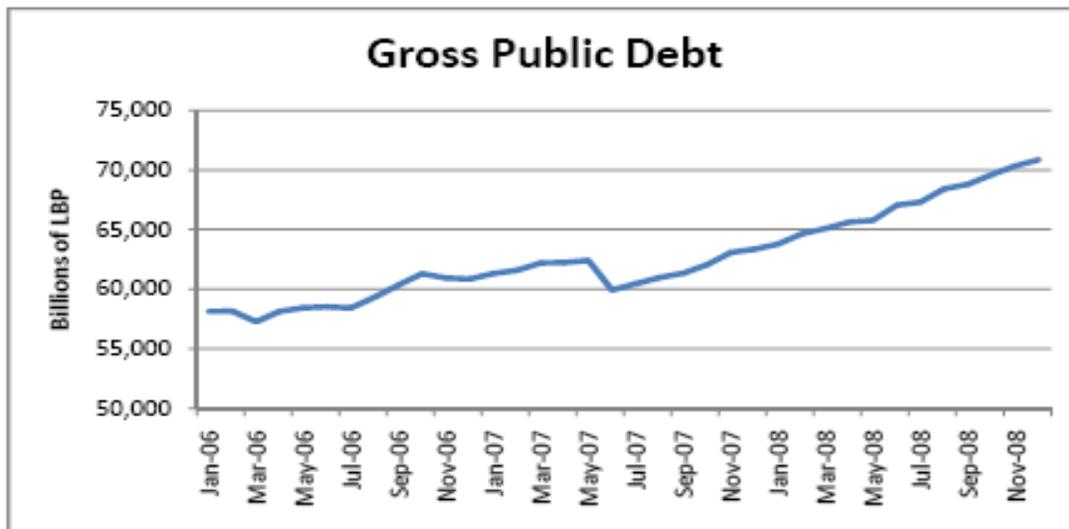
3b-Gross Public Debt

Gross Public Debt has continued to rise throughout 2008. It reached LBP 70,874 Billion by December 2008- an increase of LBP 7,510 Billion since the beginning of the year. In comparison, the Gross Public Debt in 2007 reached LLP 63,364 Billion, that is, rising by a mere LLP 2,513 Billion since the beginning of the year and by LBP 2,866 Billion over the same period in 2006.

The public debt increased dramatically over 2008 as the government was obligated to borrow even more in order to finance necessary public expenditures, given the rise in fuel prices coupled with the steep appreciation of the Euro against the dollar. Both events resulted in inflationary pressures, prompting the government to increase the minimum wage level and subsequent wage bracket by LBP 200,000 as well as subsidies towards fuel in order to shield the population from their shooting levels.

Such expenditures were financed through an increase in borrowing, which was mainly local. Commercial Bank borrowing for instance increased by 44.3% while T-Bills rose by 7.9% over the 2008 period. Foreign currency debt, on the other hand, fell by 0.39% for the same period, despite a rise of 36.3% in Euro-bonds and loans related to Paris III Debt.

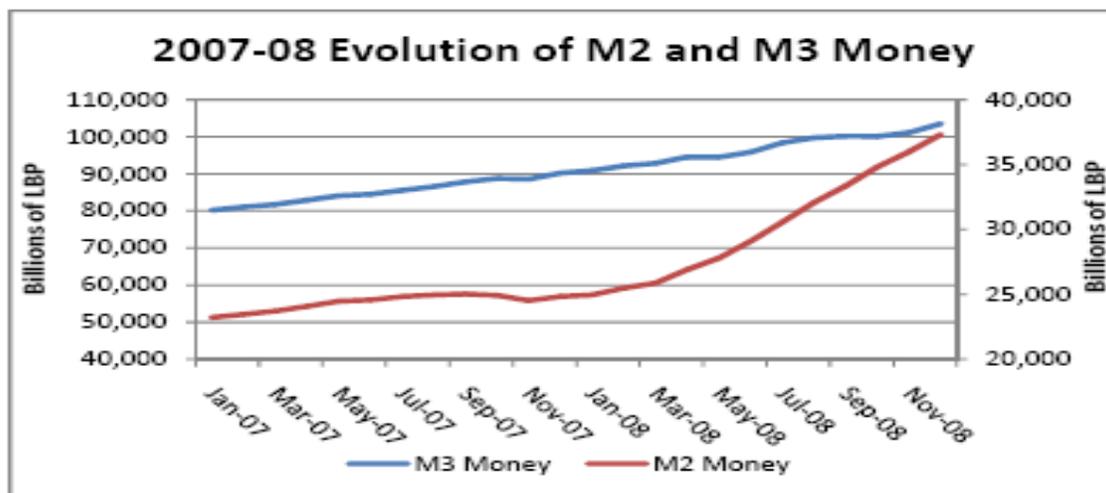
Taking account of the rise of LBP 8,282 Billion in public sector deposits for the same period, the Net Public Debt becomes LBP 62,592 Billion.



IV- Monetary and Banking

4a- Monetary growth

The analysis of the monetary situation shows that the overall increase in the M3 (broad) money supply in 2008 was LBP 13,309 Billion versus a lower increase in the M3 money supply of LBP 9,952 Billion over the same period in 2007. Similarly, M2 (narrow) money supply increased by LBP 12,494 Billion in 2008 compared to LBP 1,353 in 2007.

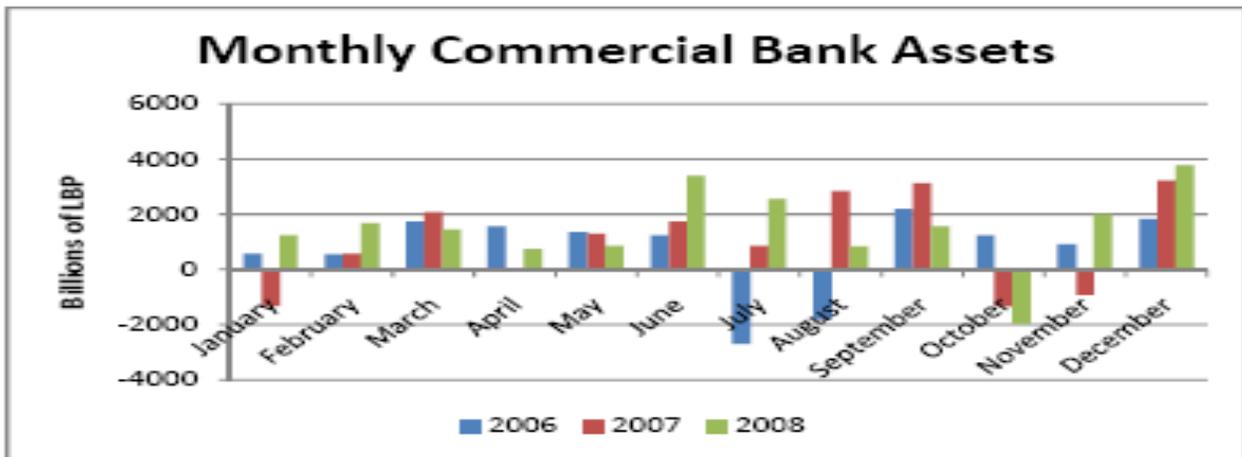
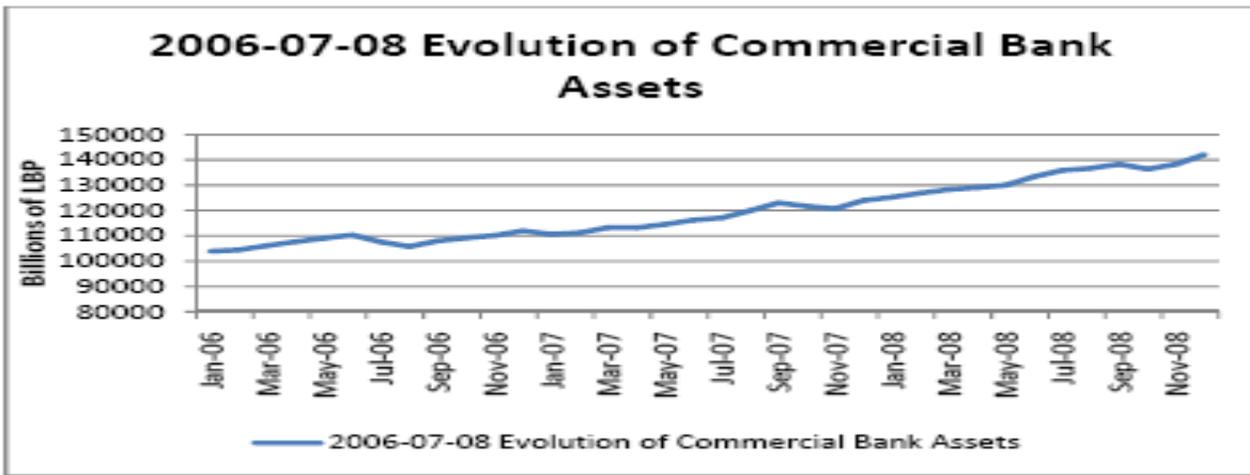


4b- Banking

The Lebanese banking sector recorded an outstanding performance in 2008, as all major aggregates reported solid progression. Total assets of commercial banks increased by LBP 18,091 Billion to reach LBP 142,090 Billion by the end of 2008, the equivalent of 14.6% compared to the LBP 12,036 Billion rise to reach LBP 123,999 Billion over the same period in 2007-a growth of 10.75%.

This high level of activity growth-measured by the growth in commercial banks' consolidated assets- was mainly triggered by the record surge in customer deposits, which increased by 15.6% in 2008. This surge was set off by the Lebanese banking sector's continued expansion into the region as well as Lebanese expatriates seeking to safeguard their savings by transferring them home to banks seen as being shielded from the global financial crisis due to the tight regulations and conservative risk policies adopted by the Central Bank.

The Lebanese financial and banking systems remained unscathed, thanks to the strict and stringent regulations promulgated by the Lebanese Central Bank. In this context, the Lebanese banking sector has witnessed in 2008 a unique inflow of foreign remittances from Lebanese expatriates living namely in the Gulf region, with some 43.1% reported annual expansion in foreign inflows to \$5.65 billion through July 2008, up from \$3.95 billion in the same period in 2007. In the second half of 2008, and notwithstanding the global financial turmoil which stroke financial institutions worldwide, the Lebanese banking sector preserved its solid standing with some \$500 million reported influx during the one-week period which followed the bankruptcy filing of Lehman Brothers, according to the Lebanese Central Bank Governor.



4C- Cleared checks

The value of cleared checks in the banking system, an indicator of overall spending patterns in the economy, showed a stable growth pattern throughout 2008. Total value of cleared checks amounted to \$52,544 Million, up 37% from 2007 and 61.5% in 2006. Similarly, the number of cleared checks was highest in 2008, reaching 11.48 million relative to 10.79 million and 9.14 Million in 2007 and 2006 respectively. This sets the average value of cleared checks at \$4,577, \$3,554 and \$3,560 in 2008, 2007 and 2006 respectively. This therefore reveals that the consumption pattern was greater in 2008.

V- 2009 Outlook

The tight regulations and conservative risk policies of the Lebanese Central Bank have managed to shield Lebanon from the direct impacts of the global Financial Crisis and Economic downturn. Although Lebanon has shown a high amount of resilience to the crisis, this does not translate into immunity. There is a concern that the indirect impacts of the crisis will have a damaging effect on the Middle East and effectively, on Lebanon. The resilience cannot last in the long term unless drastic structural reforms take place to ensure a soft landing scenario for the country's Public Finance condition. Such reforms are becoming increasingly urgent at a point in time when Lebanon cannot continue to depend on international assistance and foreign support because of the tightening of credit being observed around the globe. Lebanon's GDP growth, is therefore estimated to contract slightly to 4% in 2009 due to the spillover from the global economic slowdown, which is likely to have an indirect impact on the tourism, real estate, construction and financial sectors but also, owing to a rise in political uncertainty associated with the parliamentary election.

The global tightening of credit, that come about from the loss of confidence following the large financial losses of governments, firms and individuals, combined with the fall in the price of oil-a main source of income for many potential Arab investors- will significantly reduce the availability of new capital for investment opportunities and hence, capital inflows. As credit tightens and incomes contract, the financial crisis may begin to impact the real economy, shrinking growth at large.

Such an issue has already been drawn upon, following the decision, to once again, delay the privatization of the mobile phone networks, transport and the power sectors. The previous government had failed to launch an auction of the mobile networks scheduled for February 2007 due to sharp political differences and repeated security incidents. Officials had been hoping to generate around \$6 Billion from the licensing of the two networks, but as a result of the current global credit crunch, are not expected to fetch such a good price. The public debt consequently, is therefore likely to continue rising in 2009. Global liquidity constraints, as well as a lack of progress on reform, could also delay disbursement of some of the US\$7.6bn in conditional aid pledged at the "Paris III" donor conference in early 2007.

The indirect effects also include a fall in Capital Inflows and Remittances as tourism and unemployment abroad leads Lebanese expatriates to cancel their holiday trips to Lebanon and to cut down on expenditures. Some sources, for instance, quote remittance numbers to fall from \$6M to \$4M whilst others predict a 40% drop.

Assuming that the political situation remains stable, domestic demand should continue to recover over the outlook period, especially in 2010. Private consumption is expected to strengthen, although it will be constrained by inflation and the global credit crunch. Government consumption growth will slow slightly, with the authorities seeking to hold back the fiscal deficit, but it will remain healthy. Fixed investment growth is set to decline, however, as both international and domestic pressures keep investors cautious. Some expansion in export volumes will be sustained by Gulf Arab markets, although the pace of growth will slow in 2009. Rising import volumes driven by the gradual economic recovery will also constrain overall GDP growth.

Average consumer price inflation, which will have risen to an estimated 12% in 2008 largely owing to extremely high global oil and food prices, is expected to decline steadily. It is projected to fall back to 6% in 2009, as international commodity prices retreat and the dollar-to which the pound is pegged- strengthens. In 2010 inflation should decline further to 3.5%: close to historical levels. However, any return of political insecurity or government attempt to reduce petroleum subsidies could increase upward pressure on prices.



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

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SOURCES:

- **Growth:** Estimates based on figures from EFG Hermes (Audi Bank LWM report- week2 2009), Economic Intelligence Unit (Byblos Bank LTW report #98) and World Bank (Audi Bank LWM report- week 49 2008)
- **Doing Business Rankings:** World Bank Business Report 2008/2009

Ministry Highlights:

- Ministry of Economy and Trade
- Ministry of Finance: Paris III Conference Progress Reports (Fifth, Sixth, Seventh and Draft of Eighth): <http://www.finance.gov.lb/The+Ministry/Ministry+News/Implementation>

Economic Highlights

1)Real Sector

- **Construction Permits:** Banque du Liban: <http://www.bdl.gov.lb/edata/elements.asp?Table=t51-11>
- **Cement Deliveries:** Banque du Liban: <http://www.bdl.gov.lb/edata/elements.asp?Table=t51-12>
- **Cement Prices:** Cimenterie Nationale
- **Real Estate Sales, Value of sales and number of properties:** Directorate of Real Estate- Ministry of Finance

- **Inflation: Estimates based on figures from**
 - ⇒ The Central Administration for Statistics: www.cas.gov.lb and Byblos Bank LTW report #100
 - ⇒ Consultation and Research Institute: Byblos Bank LTW report #100

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

- **Tourism**
 - ⇒ Yearly 2000-2008: Audi Bank LWM report- week3 2009
 - ⇒ Monthly 2007-2008: Audi Bank LWM report- week 13, 18, 23, 27, 30, 34, 39, 42, 48 2008 and week3 2009
 - ⇒ Tourism Spending and Number of Refund Transactions: Global Refund Lebanon S.A.L.

- **Balance of Payments**
 - ⇒ Monthly 2007-2008: Audi Bank LWM report- week13, 19, 24, 27, 31, 37, 43, 45, 49 2008 and week1,7 2009

- **Capital Flows**
 - ⇒ Monthly 2007-2008: Audi Bank LWM report- week15, 20, 24, 33, 40, 46, 51 2008 and week7 2009

2)External Sector

- Monthly Trade Deficit, Exports and Imports:
Ministry of Finance: <http://www.finance.gov.lb/Data+and+Statistics/Trade+Data/>
- Euro/\$ Trend and Oil Prices: www.reuters.com
- Port Activity and Revenues: www.portdebeyrouth.com/statistics.asp?x=1

3) Fiscal Sector

- Fiscal Performance Indicators:
Ministry of Finance: <http://www.finance.gov.lb/Data+and+statistics/Fiscal+Performance/>
- Public Debt:
Ministry of Finance- Public Finance Monitors: <http://www.finance.gov.lb/Reports+and+Publications>

4) Monetary and Banking sector

- Monetary survey: http://www.bdl.gov.lb/edata/elements.asp?Table=q_BDL_SID2
- Commercial Bank Assets: http://www.bdl.gov.lb/edata/elements.asp?Table=q_BDLa_SID4
- Cleared Checks: Audi Bank LWM report- week2 2009