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first half 2010

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LEBANON'S MACROECONOMY IN THE FIRST HALF OF 2010

[EXECUTIVE SUMMARY]

Lebanon's Macroeconomy has recorded better results in the first half of 2010 as compared to the same period last year:

- The number of property sales increased by 39%.
- The number of tourists increased by 26.62%.
- The number of passengers at the HIA grew by 19%.
- The freight activity at the Beirut Port increased by 5.2%.
- The amount of cleared checks increased by 37.18%.
- The number of car sales increased by 8.2%.
- Hotel occupancy rate increased to 72%.
- The fiscal deficit declined by 41.21%.
- The net public debt surged moderately by 2.65%.
- The Central Bank's foreign-currency assets increased by 28.9% to USD 30.3 billion.
- The banking sector's total assets grew by 20.36% to USD 121.68 billion.
- The BSE total trading volume increased by 66.22%.
- Net capital inflows decreased by 5.6% to USD 7.78 billion.
- The balance of payments recorded a surplus of USD 1.314 billion.
- Economic growth is forecasted between 5-6% this year.

[INTRODUCTION]

The Lebanese macroeconomy has achieved a better growth in the first half of 2010 relative to the same period of 2009. The real sector's performance was better, as indicated by enhanced indicators of the major sectors.

The public finances have partially improved with lower deficit ratio, and higher primary surplus.

The monetary situation has continued its stability, accompanied by a growing banking sector.

The balance of payments achieved a surplus but lower than the one recorded in 2009.

The Lebanese macroeconomy is expected to achieve a positive growth in the next two years but at lower pace than 2009 if political conditions remain stable, and economic conditions continue to be good.

[I. REAL SECTOR]

The real sector activity has improved in the first half of 2010, as compared to the same period as of 2009, which is clearly reflected in the evolution of its major indicators that are mentioned in the following:

1. Construction and Real Estate

According to the figures released by the Directorate of Real Estate, the number of property sales operations reached 45,939 operations, with an increase of 39% in the first six months of 2010 relative to the same period of the previous year. The total value of property sales reached USD 4.72 billion, which had increased by 91.87% when comparing the first six months of 2010 to those of 2009. The average value per sale became USD 102.62 thousand, 38% higher than the average of the first six months of 2009.

Moreover, cement deliveries increased by 9.2% in the first half of 2010, to reach 2,586,913 tons. This increase in the construction activity reflects the high investment level in Lebanon's real estate.

2. Tourism

The figures released by the Ministry of Tourism for the first six months of 2010 showed that this sector's activity has grown by 26.62%, as compared to the same period as of 2009, as the number of tourists has increased to reach 964,067 tourists, resulting from the stable political situation. The majority of tourists were from Arab countries with 40% of total visitors, followed by Europeans, Asians and Americans with 24%, 19% and 12% respectively.

3. Tax Free Purchases

Based on the Figures released by Global Blue, tax free purchases have increased by 28% as compared to the same period as of last year. It is headed by tourists from the Arab countries, who continued to capture the largest share of total spending in Lebanon. This, of course, shows a more active tourism activity during this year's first half.

4. Airport Activity

Figures released by the Hariri International Airport (HIA) showed that passengers' activity witnessed a 19% increase in the first six months of 2010 relative to the same period a year ago. In total, 2,409,359 passengers used the HIA in the said period. Aircraft movements at the airport also improved during the said period to reach 30,572 flights, which were divided into 15,283 arriving planes and 15,289 departing planes.

5. Port of Beirut

According to the Port of Beirut that handles the majority of the country's imports and exports, the number of ships was 1,176 in the first half of 2010, which is lower by 2% as compared to the same period in 2009. The freight activity at the Port increased by 5.2% to reach 3,289 thousand tons. The number of containers at the Beirut Port increased by 3.9% reaching 289,899 containers as per the first six months of 2010. Port revenues reached USD 80.6 million in the first half of 2010, an increase of 5% as compared to the same period as of 2009.

6. Clearing Activity

According to the Association of Banks in Lebanon for the figures concerning the first half of 2010, the amount of cleared checks has increased by 37.18% as compared to the same period last year, to reach an amount of USD 28.3 billion. This is caused by the increase in checks denominated by local currency 22.7%, which amounted to USD 5.4 billion, and the growth in checks denominated in foreign currency 41% with an amount of USD 23 billion.

7. Car Sales

The Association of Automobile Importers in Lebanon indicates that a total of 15,892 new cars were sold in the first six months of 2010, with an increase of 8.2% from the same period in the last year.

8. Hotel Occupancy

According to the survey conducted by Ernst & Young concerning the occupancy rate at Beirut hotels, it reached 72% in the first half of 2010, as compared to 69% for the same period last year. The average rate per room reached USD 246 in the first half of 2010, an increase of 16.04% as compared to the same said period as of last year. Furthermore, revenues per available room reached USD 179 in the first half of 2010, an increase of 21.77% in the first six months of 2010 as compared to the same period of 2009.

9. Kafalat Loan Guarantee

Based on the figures released by the Kafalat corporation, loans under the guarantee of Kafalat has increased by 36.8% in the first half of 2010, reaching an amount of USD 88.93 million, as compared to USD 64.7 million in the same period of 2009. The number of loan guarantee reached 749 in the said period, as compared to 499 in the same period of previous year. The average loan size reached USD 118,734 in the first six months of 2010, as compared to USD 129,562 in the same period of the previous year.

REAL SECTOR'S INDICATORS

INDICATORS	1ST HALF 2010	1ST HALF 2009	VARIATION
Number of property sales	45,939	33,050	39%
Value of property sales (in billion of USD)	4.72	2.46	91.87%
Average value per property sale (in USD)	102,620	74,362	38%
Cement deliveries (in tons)	2,586,913	2,368,968	9.2%
Number of tourists	964,067	761,386	26.62%
Number of ships at port	1,176	1,200	-2%
Number of passengers at HIA	2,409,359	2,024,672	19%
Cleared checks (in billion of USD)	28.3	20.63	37,18%
Number of car sales	15,892	14,688	8.2%
Average rate per room (in USD)	246	212	16.04%

Source: Official Departments

[II. PUBLIC FINANCES]

Public finances have improved year-on-year, with lower fiscal deficit, moderate public debt growth, and higher primary surplus.

1. Fiscal Deficit

Total spending in the first six months of 2010 was USD 5.259 billion, which is 9.56% lower than that of the same period as of last year, mainly because treasury spending decreased by 42.66%. This decline is due to decreased transfers to the electricity company (43.81%) and the diesel oil subsidy.

As for total government revenues that include budget and treasury receipts, they attained USD 4.342 billion in the first half of 2010, an increase of 2.04% as compared to the same period as of last year. Budget revenues reached USD 4.119 billion in the first half of 2010, an increase of 2.23% as compared to the same period of last year. Treasury revenues reached USD 223.21 million, a decrease by USD 3.62 million as compared to the same period as of last year.

Since the volume of total expenditures decreased in the first six months of 2010 and the volume of total revenues increased, in accordance this leads to a fiscal deficit of USD 917 million. The ratio of total deficit to total expenditures reached 17.43% in the first half of 2010, versus a higher rate of 26.8% in the same period of 2009. When excluding debt service, a primary surplus of USD 1.094 billion is reported, 181.31% higher than that of the same period as of 2009.

2. Public Debt

Based on the figures released by the Ministry of Finance, gross public debt reached USD 51.018 billion for the first half of 2010, with an increase of 7.86% from the same period as of 2009. Net public debt, which excludes public sector deposits in the banking system from overall debt figures, went up by 2.65% in the first half of the year to reach USD 44.14 billion.

The local currency debt accounted for 60.26% of gross public debt in the same said period, to an amount of USD 30.142 billion. This is due to the amount of debt held by financial institutions, in particular commercial banks, which remain the main carrier of the domestic debt portfolio. While foreign debt totaled USD 20.876 billion, which accounts for 39.74% of the gross public debt in the said period.

PUBLIC FINANCE'S INDICATORS

INDICATORS	1ST HALF 2010	1ST HALF 2009	VARIATION
Public revenues (in billion of USD)	4.342	4.255	2.04%
Public expenditures (in billion of USD)	5.259	5.815	-9.56%
Deficit (in million of USD)	917	1,560	-41.22%
Deficit /Expenditures (%)	17.43	26.8	-
Primary surplus (in million of USD)	1,094	388.9	181.31%
Gross public indebtedness (in billion of USD)	51.018	47.3	7.86%
Net public debt (in billion of USD)	44.14	43	2.65%

Sources: Ministry of Finance and Central Bank of Lebanon

[III. MONETARY SITUATION]

The Monetary Situation has continued its stability owing to better economic conditions and the prevailing monetary stabilization policy of the Central Bank of Lebanon.

1. Money Supply

In the first half of 2010, the money supply (M4) has increased by an amount of USD 5.08 billion, reaching USD 79.76 billion versus an amount of USD 74.68 billion over the same period of 2009. This is due to the increase in local currency denominated time deposits of USD 3.51 billion, a rise of foreign currency deposits of USD 1.51 billion, a growth in treasury bills of USD 84.9 million, and a decrease in money supply (M1) by USD 39.1 million.

2. Consumer Prices

Based on the figures issued by the Consultation and Research Institute (CRI) for the first half of 2010, the Consumer Price Index (CPI) has increased by 3.98% as compared to the same period last year. This increase in CPI was mainly due to the increase of 10.07% in prices of miscellaneous goods and services, a 7.82% rise in prices of food and beverages, and an increase of 2.27% in the price of housing.

3. Central Bank's Foreign Assets

The Central Bank's interim balance sheet has increased by USD 10.18 billion in the first half of 2010 to reach USD 58.23 billion, an increase of 21.18% as compared to the same period as of last year. Assets in foreign currencies reach USD 30.3 billion in the first half of 2010, an increase of 28.9% as compared to the same period as of last year. The Central Bank of Lebanon gold reserves increased to USD 11.47 billion in the first half of 2010, an increase of 32.4% as compared to the same period as of last year. The deposits of the financial sector reached USD 40.6 billion in the first half of 2010.

MONETARY SITUATION'S INDICATORS

INDICATORS	1ST HALF 2010	1ST HALF 2009	VARIATION
USD/LBP exchange rate	1,507.5	1,507.5	-
CB gross FX reserves (in billion of USD)	30.3	23.5	28.9%
Money supply M4 (in billion of USD)	79.76	74.68	6.8%
Price index (inflation rate)	3.98%	3.47%	-
CB gold reserves (in billion of USD)	11.47	8.66	32.4%

Sources: Central Bank of Lebanon and Association of Lebanese banks

[IV. FINANCIAL SECTOR]

The banking sector has continued its growth in the first half of 2010, relative to the corresponding period of the last year. Also, the activity of the BSE was better during this period.

1. Banking Sector

The Lebanese banking sector has continued its remarkable performance over the first six months of 2010, with a high rate of growth in all of its components. Total deposits reached USD 100.12 billion at end of June 2010 from USD 85.8 billion at end of June 2009, an increase of USD 14.32 billion in the said period. Total assets reached USD 121.68 billion at end of June 2010, against USD 101.1 billion at end of June 2009, an increase of 20.36%. Total Loans to the private sector reached USD 31.71 billion at end of June 2010 against USD 26.07 billion at end of June 2009, an increase of 21.63%. The dollarization rate has continued its downward trend to reach 62.54% in June 2010 as compared to 67% in the same period of 2009.

BANKING SECTOR'S INDICATORS

INDICATORS	1ST HALF 2010	1ST HALF 2009	VARIATION
Total assets (in billion of USD)	121.68	101.1	20.36%
Total deposits (in billion of USD)	100.12	85.8	16.69%
Total capital (in billion of USD)	21.56	15.3	40.92%
Credit to private sector (in billion of USD)	31.71	26.07	21.63%
Dollarization rate	62.54%	67%	-

Sources: Central Bank of Lebanon and Association of Lebanese banks

2. Capital Market

Based on the figures released by the Beirut Stock Exchange for the first half of 2010, the total trading volume reached 124 million shares as compared to 74.6 million shares during the corresponding period of 2009. The aggregate turnover amounted to USD 1.5 billion in the first half of 2010, an increase of 207% from a turnover of USD 476 million in the same period of previous year. Market capitalization reached USD 12.5 billion in the first half of 2010, an increase of 11% from the same period of 2009, along with a market liquidity ratio of 11.7% in the first half of 2010, as compared to 4.2% in the same period of 2009. The average daily traded volume was 1,026,583 shares in the first half of 2010, for an average daily value of USD 12.1 million, which reflected an increase of 64% in volume and 102% in value.

BSE INDICATORS

INDICATORS	1ST HALF 2010	1ST HALF 2009	VARIATION
Market capitalization (in billion of USD)	12.5	11.3	11%
Total trading volume (in million of shares)	124	74.6	66.22%
Average daily traded volume (shares)	1,026,583	625,965	64%
Average daily traded value (in million of USD)	12.1	5.99	102%

Sources: BSE and Central Bank of Lebanon

[V. FOREIGN SECTOR]

The balance of payments recorded a surplus in the first half of 2010, but lower than that in the same period of last year due to lower levels of capital inflows.

1. Foreign Trade

Based on the figures released by the Higher Customs Council, the aggregate value of imports and exports totaled USD 10,693 million in the first half of 2010, an increasing rate of 12.33% from the same period of 2009. In other words, total exports reached USD 2,113 million in the first half of 2010, an increase of 25.1% as compared to the same period as of last year, while total imports reached USD 8,580 million in the first half of 2010, an increase of 9.57% from the same period of 2009. As a result, the trade deficit widened by 5.3% from USD 6,141 million in the first half of 2009 to USD 6,467 million in the same period of 2010. Also, the export to import ratio has increased from 24.2% in the first six months of 2009 to 24.6% in the same period of 2010.

2. Capital Inflows

Net capital inflows to Lebanon amounted to USD 7.78 billion in the first half of 2010, with a decrease of 5.6% from the same period of 2009. This decrease in the level of capital inflows into Lebanon was mainly attributed to the previous high capital inflows recorded in the first half of 2009, and the current global recovery has helped other countries to attract capital inflows, whereas in 2009, the Lebanese economy had been resilient to the international economic crisis.

3. Balance of Payments

The balance of payments recorded a surplus of USD 1.314 billion in the first half of 2010; down from USD 2.101 billion in the first half of 2009, as net foreign assets of the Central Bank of Lebanon rose by USD 2.22 billion.

FOREIGN SECTOR'S INDICATORS (in million of USD)

INDICATORS	1ST HALF 2010	1ST HALF 2009	VARIATION
Trade deficit	6,467	6,141	5.3%
Exports	2,113	1,689	25.1%
Imports	8,580	7,831	9.57%
Net capital inflows	7,780	8,242	- 5.6%
Balance of payments	1,314	2,101	-37.46%

Sources: Higher Customs Council and Central Bank of Lebanon

[VI. ECONOMIC PROSPECTS]

Based on figures released by IMF, Merrill Lynch and Economist Intelligent Unit EIU, the forecasted Lebanon's real GDP growth varies between 5-6% in 2010, as the Lebanese economy is well-placed to sustain the momentum of the previous year. It noted that domestic indicators suggest strong demand with double-digit annual increases in tourist arrivals, cleared checks, construction permits and deposit inflows. However, decision-making in Lebanon requires political consensus, which constitutes an obstacle to addressing structural issues, added that geopolitical risks remain. This of course will reflect negatively on current growth rates of the national economy.

LEBANON'S MAJOR INDICATORS

	2008	2009	2010	2011
Real GDP (%y/y)	9	9	6.5	5.1
CPI (% average)	10.8	3.4	4.7	5.3
Fiscal balance (% of GDP)	-9.9	-8.9	-8.2	-9
Public debt (% of GDP)	159.5	149.4	147	145
Current account (in billion of USD)	-3.4	-3.7	-4.2	-4.4
Current account (% of GDP)	-11.6	-11	-11.3	-10.9
Gross external debt (in billion of USD)	55	56.5	59	61.2
Gross external debt (% of GDP)	186.7	168.2	159.3	153
Foreign reserves (in billion of USD)	20.2	28.7	32	33

Source: Merrill Lynch.

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REPORT

STUDY

LEBANESE BANKING SECTOR: HIGH RESILIENCE AND STRONG PERFORMANCE

[EXECUTIVE SUMMARY]

The Lebanese banking sector has maintained its growth over the past years despite the prevailing unfavorable political and economic conditions.

- Total deposits grew by 23.08% in 2009, to reach USD 96.8 billion, with an average monthly increase of USD 1.5 billion.
- Total loans grew by 14.7% in 2009 to reach USD 24.3 billion as compared to USD 21.1 billion in 2008.
- Total assets grew by 22.3% in 2009 from a year earlier, reaching USD 115.25 billion, compared to USD 94.13 billion in 2008.
- Total capital, on the other hand, reached USD 7.9 billion in 2009, an increase of 11.9% over 2008.
- Lebanese banking sector represents 338% of GDP.
- Lebanese banking sector provided USD 53.3 billion credit facilities to the national economy in 2009.
- Number of employees has increased by 6.2% in 2009, to reach 1,162 employees.

[INTRODUCTION]

The Lebanese banking sector has proved its resilience in the last few years and has sustained a constant growth shown in all its indicators, despite the unfavorable international and regional conditions that have dominated the country over the past years.

The growth of the banking sector was mainly related to the large and diversified operating banks in Lebanon, high human capital competency, large number of services provided from traditional to modern ones, applying international standards and rules, and providing all financial needs to the growing Lebanese economy.

[I. BANKING PERFORMANCE IN 2009]

Based on the figures issued by the Association of Lebanese Banks (ALB), the Lebanese banking sector is currently composed of 65 banks distributed between 53 commercial banks (of which 11 banks have a majority of foreign or Arab participation and 10 banks for Arab and foreign banks) and 12 investment and merchant banks specialized in middle term and long term financing besides investment banking.

Moreover, the banks operating in Lebanon had 902 branches in 2009, including 885 branches for commercial banks, whereas the investment and merchant banks had 17 branches. This shows the high level of bankerization in Lebanon as compared to other Arab and developing countries, where there are today almost 2 branches for every 10,000 individuals.

It is also worth to mention that the Lebanese banking sector has started the Islamic banking operations five years ago, through the implementation of its principles and regulations following the launching of the Islamic banking law, and the Central Bank's procedures to control the Islamic banks' activities and their compliance with the international Islamic banking standards, such as banking governance, customers identification, and transparency. These banks have succeeded to offer services not only to Muslims, but they have involved everyone, which achieved a good performance in 2009. In Lebanon, there are currently 5 Islamic banks, of which 4 are Lebanese owned, while the last one is a branch of an Arab Islamic bank.

As for the distribution of the 902 branches, they are spread in the Lebanese regions as follows:

- Beirut and its suburbs 54% or 488 branches
- Mount Lebanon 18% or 162 branches
- North Lebanon 10% or 90 branches
- South Lebanon 11% or 99 branches
- Bekaa 7% or 63 branches

As a part of developing their banking services, the Lebanese banks have not only increased their branches, but they have also increased the number of ATMs throughout the Lebanese territories. However, although there is a large increase in the number of ATMs in Lebanon in the last few years, but its total number is still inferior to other developed countries where in Lebanon there are 318 ATMs per 1 million customers whereas it has reached 1.3 million ATMs per 1 million customers in the U.S. This is mainly due to the weak spread of e-payment culture, and the weak social development of urban areas.

The total number of ATMs operating in Lebanon reached 1,207 machines in 2009, which are distributed regionally as follows:

- Beirut and its suburbs: 598 machines (49.5%)
- Mount Lebanon: 264 machines (21.8%)
- North Lebanon: 131 machines (10.9%)
- South Lebanon: 123 machines (10.2%)
- Bekaa: 91 machines (7.5%)

Furthermore, the Lebanese banks have developed the security measures related to credit card payments, in order to enhance the use of such payment methods in daily transactions. The total number of credit and payment cards held by the Lebanese banks' customers reached 1,630,036 cards and the total number of terminal electronic payment machines (POS) reached 17,693 machines, which makes the average distribution of credit cards in Lebanon nearly 90 cards per thousand individuals, whereas in other developed countries such as the U.S., this rate has reached 4,210 per thousand individuals.

As for the nature of operating banks in Lebanon, there are nine branches for foreign commercial banks, eleven Lebanese banks with a majority of foreign participation and 10 representative offices for foreign banks. Besides this, there are 17 Lebanese banks which have presence outside Lebanon in 31 Arab and foreign countries, via 82 banking units with different legal forms and distributed as follows:

- 31 branches including branches on free zones
- 32 subsidiaries of affiliate banks
- 17 representative offices
- 2 off-shore banks units

The Lebanese banking sector has been growingly expanding in several regional markets over the past few years. Today some big banks have presence in markets like Syria, Jordan, Sudan, Algeria, Egypt, UAE, Oman... Also, some Lebanese banks have presence in key international financial centers.

The Lebanese banking sector is highly integrated in the domestic economy as it contributes nearly to 5% of the GDP, while implying a low percentage of total Lebanese labor force (2%), a development that reflects the high productivity of this sector. The Lebanese bank constitutes the prime source of financing to the national economy in its private and public sectors. The share of banking assets employed inside the Lebanese economy, including deposits at the Central Bank represent nearly 79.5% of total assets in 2009 against 20.5% for assets employed outside Lebanon.

The banking sector's assets represent today nearly 338% of GDP, indicating that the size of the sector is larger than the size of the Lebanese economy. This is why some Lebanese Banks have resorted over the past few years to expand in regional markets.

The Lebanese banking sector has also provided credit facilities to the national economy, which amounted to USD 53.3 billion in 2009, in alignment with the growth on different economic sectors.

Moreover commercial banks remain the main source for attracting deposits, where its total amount of deposits has reached USD 96.8 billion in 2009. These deposits are the main bridge for capital inflows that finance an important part of the deficit in the current account.

The Lebanese commercial banks have also played an important role in fighting money laundering and financing terrorism, especially in the last few years, where they had created specialized units to follow up on this issue, in addition to the law no. 190 issued by the Central Bank, and the "Know Your Customer" principle that is applied in all banks.

The consolidated assets of the Lebanese banking sector have grown by 6.8% in 2005, 8.3% in 2006, 10.75% in 2007, 14.59% in 2008, and 22.27% in 2009. This banking growth is highly correlated to the economic growth whereby the domestic growth rate reached 7.5% in 2007, and then it increased to 9.3% in 2008, and becomes 9% in 2009, as per the report issued by the IMF.

In parallel, the customer deposit base of the Lebanese banking sector has increased over the past years. Its growth was 6.3% in 2005, 6.5% in 2006, 9.9% in 2007, 15.9% in 2008, and 23.1% in 2009.

Following the same path, the loan portfolio of the Lebanese banking sector recorded a growth: 8.2% in 2005, 9.3% in 2006, followed by 9.1% in 2007, 18.4% in 2008, and 14.7% in 2009.

The capital base of the Lebanese banking sector has grown over the past years, with an increase of 24.9% in 2005, 35.9% in 2006, 8.3% in 2007, 13.5% in 2008, and 11.9% in 2009.

INDICATORS OF LEBANON'S BANKING SECTOR

INDICATORS	2005	2006	2007	2008	2009
Assets growth rate	6.8%	8.3%	10.75%	14.59%	22.27%
Deposits growth rate	6.3%	6.5%	9.9%	15.9%	23.1%
Loans growth rate	8.2%	9.3%	9.1%	18.4%	14.7%
Capital base growth rate	24.9%	35.9%	8.3%	13.5%	11.9%

Sources: Associations of Banks in Lebanon, Annual Report 2009

[II. FACTORS UNDERLYING BANKING SECTOR RESILIENCE]

There are many reasons that gave the banking sector in Lebanon a strong resilience against external shocks and crisis. These include the strong regulatory and supervisory regime to the conservative practices of Lebanese banks, in addition to the structural economic factors such as the recurrence and non-speculative nature of capital inflows towards Lebanon supported by a large pool of offshore savings around the globe.

The Lebanese banking system benefits from a stable deposit base supported by recurrent capital inflows, the bulk of which is constituted of remittances from a large pool of Diasporas all over the world. With annual remittances of close to USD 6 billion, Lebanon has the highest ratio for remittances per capita in the World. Such remittances are not likely to receive a significant hit as a result of the current crisis, and are expected to remain in the worst circumstances above 15% of Lebanon's GDP. These remittances originate from a large pool of Diasporas well diversified by sector of activity and country of residence around the globe.

At the regulatory level, Lebanese banks are very well regulated and compliant with international standards. The financial industry is well supervised by the Central Bank and the Banking Control Commission, both impose significant regulatory measures for risk management and control. The Central Bank prevents local banks from investing freely in structured products as per recent circulars issued prior to the eruption of the global financial crisis. As a result, the subprime crisis did not reach Lebanese banks as they have no positions and thus no losses in subprime instruments. Moreover, banks are not allowed to lend for the acquisition of shares by more than 50% of the investment value and they are not allowed to lend to real estate investments for more than 60% of the project cost.

Moreover, bank lending has always been covered by a significant amount of collaterals. Such a high collateralization is linked to the conservative nature of lending policies and practices at Lebanese banks. According to Central Bank statistics for 2008, total advances against guarantees amount to 76% of the aggregate loan portfolio of the banking industry. More specifically, local banks ask any investor seeking a loan for a real estate project to provide collateral worth at least twice the amount of the desired loan.

In addition, Lebanese banks have very high liquidity levels in a period where liquidity is a key to comfort depositors at large. Primary liquidity stood at 51.5% at end-2008, against an average of 28% for the MENA region, 34% for emerging markets and 30% globally.

Furthermore, Lebanese banks have a good capital adequacy level, which will ensure an acceptable leverage level in a period where the recent crisis has underlined the threat of excessive indebtedness on behalf of banks. The capital adequacy Basle-1 ratio stood at 22.4% in Lebanon, against 14.5% for the region, 15.4% for emerging markets and 14.8% for the global average.

More importantly, Lebanese banks are all considered deposit-rich banks where the deposit base constitutes 81% of their total funding at large, against 58% for the MENA region, 67% for emerging markets and 66% for the global average at large.

[III. HUMAN CAPITAL IN LEBANESE BANKS]

In 2009, the number of employees in the Lebanese banking sector has reached to 19,794 persons, distributed as follows:

- 18,598 persons in Lebanese commercial banks.
- 344 persons in Arab commercial banks.
- 400 persons in foreign commercial banks.
- 452 persons in investment and private banks.

Thus the number of employees has surged by 1,162 persons in 2009, an increasing rate of 6.2% as compared with the previous year. This is mainly due to the increase in the number of commercial banks' branches that has reached to 902 branches in 2009, and the creation of new diversified activities. It is worth to mention that the trend in the Lebanese banking sector is distinct from the global banking sector, where we have witnessed a decrease in the number of employees as their activities have shrunk in the light of the global financial crisis, such as in France, the number of employees in the banking sector has decreased by 2.7% in 2009 as compared to its level in the previous year.

As for the age distribution of the banking sector's human capital, the rate of employees with less than 25 years old has reached 10.6% of the total employees in 2009, against 10.9% in 2008, and 7.7% in 2006, noting that this stake consists 15.7% from the Lebanese labor force in Lebanon. While the rate of those ranging between 25 years and 40 years has reached to 46.9% in 2009, against 45.1%, noting that segment consists 42.3% of the Lebanese labor force, whereas the rate of those ranging above 40 years has reached 57.5% in 2009 (23.6% for those between 40 and 50 years, and 15.4% for those between 50 and 60 years), against 56% in 2008.

As for educational level, there is an increase in the employees having university degrees, where in 2009 their rate has reached to 66.8% of the total employees in the banking sector, as compared to 64% in 2008, and 61.3% in 2007. This increase in the number of banking employees having university degrees reflects the banking sector's performance and the capacity of its human capital, while employees having secondary degree have reached 19.8% in 2009, against 21.6% in 2008 and 22.5% in 2007. Those employees having no degree have reached 13.4% in 2009 against 14.3% in 2008 and 16.1% in 2007.

In addition, the Lebanese banks have been always trying to increase the productivity of its employees through three main pillars:

1. Providing best working environment and encouragement on personal and social basis through different allowances, compensations, and rewards, besides the medical and other benefits gained after retirement.
2. Providing the latest equipment and updated devices and programs to help the employees at work.
3. Providing staff training to keep informed about the latest banking updates and modifications.

In this regard, the Lebanese banks grant a high budget to purchase the latest technological and communication equipments including software, devices, and modern electronic services to ensure quick, safe, and modern services that will meet their clients' needs. Banks also grant another important budget to train and develop their employees' skills, which have become a common procedure followed by most Lebanese banks to increase their productivity.

[IV. FUTURE TRENDS]

Although many developed countries have entered a strong recession since the third quarter of 2008, but these countries have succeeded, after implementing exceptional reforms on the fiscal and monetary policies, to cease the spread of this crisis, and they have also succeeded to achieve in 2009 a positive growth of nearly 0.5%. This trend is also expected to continue in 2010 and 2011, with positive growth rate of 2.3% and 2.4% respectively, as governments of those countries have been trying to fix the main drivers of this current crisis.

Unlike many developed countries, Lebanon has proved its resilience to the current global economic crisis, as it has achieved positive economic growth of 9% in 2009. The Lebanese economy is also expected to achieve a growth rate of 6% in 2010 according to IMF. This trend reflects also the upcoming trend of the Lebanese banking sector, as it is the main driver of growth and the healthiest sector in Lebanon, where Lebanese banks provide credit facilities to finance both public and private projects.

It should also be noted that the Lebanese banks are willing to participate in financing the infrastructure projects, especially those related to electricity, telecommunication, water, and roads projects, through the Public-Private Partnership (PPP), which will bring back prosperity to the Lebanese economy and create more job opportunities.

The PPP should be properly implemented in line with international financing rules and regulations. This will attract local, Arab, and international investments, especially that this kind of partnership necessitates long-term internal and external financing resources.

ECONOMIC
BULLETIN
first half 2010

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