

BankMed Economic and  
Market Analysis

BUCKING THE TREND  
SEMI-ANNUAL UPDATE  
LEBANON 2009

# SEMI-ANNUAL UPDATE

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While we have always tended to be on the conservative and cautious side in our economic analysis over the last three years, i.e. since we published our first semi-annual report "At a Crossroad", we can fairly state that the Lebanese economy seems to have finally settled on a high growth track. We have three years of solid growth rates now to support this claim: 2007, 2008, and 2009.

In 2007, the economy surprised observers by tilting to the upside, especially in light of the strong political divisions and tensions prevailing in Lebanon at the time. The 7.5% real growth rate achieved then was perceived by some as caused primarily by the reconstruction drive in the wake of the 2006 destructive war. But official national accounts figures showed that the recovery was broad-based, and not just confined to the construction sector.

While final official figures for 2008 are not published yet, estimates are putting the growth rate at around 9%, an all time high. Surely the Doha Accord signed in May played a significant role in easing the political and security situation, always an important factor in Lebanon, but figures also show that economic activity was relatively high even before Doha, with the exception of the month of May of course, when the security situation severely deteriorated throughout the country.

For the current year, the fear of the financial crisis and its implications on emerging markets in general through its impact on exports, remittances and foreign direct investment, has caused many, including the Ministry of Finance in its budget figures, to forecast real economic growth in Lebanon at 3%. But by mid-summer, in the bustling streets of Beirut, the mountains, and tourist destinations throughout the country, a growth rate forecast of 6% may end up being on the conservative end for the year - with an expected figure for total tourist arrivals to top 2 million (equivalent to 50% of the population).

Lebanon has clearly bucked the trend. It has bucked the trend of other emerging markets whose economies have soured in light of the crisis. But it has also bucked the trend of being perceived as a volatile, unstable and non investment-friendly economy. Over the last several months, the New York Times, The Los Angeles Times, the Wall Street Journal, the Financial Times, and the Economist have run articles exposing in detail this "newly discovered" investment haven. Capital continues to flow into the country, as seen by the fast growth in banks' deposits, along with the planes carrying tourists at a rate of 15,000 a day. For the first time in over three years, we dare to be positive.

**Mazen M. Soueid**

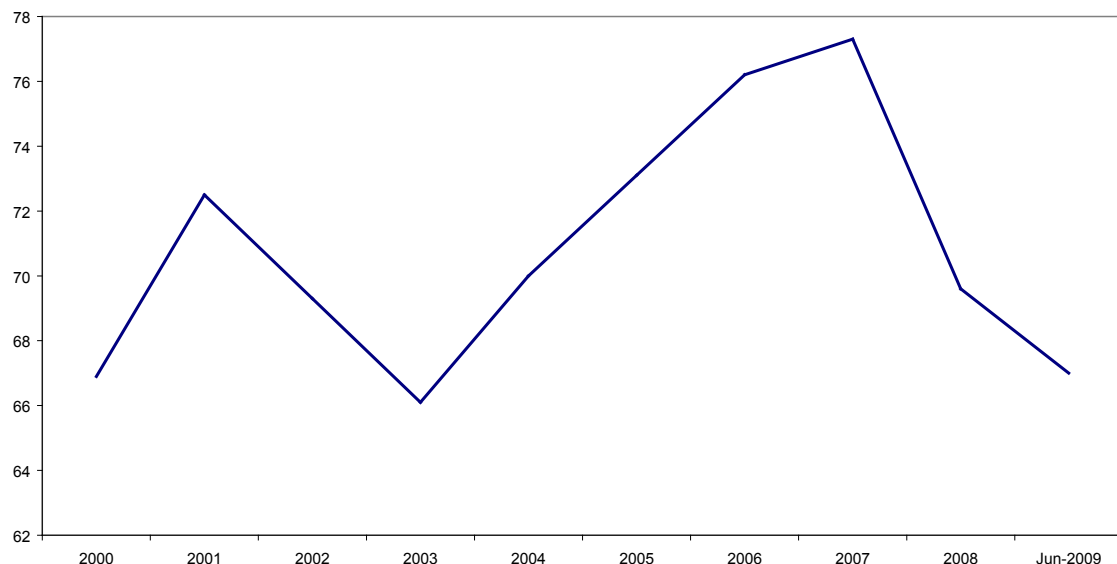
Chief Economist  
Head of Research

## THE FUNDAMENTAL ELEMENTS

The surprising performance of Lebanon in 2009 in the context of a global financial and economic crisis has renewed interest in the Lebanese economic model. To us, a combination of three interlinked factors constitutes the fundamental element of the Lebanese economy. The first factor is the Lebanese Diaspora, whose linkages to the country have been steadily increasing, and who have provided steadfast support over the last four years in the face of political and security turmoil. The second factor is the trust that has been projected and maintained through the darkest hours by the Lebanese banking sector. The third factor is the sense of shared destiny and hence constant coordination and harmonization of policies among the main players in the economy (the government, the Central Bank, and the banks).

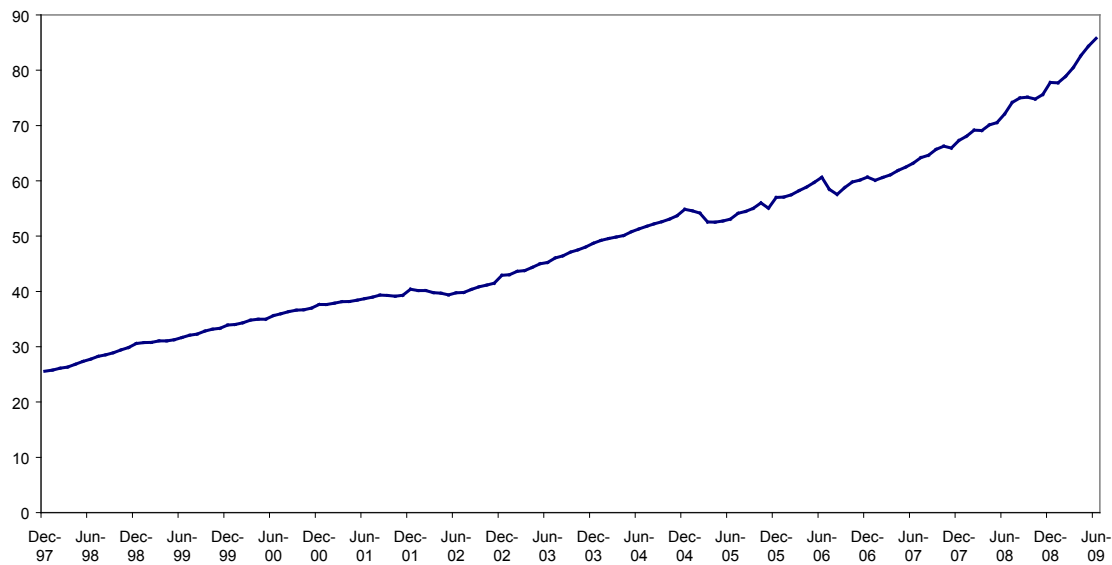
The first factor has been key to maintaining the inflow of deposits into the country, a main source of financing for the large government deficit. In fact, the large size of the banks relative to GDP, with assets now almost 4 times GDP, has allowed them to simultaneously fund the public and private sectors while maintaining high levels of liquidity. The continued inflow of deposits has also been complemented lately by a fall in the deposits' dollarization rate, which fell sharply from 77.3% in December 2007 to 67% in June 2009, reflecting renewed confidence in the local currency.

**Dollarization of Total Banking Sector Deposits  
(in %)**



The second factor is a truly conservative banking sector, whose solid reputation in a volatile political and security environment is its most valuable asset. The banks, who survived a 15-years civil war, as well as many major security and political setbacks, especially during the past five years, have learned the hard way that being conservative and cautious ultimately pays off. Stringent and prudential regulation by the Central Bank (BDL), as well as effective supervision, has further enshrined trust in the system, which famously emerged from the international financial crisis unscathed. In fact, and even before the crisis, and despite the major political and security shocks the country went through since 2005, private sector deposits increased by 51% over the last four years, between end-December 2005 and end-June 2009.

**Total Commercial Banks' Private Sector Deposits  
in Billion USD**



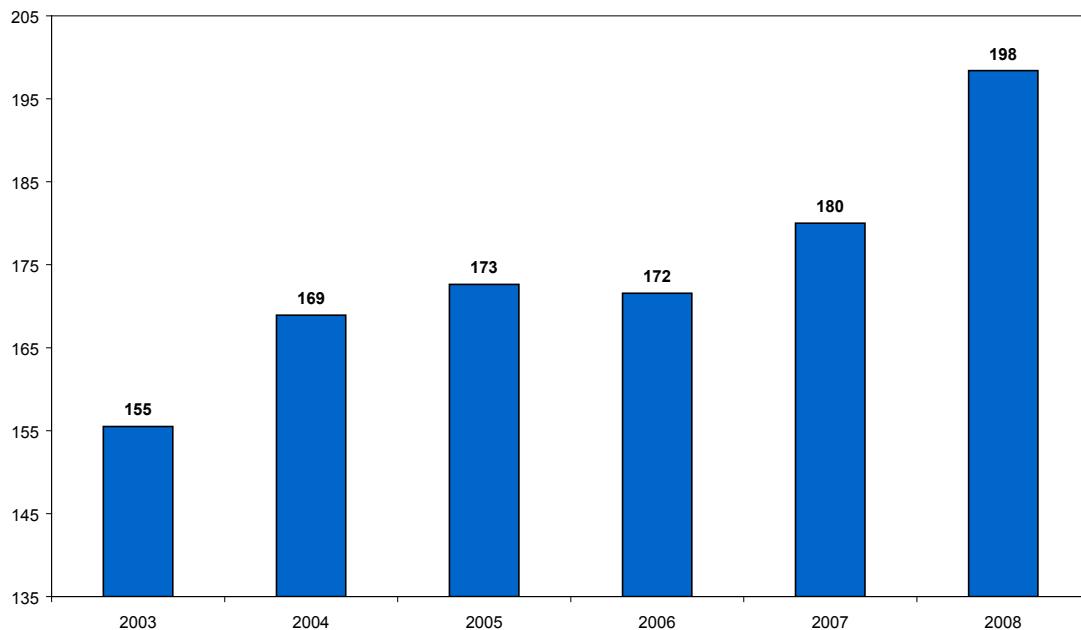
The third factor stems from a real sense of shared interest and common goals amongst the major players in the economy. The high debt to GDP ratio, the peg of the national currency to the dollar, and the high exposure of the banks to the sovereign, both in local and foreign currencies, all make any major shock to the system immensely costly for all players. The government has a stake in a strong banking sector that can continue to attract deposits, and the banks have a stake in a government that is capable of honoring its obligations. Both parties have a shared interest in a stable lira, and so does the BDL. The latest coordination between the government (ministry of finance), the BDL, and the banks, on how to handle the excess lira liquidity (which has been costly to the BDL in terms of issuing Certificate of Deposits), and the circulars issued by the BDL regarding exemptions from reserve requirements aimed at boosting lending in national currency, along with the move by the ministry of finance to issue 5-years Treasuries while allowing the BDL to retire its CDs, are all steps reflecting the case-in-point of constant consultations and coordination to navigate through challenges posed by tough times as well as by good times.

## ECONOMIC ACTIVITY

Lebanon's economic revival has been impressive, since the easing of security and political tensions, supported by a return of tourists to Lebanon's shores in record numbers, renewed investor confidence along with strong capital inflows and Lebanese expatriates' remittances from abroad. Growth in 2008 reached 8.5%, despite the external difficulties due to the global financial crisis, proving that the Lebanese economy is remarkably resilient to such negative effects, and is expected to register a growth that may even exceed 6% for 2009. The 2009 Parliamentary election passed smoothly and without incident; it was positively received by the markets and is regarded as encouraging for the economic outlook in Lebanon. The nomination of MP Saad Hariri, son of the late Prime Minister Rafic Hariri to the premiership has also been positively received.

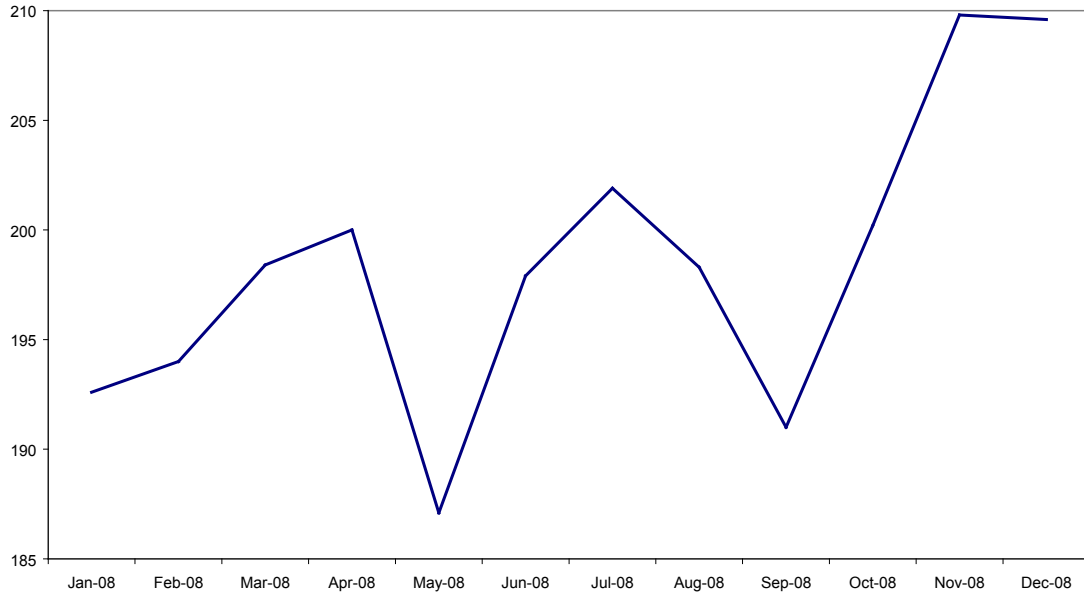
Lebanon's economic performance has exceeded the expectations even of international financial institutions such as the IMF and the World Bank, particularly since the onset of the economic crisis. Various indicators bear witness to the strong economic activity in the years 2008 and 2009. Among them the BDL coincident indicator, which is an average of eight weighted economic indicators, compiled and updated monthly by the Central Bank as a gauge of economic activity, picked up in 2008 to an average of 198.4 compared with an average of 180.0 in 2007, implying a 10.2% growth rate. The indicator continued to grow in the first quarter of 2009, registering an average of 211.1.

**BDL Coincident Indicator Index  
Yearly Average**



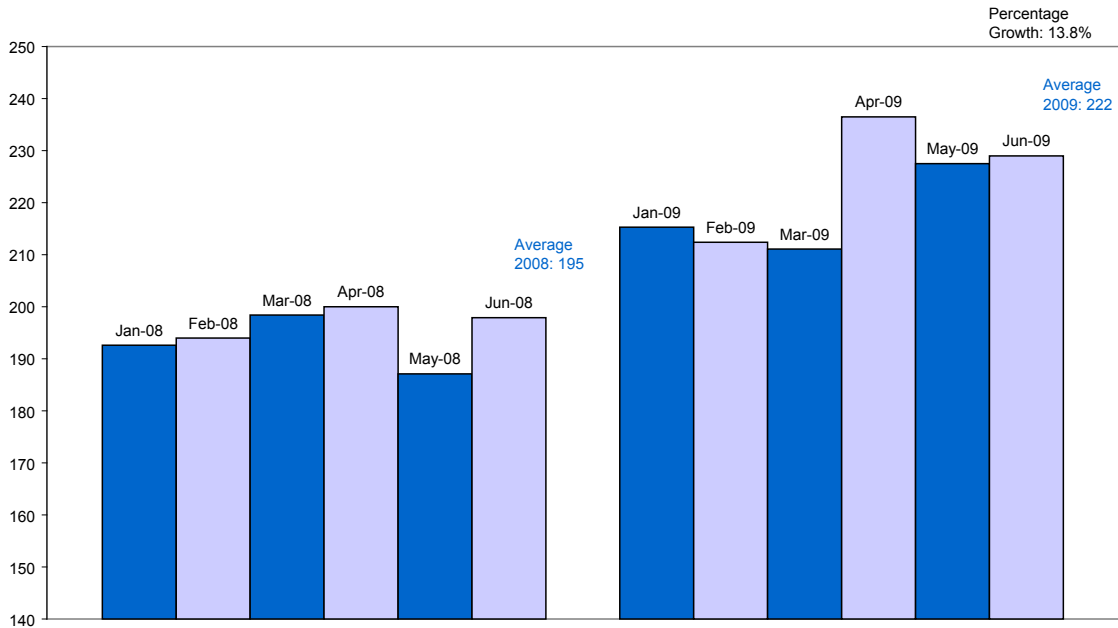
The indicator mirrors the improvements in the political and security environment since the last quarter of 2008 on the back of a strong showing from the Lebanese expatriate community during the holiday season, despite a blip in May 2008 indicating the outbreak of violence in the country, and has rebounded strongly since the Doha Accords in the same month. The upward trend continued in 2008, despite the global financial crisis, as Lebanon's banking and tourism sectors maintained their solid economic performance.

**BDL Coincident Indicator Index**



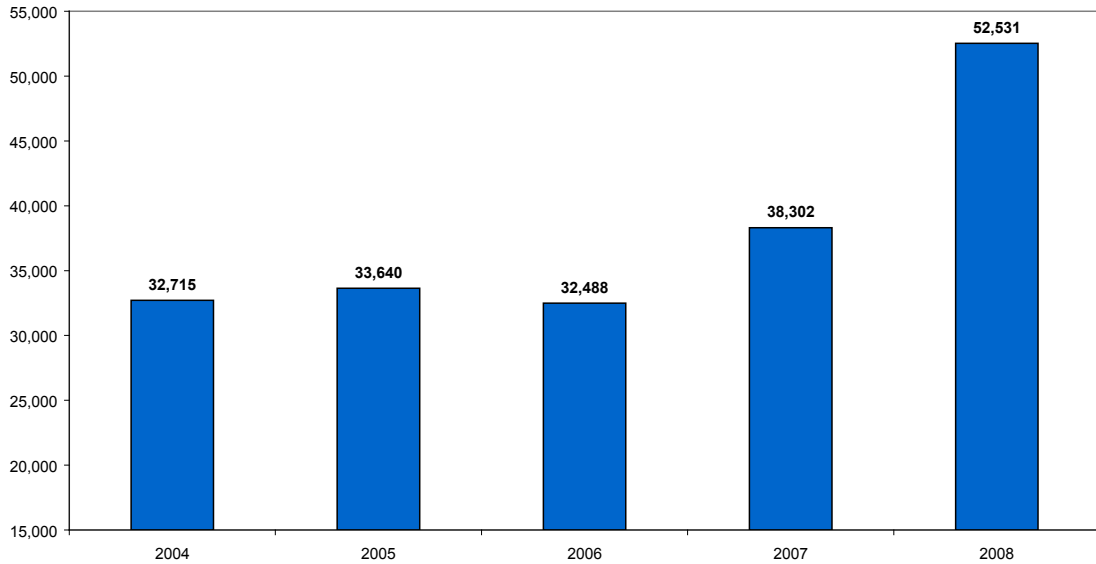
In addition, the available data for the first six months of 2009 show the continuation of solid growth, and the index is likely to sustain high levels throughout the year. The indicator averaged 222 in the first six months of 2009, up from 195 in the same period of 2008, or an increase of 13.8%.

**BDL Coincident Indicator Index**



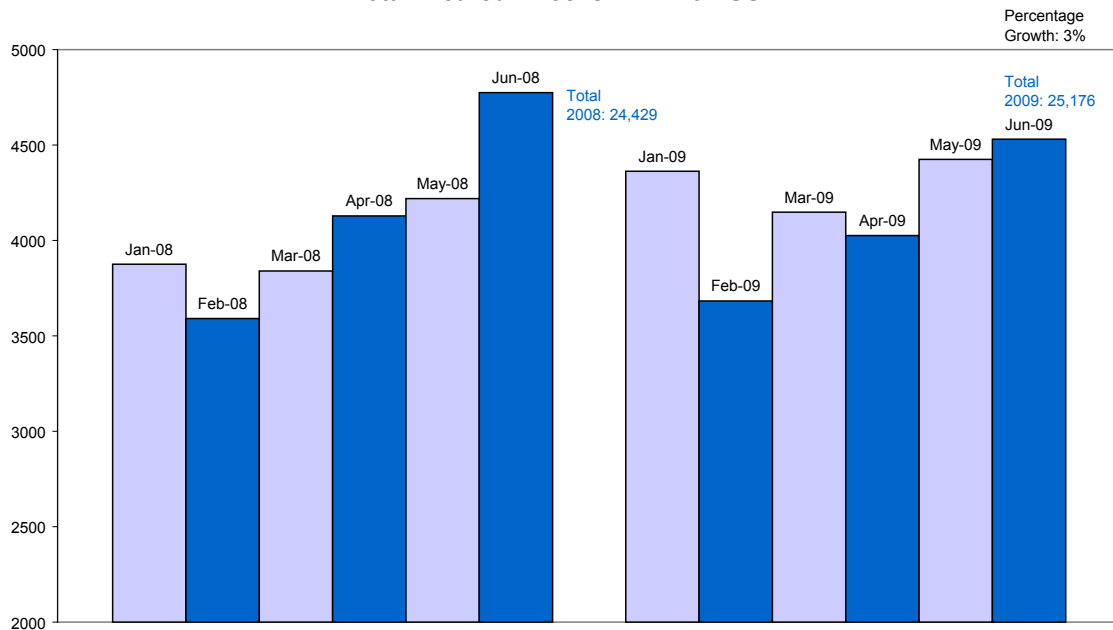
Another important indicator of economic activity is the total value of cleared checks in the banking sector, which recorded solid nominal growth in 2008, rising to \$52.5 billion from \$38.3 billion in 2007, or an increase of around 37%, reflecting an increase in domestic spending.

**Value of Cleared Checks in the Banking System  
in Million USD**



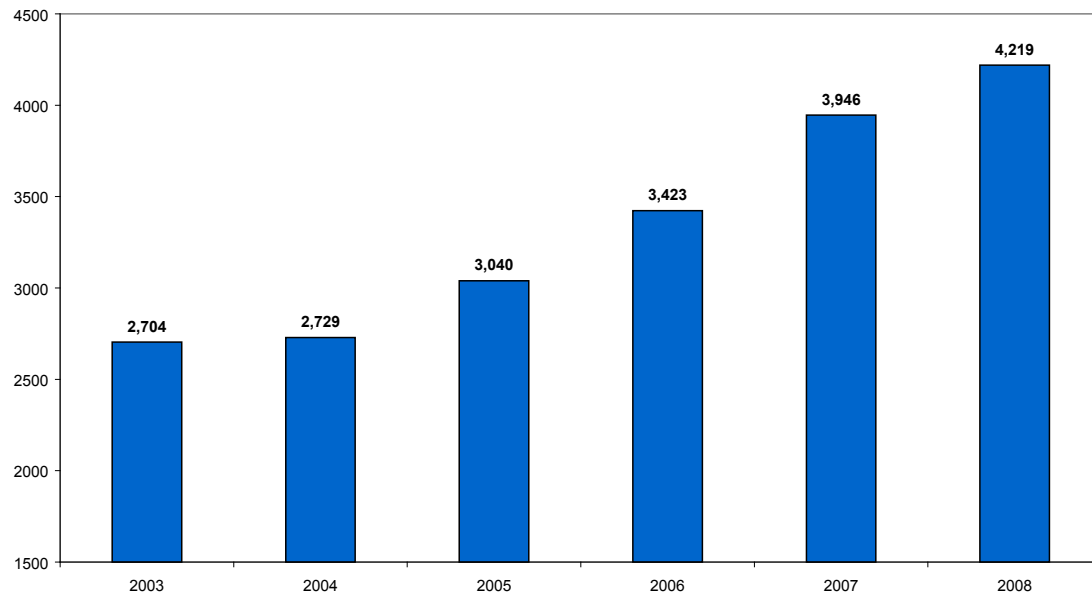
This increase gained momentum during the first six months of 2009, with the total nominal value of cleared checks increasing to \$25.1 billion, from \$24.4 billion in the comparable period of 2008, or growth of around 2.8%.

**Total Cleared Checks in Million USD**



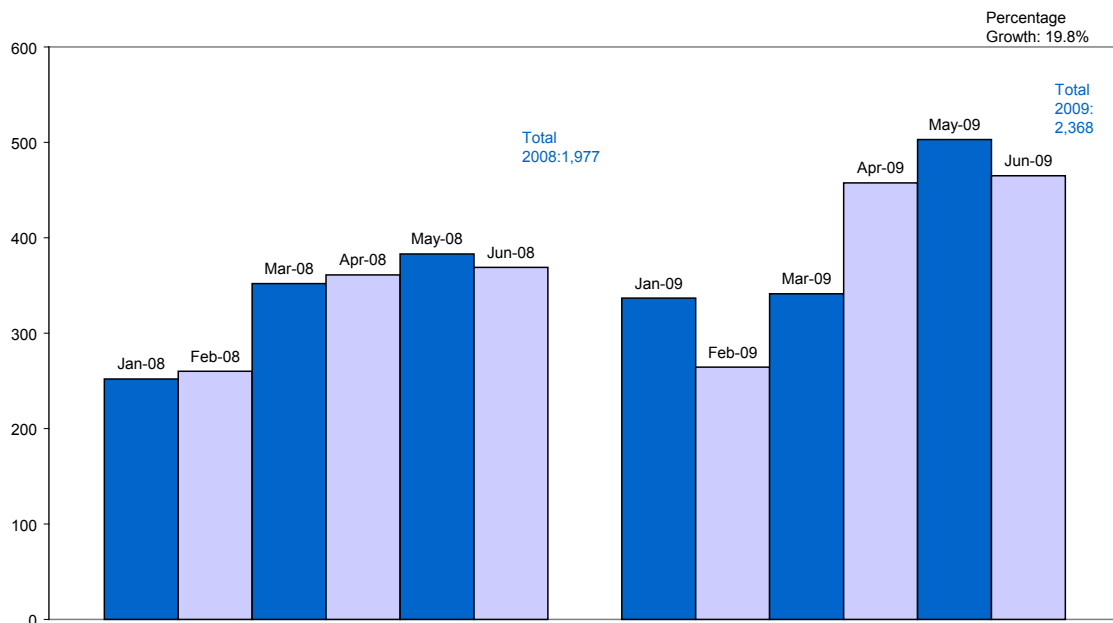
In Lebanon, industrial activity (mostly manufacturing and construction) constitutes 21% of GDP. The construction sector, constituting around 11% of GDP, has been a key driver of growth in Lebanon since the end of the civil war in the early nineties. Figures also suggest a strong growth in construction in 2008, i.e. in both times of political stalemate and under a new national unity government. In 2008, cement deliveries increased to 4.2 million tons, a growth of 7%, from 3.9 million in 2007.

**Cement Deliveries Thousand Tons**



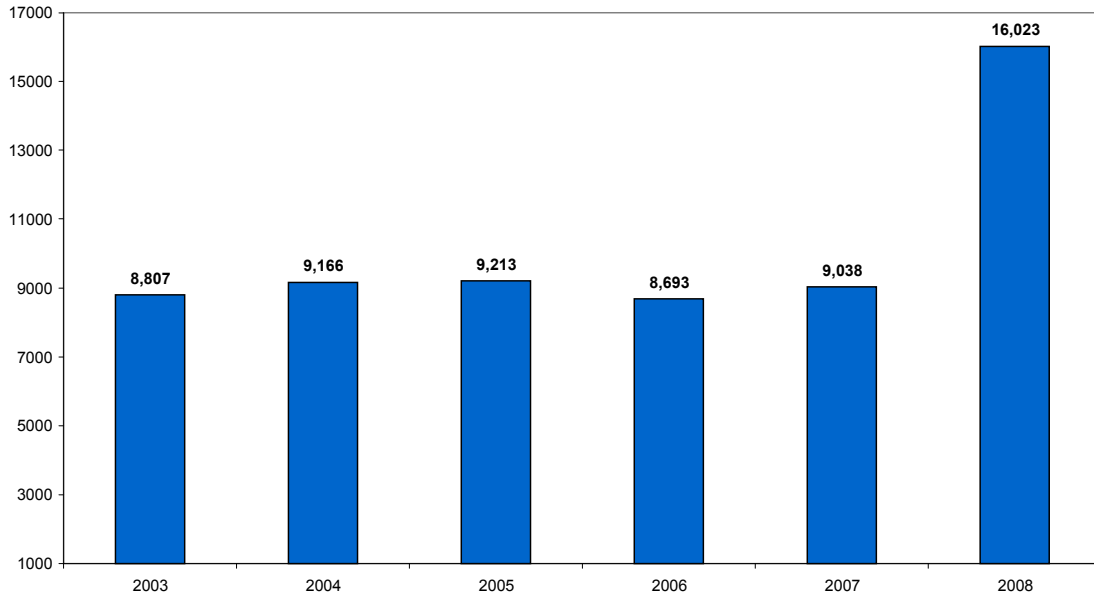
Cement deliveries continued their climb in the first six months of 2009, rising to 2.3 million tons compared with 1.9 million tons during the same period of 2008, hence an increase of around 20%.

**Cement Deliveries Thousand Tons**



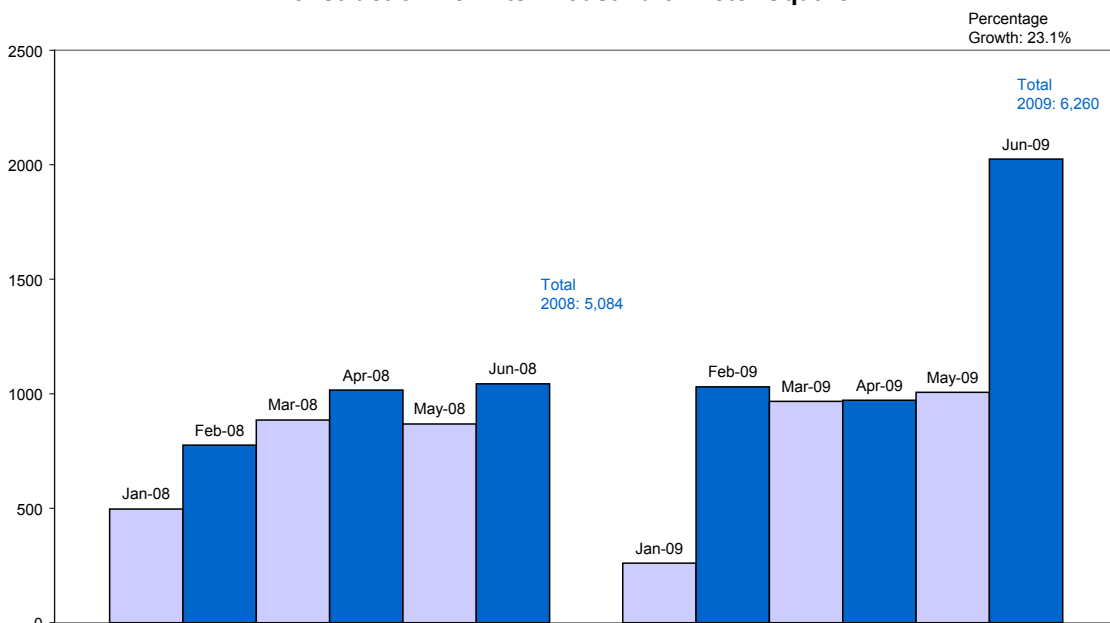
Another measure of activity in the construction sector is the total number of construction permits issued, which is a good gauge of confidence in the sector as well as expected future growth. Construction permits have reached 16,023 meters square in 2008 in comparison with 9,038 meters square in 2007, an increase of 77.3%.

**Construction Permits Thousand of Meter Square**



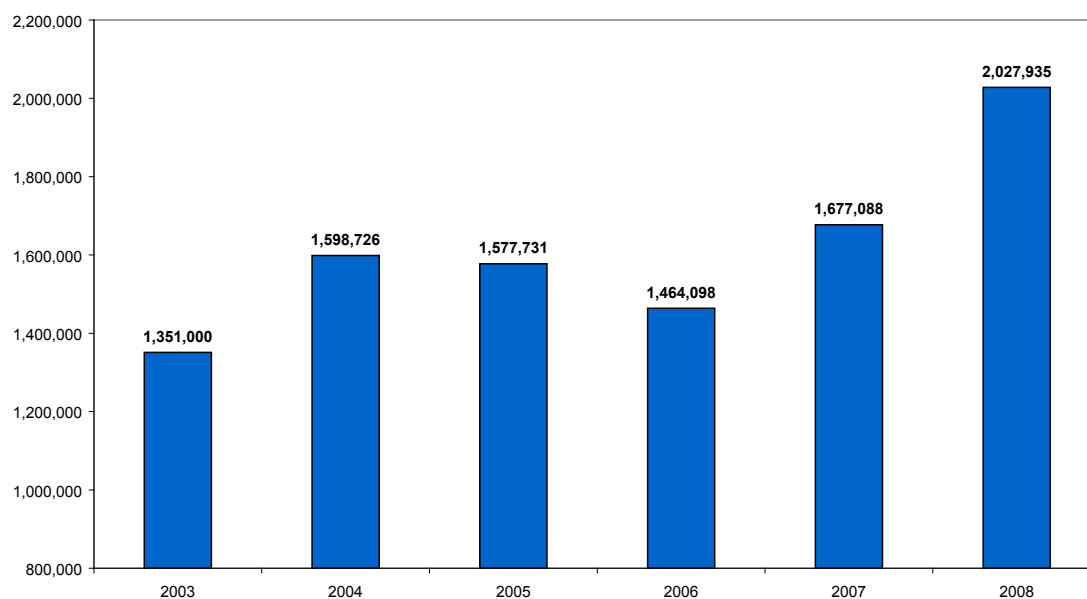
Construction permits have increased further in 2009, growing to 6,260 meters square in the first six months of 2009, in comparison with 5,084 meters square in the same period of 2008, a growth of around 23%. This is expected to grow further in light of the smooth conduct of the June Parliamentary elections, which ushered in, among other things, a strong summer tourist season and a second wave of interest from major regional investors.

**Construction Permits Thousand of Meter Square**



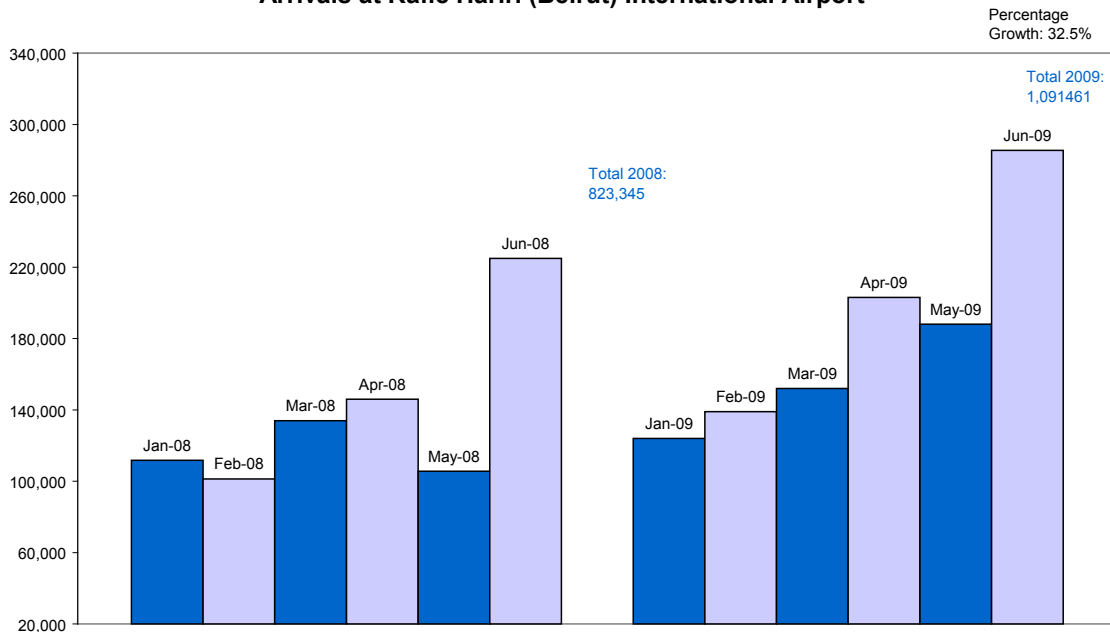
The services sector, constituting around 35% of Lebanon's GDP, is based principally upon banking and tourism. Tourism, a key sector to the country's growth, was badly affected between 2006 and early 2007 by the tense political and security climate, but has experienced a notable increase in activity since the end-of-year festive season in 2007. As of May 2008, tourists have been visiting Lebanon in record numbers, especially since the security situation has improved markedly. Arrivals at Rafic Hariri International Airport reached 2,027,935 in 2008 up by 20.9% from 1,677,088 in 2007.

**Arrivals at Rafic Hariri (Beirut) International Airport**



Similarly, total arrivals in the first six months of 2009 reached around 1,091 thousand, up by 32% compared to the first six months of 2008. This is due to record numbers of Lebanese expatriates and tourists, mostly from the GCC countries, visiting Lebanon's shores in the summer season.

### Arrivals at Rafic Hariri (Beirut) International Airport

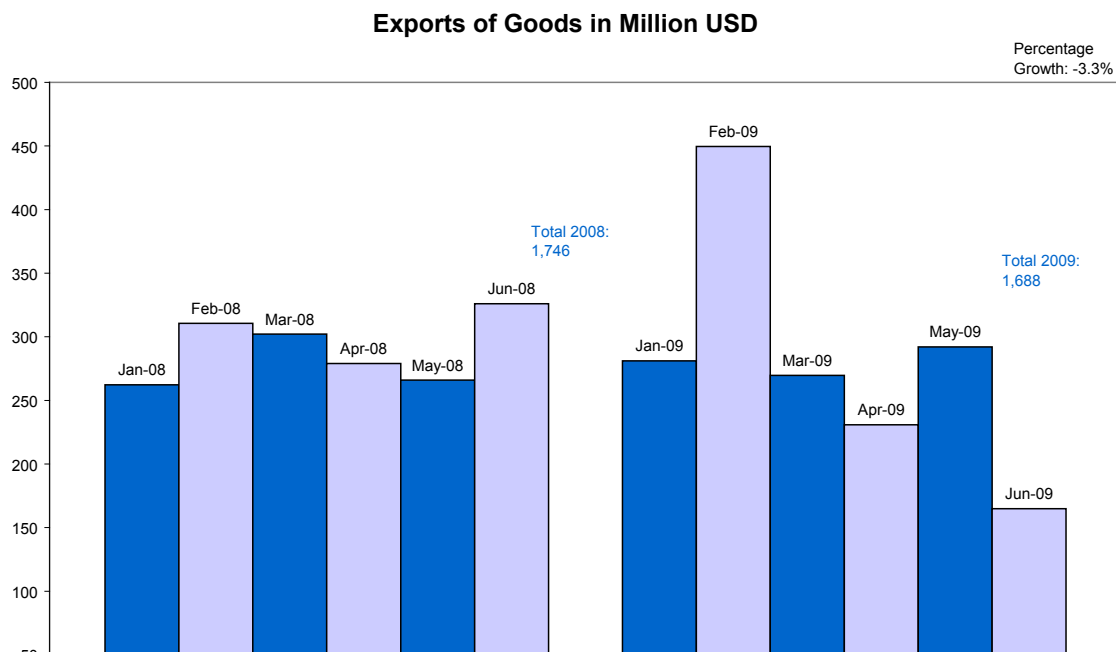


Indeed, the latest promising political developments have led to positive growth expectations for summer arrivals. The Lebanese Ministry of Tourism is expecting a promising summer 2009 season; as tourism continues its positive performance for the sixth month in a row this year. It predicts that this year could be a record year, as an estimated 2 million tourists are expected to visit Lebanon by the end of 2009. Indeed, the number of tourists arriving in Lebanon in the first six months of the year, when compared to the same period in 2008, has risen 60.8% to reach 761,415.

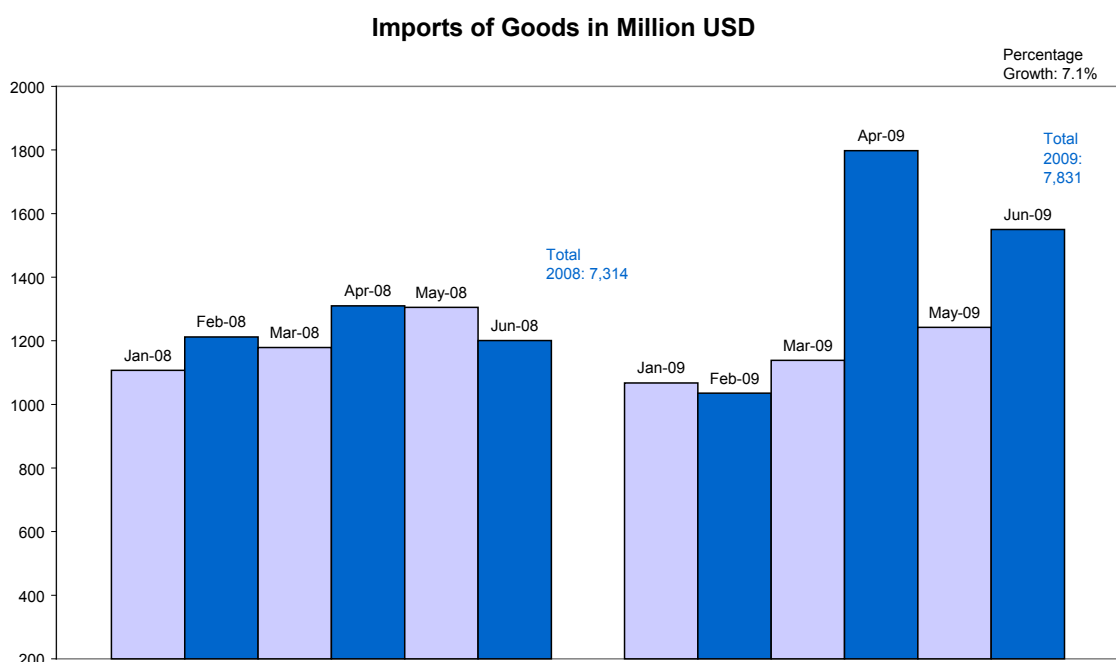
In parallel to increased tourism activity in Lebanon, figures released by Global Refund show that tax free purchases increased by 28% in the first semester of 2009, as compared to the same period in 2008.

In addition to construction and tourism, the exports sector has been providing important support to the economy, especially over the last years, taking advantage of the dollar depreciation, which makes Lebanese products more competitive. Total exports grew by more than 23% in 2008, to reach \$3.478 billion in comparison with \$2.816 billion in 2007.

However, the global financial crisis which affected global demand, along with a recent appreciation of the dollar, has slowed the growth rate of Lebanese exports. The value of exports declined during the first six months 2009 by 3.3% to \$1.68 billion in comparison with the equivalent period of 2008.

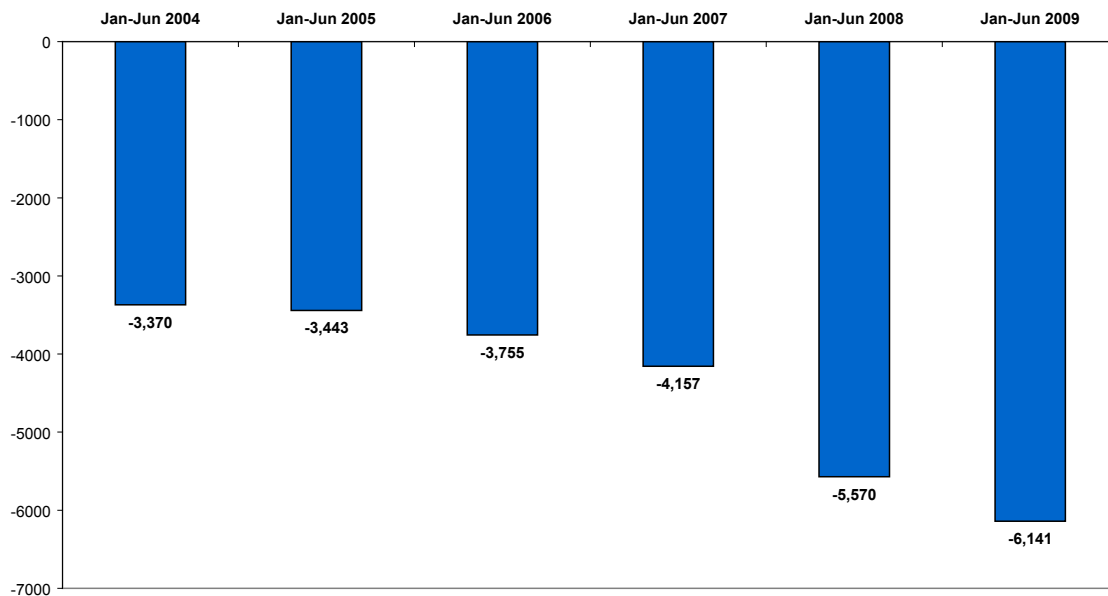


In 2008, the growth in imports surpassed that of exports, registering an increase of around 37% totaling \$16.137 billion from the same period in 2007 when they reached \$11.815 billion. The total value of imports also increased in the first half of 2009 compared to the corresponding period of 2008. Total imports increased by 7.1% reaching \$7.8 billion from \$7.3 billion in the first six months 2008. The rise in imports in early 2009 is mainly attributed to an amelioration in consumption inside Lebanon.



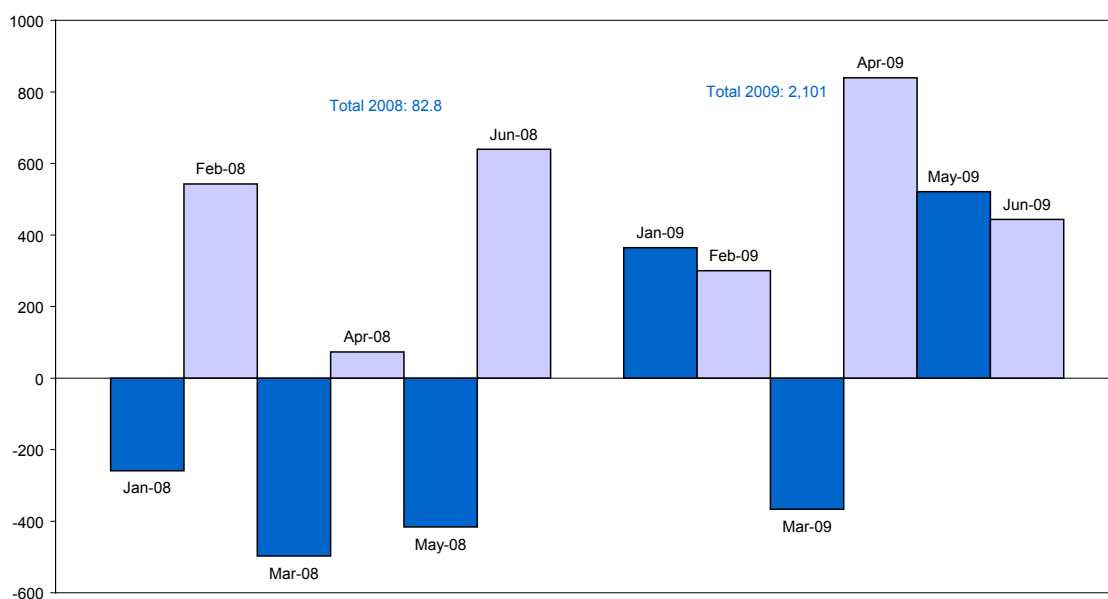
As the growth in imports surpassed the growth in exports; the trade deficit expanded by 10.3% to reach \$6.1 billion in the first semester of 2009, from the same period in 2008.

**Trade Balance in Million USD**



The balance of payments has recorded a cumulative surplus of around \$2.1 billion in the first six months of 2009, in comparison with a cumulative surplus of \$82.8 million in the first semester of 2008. This is the result of an increase in net foreign assets held by commercial banks to \$19.44 billion; as well as increased net foreign assets at the Central Bank reaching \$23.5 billion at end-June 2009.

**Balance of Payments Flows in Million USD**



The generally higher level of economic activity was also accompanied by a decrease in inflation; as external inflationary pressures ease, world commodity prices fall and the dollar strengthens against other world's currencies. The price level witnessed a 0.7% decrease in June 2009, year-on-year, led by a 13.1% decline in communication prices, and a 19.6% decrease in housing services (electricity, water, gas and other fuel prices).

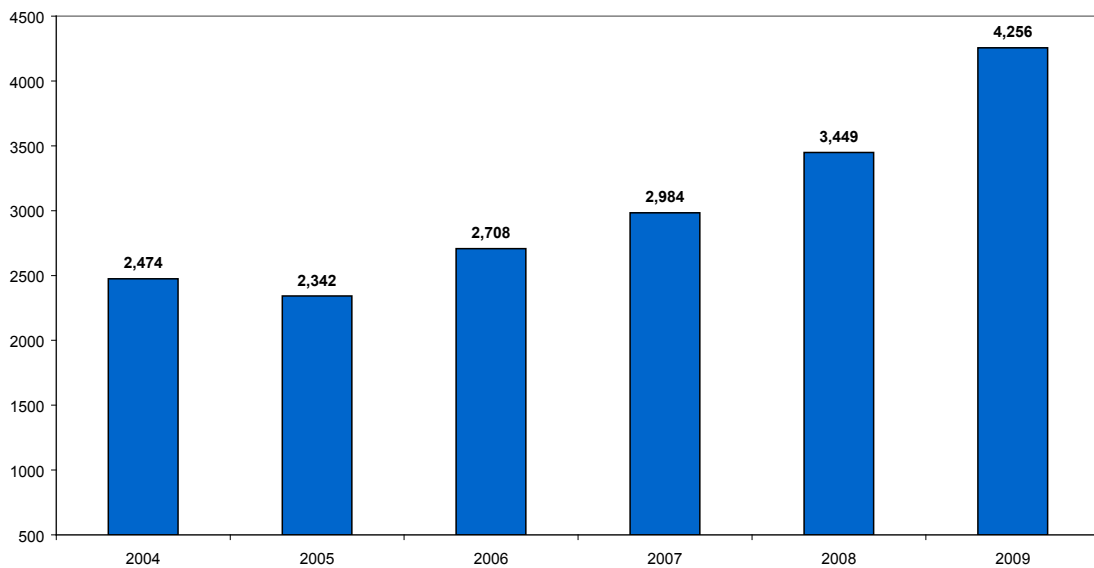
<b>Expenditure Divisions</b>	<b>Weights</b>	<b>Inflation rate June09/ June08</b>
Food and non-alcoholic beverages	19.9	7
Alcoholic beverages, tobacco	2.1	3.3
Clothing and footwear	6.2	2.5
Housing, water, electricity, gas and other fuels	25.7	
<i>Housing</i>	16.2	0
<i>Water, electricity, gas and other fuels</i>	9.5	-19.6
Furnishings, household equipment and routine household maintenance	3.9	4.4
Health	6.8	-1.3
Transportation	12.3	-2
Communication	4.8	-13.1
Recreation, amusement, and culture	3.7	0.2
Education	7.7	4
Restaurants and hotels	2.7	10.9
Miscellaneous goods and services	4.2	1.4
<b>Consumer price index (reference month December 2007)</b>	100	-0.7

Source: Central Administration of Statistics

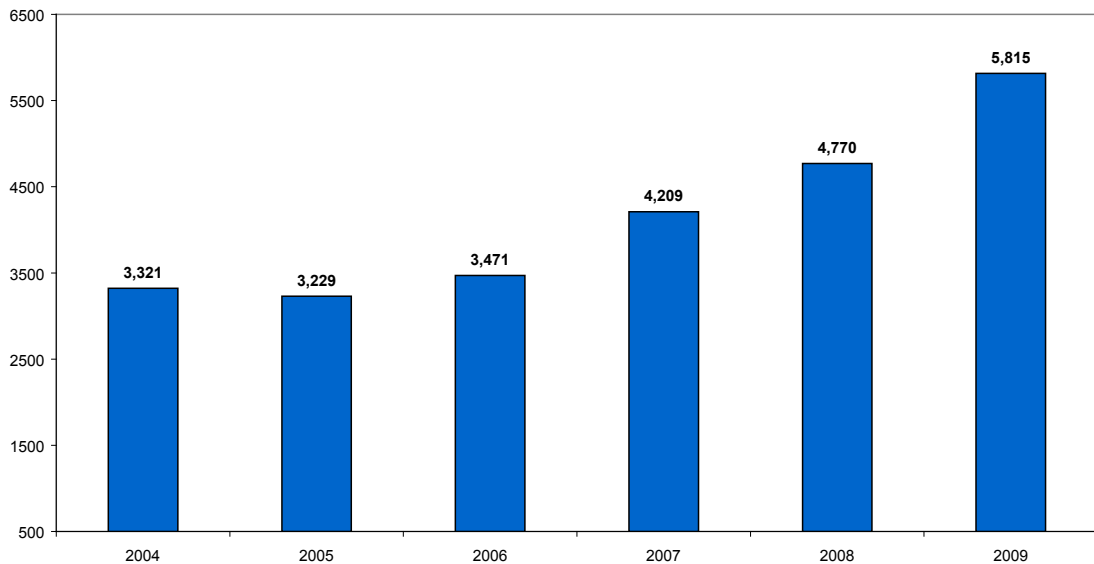
## PUBLIC FINANCES

Reflecting strong efforts by the government to rein in the debt, one of the pillars of its reform agenda, public finances showed some progress in the first six months of 2009. Total revenues increased by 23.4% to \$4.2 billion, in comparison with \$3.4 billion in 2008; while total expenditures went up by 21.9% to \$5.8 billion in the first half of 2009 from around \$4.8 billion in the same period of 2008. However, the overall deficit totaled \$1.5 billion in the first six months from \$1.3 billion up to June 2008.

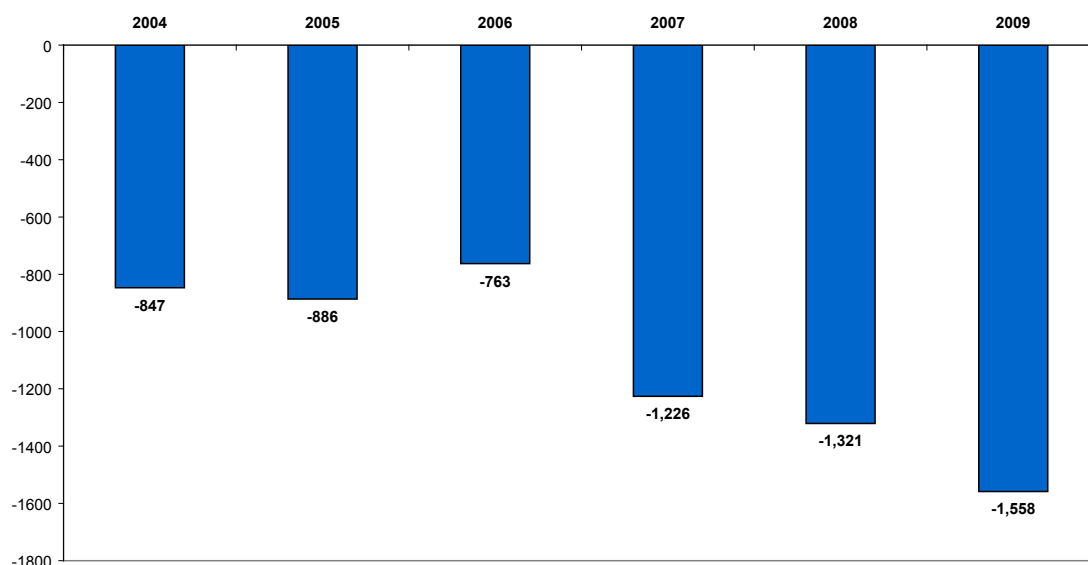
**Revenues in Million USD**  
First six months of the year



**Expenditures in Million USD**  
First six months of the year

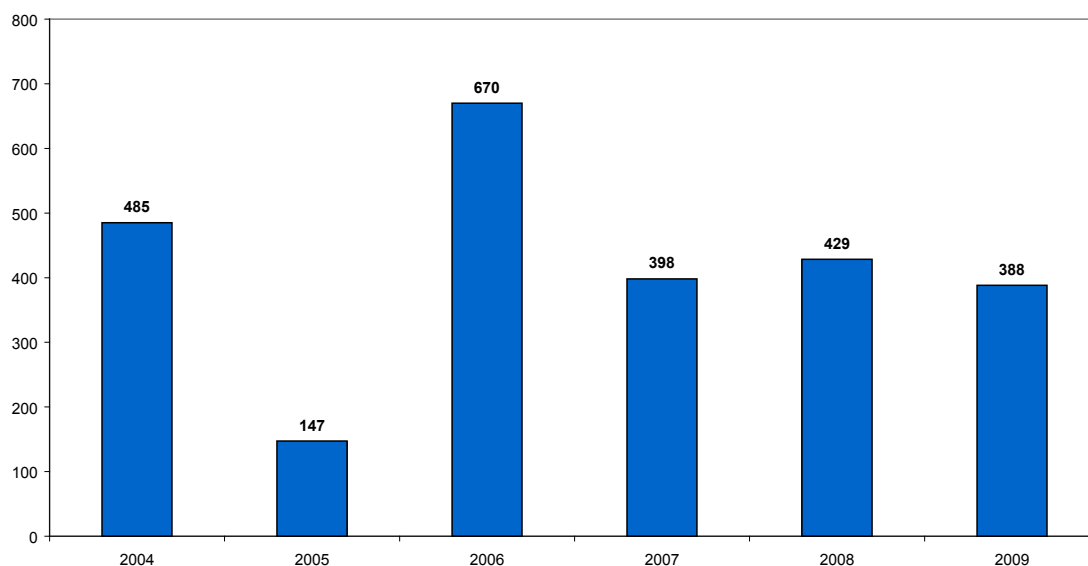


**Fiscal Balance in Million USD  
First six months of the year**



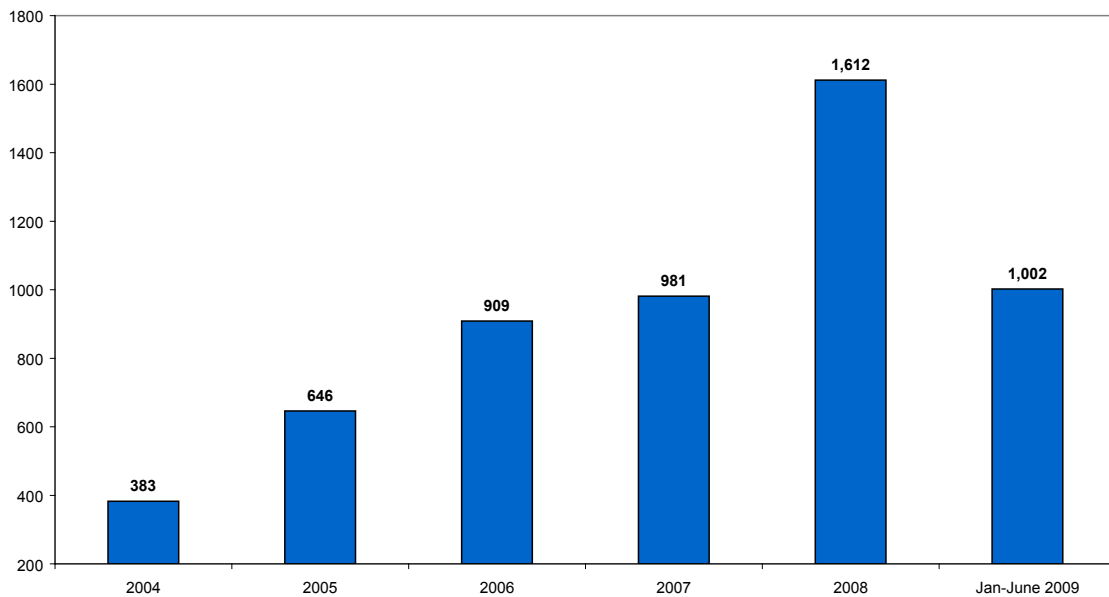
The primary balance, i.e. the total balance minus interest payments on the debt, decreased by 9.5% from a surplus of \$429 million in the first six months of 2008 to a surplus of \$388 million in the same period of 2009. This is explained by a relatively higher increase in primary expenditures of 28% or \$847 million in the first semester of 2009; as compared to the corresponding increase in total receipts of 23% or \$807 million in the same period.

**Primary Balance in Million USD  
First six months of the year**



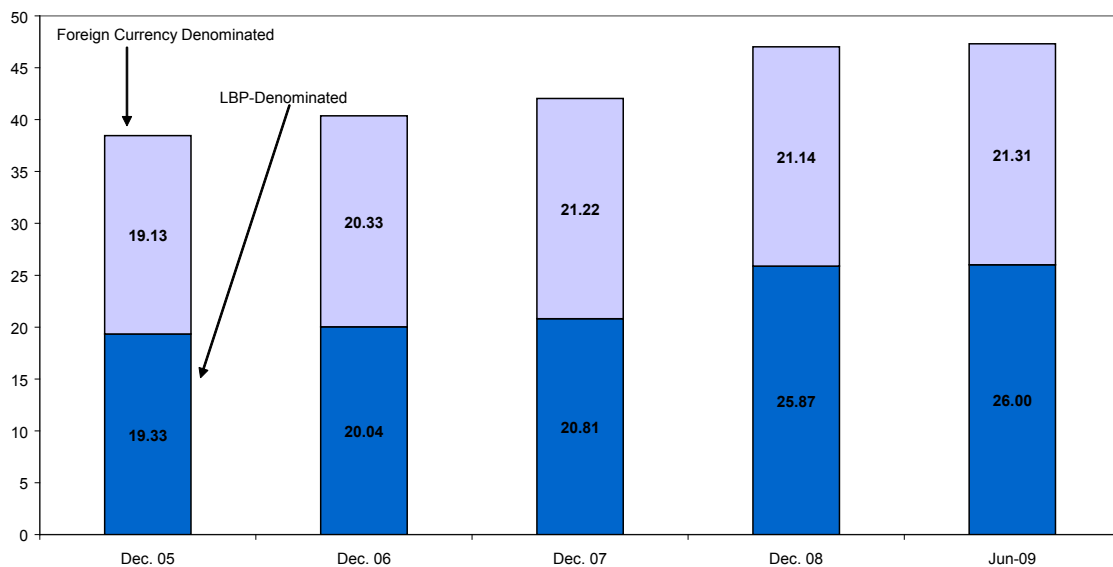
Transfers to the state-owned electricity company (EDL) have been expanding over the past few years, mostly due to rising oil prices, but also to technical and non-technical losses. Transfers jumped by 8% in 2007, and increased by another 64% to reach \$1.612 billion in 2008. This trend is expected to continue in 2009, and indeed, in the first half of 2009, transfers to EDL reached a total of \$1,002 million, implying that transfers could exceed \$2 billion this year.

**Transfers to Electricité du Liban in Million USD**



Gross public debt increased by around 0.6% from \$47.01 billion at end 2008 to \$47.31 billion at end June 2009. The debt in local currency exceeds the foreign currency denominated debt.

**Gross Public Debt in Billion USD**



**Projected Monthly Maturities of Outstanding TB's Portfolio Denominated  
in LBP as at June 30, 2009 (Million USD)**

Year	Month	Category						Total
		3-month	6-month	12-month	24-month	36-month	60-month	
2009	Aug-09	54	135	31	10	401		631
	Sep-09	3	84	111	7	648		854
	Oct-09		35	44	5	779		862
	Nov-09		21	86	12	275		393
	Dec-09		50	18	5	571		645
	<b>Total</b>		<b>57</b>	<b>326</b>	<b>291</b>	<b>38</b>	<b>2,673</b>	
2010	Jan-10			96	45	168		310
	Feb-10			166	11	101		278
	Mar-10			143	7	103	131	383
	Apr-10			40	40	176	610	866
	May-10			32	89	545		665
	Jun-10			65	175	118		358
	Jul-10				40	946		986
	Aug-10				11	874		884
	Sep-10				201	552		753
	Oct-10				17	295		312
	Nov-10				48	427		474
	Dec-10				13	1,073		1,086
	<b>Total</b>				<b>542</b>	<b>697</b>	<b>5,378</b>	<b>740</b>
2011	Jan-11				154	385		539
	Feb-11				82	1,264		1,347
	Mar-11				103	1,000	265	1,369
	Apr-11				114	521		635
	May-11				30	255		285
	Jun-11				24	1,522		1,546
	Jul-11					1,055		1,055
	Aug-11					1,244		1,244
	Sep-11					650		650
	Oct-11					626		626
	Nov-11					595		595
	Dec-11					366		366
	<b>Total</b>					<b>507</b>	<b>9,484</b>	<b>265</b>
2012	Jan-12					630		630
	Feb-12					354		354
	Mar-12					389		389
	Apr-12					490		490
	May-12					538		538
	Oct-12						666	1,047
	Nov-12						351	351
<b>Total</b>						<b>2,782</b>	<b>1,017</b>	<b>3,799</b>
<b>Portfolio</b>						<b>20,317</b>	<b>2,023</b>	<b>24,797</b>

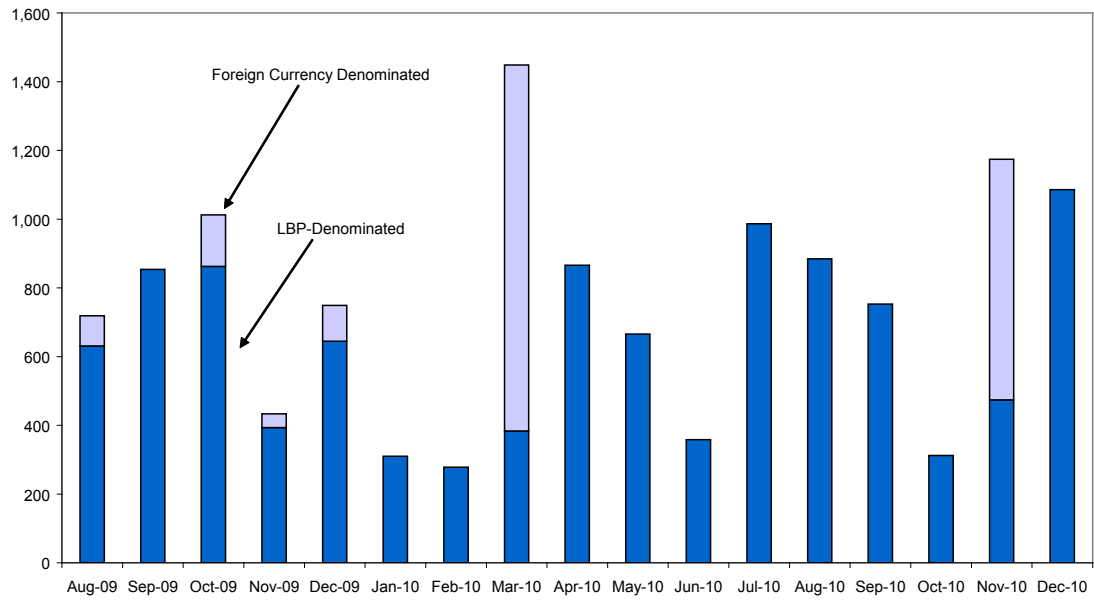
**Projected Monthly Maturities of Outstanding TB's Portfolio denominated  
in FC (Million USD) as at June 30, 2009**

Aug-09	88
Oct-09	150
Nov-09	40
Dec-09	104
Mar-10	1,065
Nov-10	700
May-11	1,000
Aug-11	750
Mar-12	600
Apr-12	752
Jul-12	200
Sep-12	600
Mar-13	875
Jun-13	650
Apr-14	677
May-14	882
Aug-15	500
Jan-16	750
May-16	400
May-17	1500
Jul-17	300
Dec-17	2,259
Mar-18	630
May-18	180
Apr-21	2,092

The monthly amortization payments show the equivalent of around \$10.7 billion in LBP-denominated (Treasury Bills) and around of \$2.1 billion in foreign-currency debt, falling due between the summer of 2009 and the end of 2010. We do not expect any problems with the government refinancing these payments through the local banking system as well as international bond issuances.



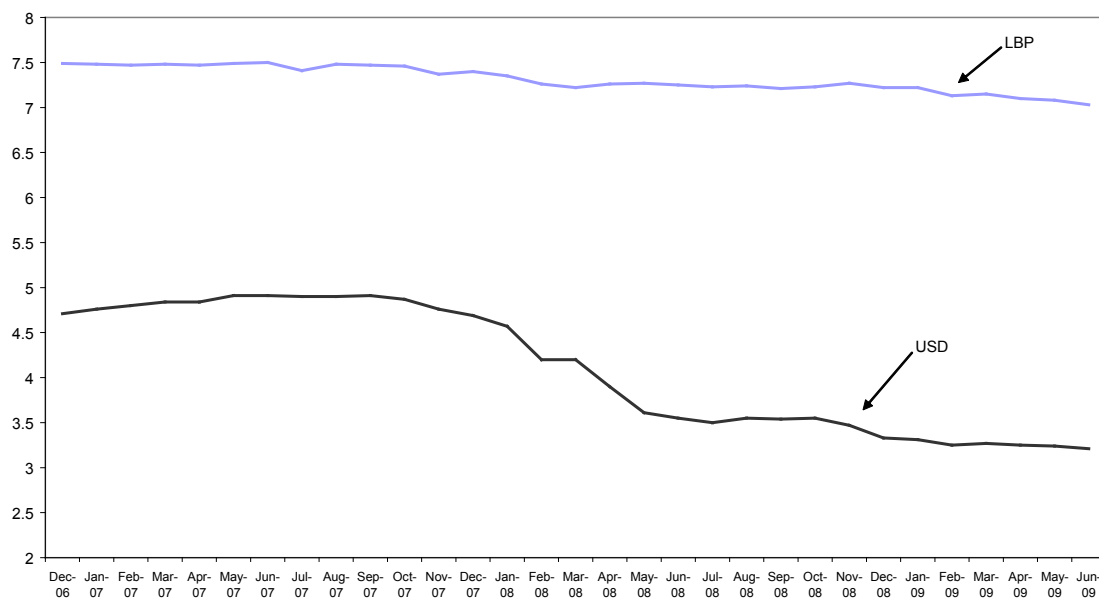
### Amortization Obligations in Million USD



## BANKING SECTOR AND FINANCIAL MARKETS

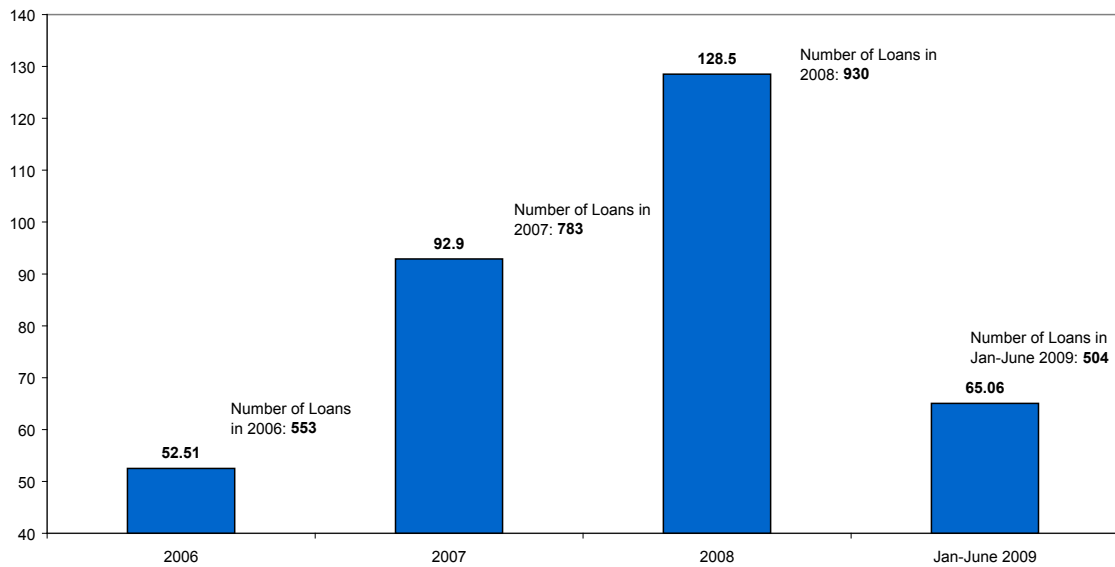
The banking sector has always played a key role in the Lebanese economy, by establishing a remarkable track record for overcoming political and security challenges. Total assets of the domestic commercial banks grew by around 14.6% in 2008 reaching over \$94 billion. This was accompanied by a 15.7% increase in total private sector deposits, to reach over \$77 billion in December 2008. The growth in deposits was not attributed to higher rates. Indeed, the average interest rate on LBP deposits remained relatively stable, and even declined a notch, while the average interest rate on USD deposits has edged down, by 34 bps from June 2008 to June 2009.

Average Interest Rates on Deposits in LBP and USD



Loans to the private sector increased by 18.6% year-on-year reaching \$21.06 billion in December 2008. Loans to the private sector also grew in the small and medium segments of the market (SME) as shown by loan guarantees offered by the state-sponsored organization Kafalat, which have been growing over the past few years, reaching \$128.5 million or 930 loan guarantees in 2008, up by 38% from 783 the previous year 2007. As for the first semester of 2009, extended loans to small and medium sized enterprises under the guarantee of Kafalat totaled \$65.06 million, 24% higher than the total result registered in the equivalent period in 2008.

### Kafalat Total Loan Guarantees in Million USD



Assets in the first six months of 2009 grew by 10% compared with the equivalent period of 2008. As for total private sector deposits, they reached \$85.8 billion in the first six months of 2009, up by 19.2% from June 2008. Residents' deposits reached \$71.9 billion in June 2009, compared to \$61.5 billion in June 2008. Non-residents' deposits increased by 20% in the first six months of 2009. Non-residents' deposits have also increased by 31.2% year-on-year in June 2009.

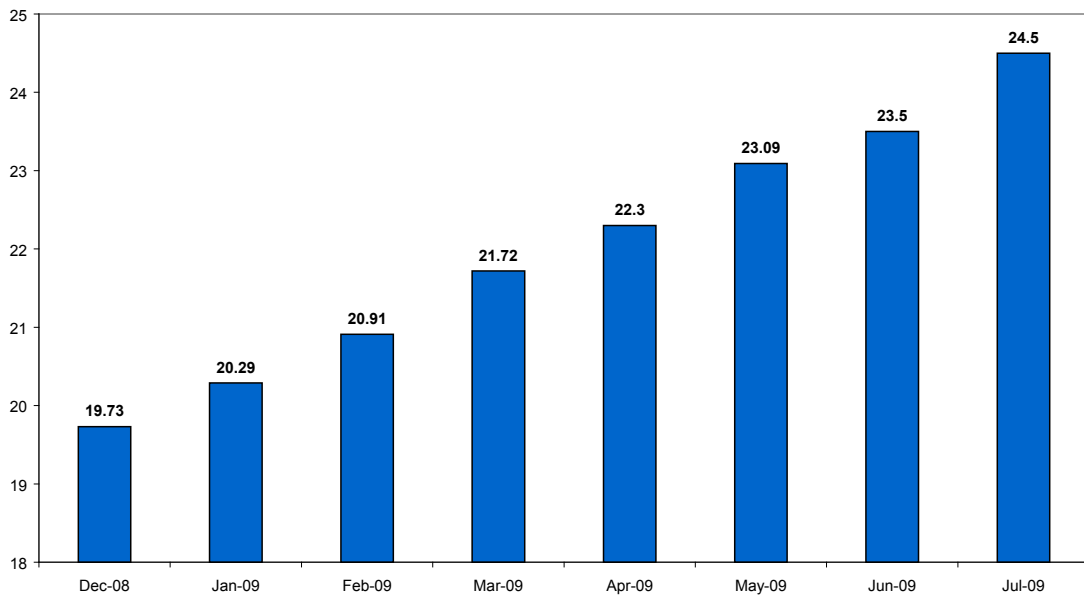
**Consolidated Balance Sheet of Lebanese Commercial Banks**  
**USD Billion**

<b>Assets</b>	<b>Dec-07</b>	<b>Jun-08</b>	<b>Dec-08</b>	<b>Jun-09</b>	<b>Jun09/Jun08 %</b>
Deposits at BDL	19.628	22.147	25.731	32.371	45.782
Claims on Private Sector	17.753	20.147	21.081	22.435	11.356
in LBP	2.779	3.014	3.362	3.810	24.414
in USD	14.973	17.134	17.700	18.625	8.703
Claims on Public Sector	21.508	23.044	25.416	25.280	9.701
in LBP	10.433	12.395	15.062	13.965	12.668
in USD	11.075	10.608	10.354	11.315	6.666
Foreign Assets	20.710	19.670	19.127	20.178	2.583
Claims on Non-Resident Banks	14.553	12.198	11.390	12.735	4.372
<b>Liabilities</b>					
Resident Private Sector Deposits	57.699	61.566	66.274	71.973	16.903
in LBP	14.781	17.690	22.759	26.759	51.269
in USD	42.918	43.877	43.515	45.215	3.048
Public Sector Deposits	0.771	0.967	0.883	0.980	1.441
Non-Residents Deposits	9.588	10.523	11.506	13.806	31.198
in LBP	0.468	0.598	0.907	1.552	159.424
in USD	9.121	9.924	10.599	12.253	23.468
Deposits of Non-Residents Banks	4.052	4.532	4.305	4.580	1.054
Capital Account	6.261	6.630	7.101	7.511	13.287
<b>Balance Sheet (Assets=Liabilities)</b>	<b>82.255</b>	<b>88.451</b>	<b>94.255</b>	<b>103.620</b>	<b>17.149</b>

Source: BDL

Lebanese financial markets were largely unaffected by the stalemate that persisted throughout 2008 and the first seven months of 2009. In this context, the Central Bank succeeded in boosting its gross international reserves during the past few months, as remittances to Lebanon remained high. With the onset of the financial crisis as expatriates are seeking out the relative safety of Lebanon's banks which have remained solid despite the prevailing financial turmoil in many regions of the world. In this context, gross international reserves reached \$24.5 billion as of end of July 2009, increasing by 24% from December 2008 and by 49% on a year on year basis.

**BDL Gross International Reserves in Billion USD**



Closing prices on the stock market have been going up steadily since the end of December 2008 up until the 25th of August 2009, the last day of trading before this report was published. An important development was the Beirut Stock Exchange (BSE) rally in the wake of the June 2009 Parliamentary elections, which passed smoothly and without incident, as investors responded positively to a significant improvement in the political climate. The BSE trading volume rose almost 350% to reach 4.59 million during the week after the parliamentary elections, with around 46 million shares changing hands, compared to about 1 million in the week preceding the elections which is significantly higher than the average of 705,000 per week since the beginning of the year 2009. The trading value showed a marked increase from \$20.5 million in the week before the elections (June 1-5) to \$99.0 million in the week after the elections. This is compared to \$8.2 million traded during the five-day week May 26-30. The average daily trading value for the post-election week was \$24.7 million, more than six times the \$4.1 million traded in the previous week. Accordingly the trading index climbed 495% to 1080.76

Demand was highest for Solidere A and Solidere B shares which dominated the market, reflecting renewed confidence in the company after the election results. In fact, the Solidere stock prices, of each of the class A and B, increased by 15% in only one day following the parliamentary elections. Solidere accounted for 94% of turnover, the lion's share, in the week following the elections; as compared with 74% of activity during the previous week (June 1-5).

## Closing Price (USD)

Listed Securities	31-Dec-08	25-Aug-09
Solidere A	16.54	23.18
Solidere B	16.70	22.97
Bank Audi - GDR	53.45	64.15
Byblos Bank	1.60	1.75
Byblos Bank priority	1.64	1.77
BLOM Bank - GDR	72.85	78.5
Holcim Liban	15.93	12.56
<b>Market Capitalisation (in USD)</b>	<b>9,608,582,507</b>	<b>10,943,349,593</b>

## Closing Price (USD)

Listed Securities	5-Jun-09	12-Jun-09	% Change
Solidere A	20.01	23.7	18.4
Solidere B	20.03	23.57	17.6
Bank Audi - GDR	60	64.9	8.3
Byblos Bank	1.8	1.86	3.3
Byblos Bank priority	1.82	1.85	1.6
BLOM Bank - GDR	68	71.9	5.7
Holcim Liban	13.4	13.7	2.2
<b>Weekly Trade Value (in USD)</b>	<b>20,497,711</b>	<b>98,790,174</b>	<b>381.9</b>

## THE BOTTOM LINE

It is now clear that the Lebanese economy has revived itself, after a period of uncertainty following the tragic assassination of Prime Minister Rafic Hariri in 2005. Real economic indicators all increased in 2008 and 2009; responding to the easing of political and security tensions in Lebanon, and furthermore, following the smooth conduct of the June 2009 Parliamentary elections. A return to high growth rates of 7.5% in 2007 and 8.5% in 2008 has been supported by a strong tourist showing, a revival of investor confidence in Lebanon as well as increased domestic spending. Moreover, in spite of the negative external conditions prevailing under the current economic crisis worldwide; Lebanon is expected to register a GDP growth rate in excess of 6% in 2009. Inflation is expected to decline to around 2% in 2009, from 5.5% in 2008, as external inflationary pressures ease, world commodity prices fall and the dollar strengthens against other world's currencies.

The improvement in overall economic performance has allowed fiscal performance to maintain acceptable results. Lebanon's fiscal performance up to the end of June showed a broad increase in the government's revenues by 23 % to \$4.3 billion in the first six months of 2009 compared to \$3.5 billion in the same period in 2008. The spike in revenues was driven in large part by a 101% leap in taxes on international trade and by a solid 16% increase in collected VAT. At \$3.04 billion, tax revenue accounted for over 75% of fiscal revenue in the first six months of 2009. In parallel, non-tax revenues grew 12% to \$987 million.

On the expenditure side, total public spending reached \$5.8 billion in the first semester of 2009, up by 22% year-on-year. This rise was mainly driven by a 15% increase in interest payments on both local and foreign currency debt. The overall fiscal balance, i.e. revenues minus expenditures recorded a deficit of \$1.6 billion up to June 2009, compared to \$1.3 billion in the same period of 2008. This is particularly commendable in an election year, when spending pressures usually mount.

The international sector has been providing good support to domestic economic growth. Even with the large trade deficit, the balance of payments registered a record surplus in 2008 of \$3.46 billion, compared to \$2.04 in 2007. This resulted from strong capital inflows in the wake of the Doha Accord, which ended the political stalemate, along with increased transfers from Lebanese expatriates seeking out the relative safety of Lebanese bank amidst the global financial crisis. This trend has continued in the first six months in 2009 resulting in a BOP surplus of \$2.1 billion. Moreover, the public debt level that peaked at an estimated 178 % of GDP in 2006 has significantly decreased to around 160% of GDP in 2008 and is expected to decline further by end-2009.

The Lebanese economy has performed well, despite the financial crisis, registering strong growth in the face of external shocks. The stable and conciliatory political climate has been a key factor in laying the foundation for solid economic growth over the year. Banking performance for the year 2008 and the first six months of 2009 has proven the remarkable resilience of the Lebanese banking sector and its ability to weather the international financial crisis so far. The sector has expanded on all fronts: assets, private sector deposits, credit to the private sector, capitalization, profits and at the infrastructural level with increases in the number of staff and branches. In fact by end-June 2009, total assets reached \$103.6 billion, up 17.2% from their end-June 2008 figure. Loans to the private sector totaled \$22.4 billion at the end June-2009, up by 11.4% from June 2008. On the liabilities' side, total private sector deposits have increased by 18.8% year on-year to reach \$85.7

billion in June 2009. Also, continuing conversions from foreign currency deposits to Lebanese Pound deposits led to a drop in the dollarization rate to around 67% at end-June 2009; pointing to a high level of confidence in the Lebanese pound. The conservative regulatory framework imposed by the Central Bank has been instrumental in shielding the banking sector from direct losses related to exposure to toxic debt in the US market; as banks grew their balance sheets, maintained their liquidity, and increased their profitability in 2009.

One of the main challenges in the near-term is to maintain the Lebanese economy's relative insulation from the real effects of the global financial crisis; in case we end up in a double-dip (or w-shaped) recession, which is looking less and less likely. It is also important to maintain the momentum of growth and insulate it as much as possible from any political complications on the national and regional levels. The new government will need to implement action plans aimed at stimulating the economy and creating jobs by hastening the implementation of public investment projects, providing incentives to private investment and by implementing several fiscal measures to add liquidity back into the market. On the top of its priorities should be reforming and liberalizing the power and telecom sectors which would simultaneously reduce the stock and flow of debt, and contribute to GDP growth by enhancing productivity and reducing the cost of production. If these reforms are accomplished, we would be set to discover that the potential GDP growth for Lebanon may well be in excess of 10%.



## TABLES



## General Economic Indicators

	2005	2006	2007	2008	2009
Real GDP growth (in %)	1.08	0.0	4	8.5	6
Inflation (in %)	0.5	7.2	9.2	5.5	2.2
GDP (in billion \$)	21.4	22.6	24.64	29.3	31.7
Government Revenues** (in million \$)	4,912	4,838	5,804	7,033	6,848
Government Expenditures** (in million \$)	6,768	7,879	8,350	9,955	9,662
Deficit** (in million \$)	1,856	3,041	2,546	2,921	2,816
Deficit** (in % of GDP)	8.4	13.4	10.3	10.0	8.9
Primary Balance** (in million \$)	489	-17	731	597	776
Primary Balance** (in million \$)	2.2	0.0	3.0	2.1	2.5
Gross Public Debt* (in billion \$)	38.48	40.40	42.03	47.01	47.31
of which LBP* (in billion \$)	19.33	20.00	20.81	25.87	26
of which USD* (in billion \$)	19.15	20.40	21.22	21.14	21.31
Gross Public Debt* (in % of GDP)	174	178	171	160	149
Export of Goods** (in million \$)	1,880	2,282	2,816	3,478	3,376
Imports of Goods** (in million \$)	9,343	9,398	11,818	16,137	15,662
Trade Deficit** (in million \$)	7,463	7,116	9,002	12,659	12,286
Trade Deficit** (in % of GDP)	33.8	31.5	36.6	43	39
Current Account Deficit** (in million \$)	2,517	1,549	2,634	3,920	2,695
Current Account Deficit** (in % of GDP)	12.6	6.9	10.7	13.4	8.5
Net Foreign Direct Investment*** (in million \$)	2,629	2,724	2,366	3,529	1,934
Balance of Payments Flows* (in million \$)	747	2,795	2,036	3,462	2,101
BDL FC Reserves* (in million \$)	11,657	12,975	12,844	19,730	23,501
BDL Reserves* (in % of M2)	72	83	78	80	81

Source: IMF, Ministry of Finance, BDL, and BankMed

\*As of June 2009

\*\*Annualised figures for 2009

\*\*\*IMF figure, assuming privatisation of telecom

### Total Imports and Exports By Product (Million USD)

Goods	Imports		Exports	
	Jan-Jun 2008	Jan-Jun 2009	Jan-Jun 2008	Jan-Jun 2009
Live animal, animal products	265	338	8	7
Vegetable products	376	321	50	53
Fats, edible fats and oils	79	60	8	9
Prepared foodstuffs	385	441	143	136
Mineral products	1,954	1,540	58	53
Products of the chemical	658	664	181	104
Plastic and articles thereof	283	252	71	60
Raw hides and skins, leather, furskins	24	27	6	4
Wood and articles of wood	108	107	15	17
Paper, paperboard and articles thereof	183	168	97	115
Textiles and textile articles	281	320	58	52
Footwear, headgear, prepared feathers	43	55	10	9
Articles of stone, plaster, cement	116	146	33	33
Pearls, precious stones and metals	246	265	320	522
Base metals and articles of base metal	663	472	341	139
Machinery and mechanical appliances	776	969	259	248
Transport equipment	670	1,403	16	60
Optical instruments and apparatus	102	130	11	12
Arms and ammunition	6	9	1	0
Miscellaneous manufactured articles	93	139	57	54
Works of art	2	6	6	4
<b>Total</b>	<b>7,314</b>	<b>7,831</b>	<b>1,746</b>	<b>1,688</b>

Source: Directorate General of Customs

### Imports By Origin (Million US Dollars)

	Jan-Jun 2008	Share %	Jan-Jun 2009	Share %
France	614	8.4	974	12.4
USA	892	12.2	720	9.2
China	566	7.7	692	8.8
Germany	441	6.0	594	7.6
Italy	603	8.2	559	7.1
Japan	243	3.3	323	4.1
Turkey	265	3.6	315	4.0
Russia	328	4.5	278	3.5
UK	206	2.8	234	3.0
Korea	123	1.7	191	2.4
Egypt	257	3.5	189	2.4
Kuwait	153	2.1	187	2.4
Other Countries	2,623	35.9	2,575	32.9
<b>Total Imports</b>	<b>7,314</b>	<b>100.0</b>	<b>7,831</b>	<b>100.0</b>

Source: Directorate General of Customs

### Exports By Destination (Million US Dollars)

	Jan-Jun 2008	Share %	Jan-Jun 2009	Share %
Switzerland	211	12.1	395	23.4
UAE	161	9.2	160	9.5
Iraq	104	6.0	154	9.1
Saudi Arabia	95	5.4	127	7.5
Syria	107	6.1	99	5.9
Belgium	46	2.6	61	3.6
France	29	1.7	55	3.3
Jordan	57	3.3	52	3.1
Qatar	44	2.5	40	2.4
Turkey	130	7.4	39	2.3
Kuwait	46	2.6	36	2.1
Egypt	81	4.6	31	1.8
Iran	21	1.2	28	1.7
Other Countries	614	35.2	411	24.3
<b>Total Exports</b>	<b>1,746</b>	<b>100.0</b>	<b>1,688</b>	<b>100.0</b>

Source: Directorate General of Customs

## Fiscal Performance Summary (LBP Million)

	2005	2006	2007	2008	2009 Jan-Jun
<b>1. Budget Transactions</b>					
<b>1.1 Revenues</b>	<b>6,984,222</b>	<b>6,867,491</b>	<b>8,093,626</b>	<b>9,794,988</b>	<b>6,074,746</b>
1.1.1 Tax Revenues	4,866,834	4,922,218	5,582,892	7,182,422	4,586,227
Tax Revenues other than customs and VAT	1,905,860	2,189,561	2,332,796	3,010,956	1,930,705
Customs Revenues	1,267,578	1,073,924	1,246,891	1,587,685	1,278,655
VAT Revenues	1,693,396	1,658,733	2,003,205	2,583,801	1,376,867
1.1.2 Non Tax Revenues	2,117,388	1,945,273	2,510,734	2,612,546	1,488,519
<b>1.2 Expenditures</b>	<b>7,802,216</b>	<b>8,640,901</b>	<b>10,070,335</b>	<b>10,983,537</b>	<b>6,186,042</b>
1.2.1. Expenditures excluding debt service	4,267,913	4,084,093	5,130,184	5,679,107	3,250,858
1.2.2 Debt Service	3,534,303	4,556,808	4,940,151	4,957,351	2,787,364
1.2.2.1 Domestic Debt	1,532,600	2,368,158	2,515,417	2,847,301	1,697,765
1.2.2.2 Foreign Debt	2,001,703	2,188,650	2,424,734	2,110,050	1,089,599
<b>2. Treasury Transactions</b>					
<b>2.1 Receipts</b>	<b>421,251</b>	<b>427,365</b>	<b>655,404</b>	<b>757,813</b>	<b>341,945</b>
2.1.1 Trust accounts/Guarantees	74,595	68,809	109,121	88,161	38,835
2.1.2 Municipalities	187,172	137,408	155,618	207,359	109,455
2.1.3 Deposits	66,278	74,244	77,834	81,384	45,872
2.1.4 Other	93,206	146,904	312,831	380,909	147,783
<b>2.2 Payments</b>	<b>2,401,059</b>	<b>3,235,648</b>	<b>2,516,551</b>	<b>3,973,259</b>	<b>2,579,679</b>
2.2.1 Trust accounts/Guarantees	894,486	504,116	245,951	289,417	371,650
2.2.2 Municipalities	384,188	404,778	306,451	526,658	135,945
2.2.3 Deposits	73,663	59,669	84,260	83,620	40,031
2.2.4 Other	1,048,722	2,267,085	401,084	643,485	521,543
2.2.5 EDL	974,000	1,370,000	1,478,805	2,430,079	1,510,510
<b>3. Total Budget and Treasury Receipts</b>	<b>7,405,473</b>	<b>7,294,856</b>	<b>8,749,030</b>	<b>10,552,801</b>	<b>6,416,691</b>
<b>4. Total Budget and Treasury Payments</b>	<b>10,203,275</b>	<b>11,876,549</b>	<b>12,586,886</b>	<b>14,956,796</b>	<b>8,765,721</b>
<b>5. Total Deficit/Surplus (cash basis)</b>	<b>-2,797,802</b>	<b>-4,581,693</b>	<b>-3,837,856</b>	<b>-4,403,995</b>	<b>-2,349,030</b>
<b>6. Total Primary Deficit/Surplus</b>	<b>736,501</b>	<b>-24,885</b>	<b>1,102,295</b>	<b>900,435</b>	<b>586,154</b>

Source: Ministry of Finance

## Gross Public Sector Debt Outstanding

	Dec. 05	Dec. 06	Dec. 07	Dec. 08	May 09
<b>in LBP Billion</b>					
<b>Total Gross Public Debt</b>	<b>57,985</b>	<b>60,851</b>	<b>63,364</b>	<b>70,888</b>	<b>71,957</b>
<b>Domestic Debt</b>	29,141	30,204	31,373	39,007	39,662
a. Central Bank (including REPOs and loans to EDL)	11,686	9,588	9,052	8,781	10,467
b. Commercial Banks	14,130	16,487	16,847	24,320	22,915
c. Other Domestic Debt (T-Bills)	3,325	4,129	5,474	5,906	6,280
o/w Public entities	2,446	3,313	4,796	5,062	5,345
<b>Foreign Debt</b>	28,844	30,647	31,991	31,881	32,295
a. Bilateral Multilateral Foreign Private sector loans	2,789	2,855	2,963	2,802	2,725
b. Paris II Related Debt (Eurobonds and Loans)	6,501	6,540	6,063	5,456	5,316
c. Paris III Related debt (Eurobonds)			1,357	1,849	1,850
d. Market Eurobonds	18,729	20,399	20,780	20,925	21,553
e. Accrued Interest on foreign currency debt	405,518	434,160	410,000	430,000	404,000
f. Special T-Bills in Foreign currency	419,085	419,085	419,085	419,085	447,000

	<b>in USD Billion</b>				
<b>Total Gross Public Debt</b>	<b>38.464</b>	<b>40.366</b>	<b>42.033</b>	<b>47.024</b>	<b>47.733</b>
<b>Domestic Debt</b>	19.331	20.036	20.811	25.875	26.310
a. Central Bank (including REPOs and loans to EDL)	7.752	6.360	6.005	5.825	6.943
b. Commercial Banks	9.373	10.937	11.175	16.133	15.201
c. Other Domestic Debt (T-Bills)	2.206	2.739	3.631	3.918	4.166
o/w Public entities	1.623	2.198	3.181	3.358	3.546
<b>Foreign Debt</b>	19.134	20.330	21.221	21.148	21.423
a. Bilateral Multilateral Foreign Private sector loans	1.850	1.894	1.966	1.859	1.808
b. Paris II Related Debt (Eurobonds and Loans)	4.312	4.338	4.022	3.619	3.526
c. Paris III Related debt (Eurobonds)			0.900	1.227	1.227
d. Market Eurobonds	12.424	13.532	13.784	13.881	14.297
e. Accrued Interest on foreign currency debt	269	288	271.973	285.240	267.993
f. Special T-Bills in Foreign currency	278	278	278	278	296.517

Source: Ministry of Finance

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