



Financial Situation in Lebanon

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1. QUALITY OF LIFE

Despite Lebanon claiming to be the medical center of the Middle East, Mercer Human Resource Consulting ranked Beirut as the 12th most desirable city for living in the Middle East and North Africa (MENA) region in 2003, taking economic, health, political, housing, education, transportation, the environment and other factors into consideration according to Saradar Investment House's weekly monitor. (Daily Star, 11/03/04)

"The day to day economic life of the Lebanese could well be endangered; the interaction between the politics [of Lebanon] and the economics is at stake." (1stLebanon.net, International Agencies Forecast)

The International Monetary Fund issued a brief on August 15, 2003 stating that "The IMF actively supports countries in the Middle East and North Africa (MENA) region in adopting economic policies and reforms aimed at achieving stronger economic performance and higher living standards." (Lebanon and the IMF, December 23, 2003).

2. ECONOMY AND GROWTH RATE OVERVIEW

The Lebanese pound rate remained stable and prices reflected an inflation of 3-4%. (1stLebanon.net, International Agencies Forecast)

Economic conditions in 2003 were characterized by a moderate GDP growth of 2.5 percent against a 1.5 percent GDP growth in 2002 but were still "well below potential" according to the 4th Quarter Economic Report Research Department of Banque Audi. (Daily Star, 11/03/04)

"The ratio between the public sector deficit and gross domestic product has been as follows: ...2002 = 19.4%, 2003 = 14.5%, based on an IMF estimate." (Auswärtiges Amt, 14/03/04)

Most real sector indicators rose. Agricultural and industrial exports grew 19.4 percent and 47.8 percent. The production of electricity rose 2.9 percent and industrial machinery imports 2 percent. The import of oil derivatives dropped 3.6 percent and Port of Beirut merchandise by 5.7 percent. (Daily Star, 11/03/04)

"Agriculture accounts for about one-third of [Lebanon's] GDP." Its principal products are: potatoes, grapes, citrus fruits, apples, tomatoes, wheat, sugar beets and tobacco. (Ministry of Economy and Trade, Republic of Lebanon)

The year 2003 ended with a net growth of seven percent in stock prices, the increase primarily driven by banking stocks. (Daily Star, 11/03/04).

3. FOREIGN AND DOMESTIC EXCHANGE, DEPOSITS, LOANS, IMPORTS AND EXPORTS

Foreign currency deposits increased \$2,517 million and local deposits LL5,020 billion in 2003. Foreign currency loans increased by \$165 million; local currency loans dropped LL344 billion in 2003 from 2002 figures. The net FX reserve of \$2.2 billion edged ahead of the slightly negative year-end figure in 2002. (Daily Star, 11/04/04)

Imports rose 11.2 percent and exports a notable 45.8 percent, increasing the export-to-import coverage ratio from 16.2 percent in 2002 to a record post-war high of 21.3 percent in 2003. Lebanese exporters have been making major efforts to effect market diversification since 2000 and strengthen their franchises in the event of adverse domestic business developments. Consequently, Lebanese exports have “more than doubled” during the past three years. (Daily Star, 11/03/04)

Private investment was affected by “uncertainty” over domestic and regional politics. (Daily Star, 11/03/04).

4. LAND, AIR AND SEA TRANSPORTATION

The Urban Transport Development Project lacked the necessary financial investments to “maximize the efficiency of the existing urban transport infrastructure.” (The World Bank Group; project’s status listed as “Active” as of March 14, 2004)

The number of planes landing and departing from Beirut International Airport were 34,469 in 2003, a 4.6 percent rise since 2002. Passengers increased by a significant 8.2 percent and totaled 2,717,684 in 2003. The number of 2,333 ships using the Beirut Port was a decrease of around 7 percent. Merchandise weight dropped by 5.7 percent to 4,897,646 tons shipped but the number of containers shipped increased by 3.5 percent to 115,034. (Daily Star, 11/03/04).

5. PUBLIC CONSUMPTION AND TOURISM

Public consumption spending rose 4.9 percent but public investment shrunk by 10.6 percent as compared to investment levels in 2002. Improved tourism during the summer and festival seasons increased public consumption. Lower investment income was realized in 2003. (Daily Star, 11/03/04)

“The scope and characteristics of poverty in Lebanon are not clearly known because of the absence of data; particularly on household consumption. The government is currently undertaking a household income and expenditure survey.” (World Bank, MENA – Lebanon, updated March 2004).

6. CONSTRUCTION, REAL ESTATE AND EMPLOYMENT

“It is accepted that poverty has increased significantly because of the civil war. Its destructive impacts are especially felt in living conditions; about a quarter of the housing stock was destroyed.” (World Bank, MENA - Lebanon), updated March 2004)

In 2003 The Cultural Heritage and Development (CHUD) Project in Lebanon announced it would work to increase local economic development and enhance the quality of life around archaeological and visitors’ sites through commercial movements, adaptation of historic buildings, infrastructure improvements, communications, regulatory reforms and a restructuring of the Directorate General of Antiquities. The Lebanese Parliament ratified a US\$31.5 million loan from the World Bank for CHUD’s work in five historic cities.” (The World Bank Group; project’s status listed as “Active” as of March 14, 2004)

“The slow growth in job creation, especially for lower income groups, continues to restrict purchasing power, while the ample supply of labor from low-wage countries keeps a lid on unskilled wage levels. In addition, the return of part of the Lebanese Diaspora and their assets has pushed up prices for land, housing and medical services, making them all but unaffordable, not only for lower income groups, but also for much of the middle class that became impoverished during the war.

“Lebanon needs to strike a balance between maintaining economic stability while continuing to spend on reconstruction. The active pace of reconstruction investments and the rapid growth of the economy have increased employment opportunities to a certain extent, but unemployment is still high—estimated to be 20 percent. What is more, first-time job seekers experience unemployment rates that are twice the national average.” (World Bank, MENA – Lebanon, updated March 2004)

7. CELLULAR COMMUNICATIONS AND POWER BUSINESS PRIVATIZATION

In early January 2003 an international auction opened to accept bids for the sale of GSM's cellular licenses and was viewed at the time as a significant forward move to reduce Lebanon's \$31 billion debt that equals nearly 180% of its gross domestic product. It was predicted that "only investors with strong ties to Lebanese and Syrian political elites are likely to submit competitive bids for the licenses" by some political and economical analysts.

The Syrian-controlled Lebanese government has allowed LibanCell-Cellis and GSM to charge exorbitant cellular subscription fees; Lebanon's 800,000 cell phone users—22% of the population—must pay a \$500 phone deposit while neighboring Arab countries' customers are given free phones. Government-provided, fixed-line service is still unreliable and privatization of the cell phone industry "is not likely to cure the country's economic ills in the absence of major political reforms." (Middle East Intelligence Bulletin, Volume 5, No. 1, January 2003)

"Privatization of the telecommunications and power generation sectors is a core objective for 2003 and 2004, with all proceeds to be used to reduce the national debt. However, putting the privatization schemes into practice is taking more time than expected." (Auswärtiges Amt, 14/03/04).

8. DOMESTIC AND INTERNATIONAL BANKING DEBACLE

The Al-Madina Bank has been at the forefront of the worst banking scandal in 30 years in Lebanon concerning several Lebanese banks "used in channeling billions of dollars and Euros" from "the Russian Mafia, Saudi Islamic associations and the former Iraqi regime of Saddam Hussein" to "high-ranking Syrian officials." (Middle East Intelligence Bulletin, Volume 6, No. 1, January 2003)

"The Al-Madina bank scandal underscores that the greatest obstacle to Lebanon's economic recovery is the government's inability to reestablish the kind of transparent regulatory environment that fueled the country's re-war economic boom. Lebanon's much-vaunted banking system could be a powerful engine for economic growth; instead it functions more and more as an instrument of political patronage.

"In September 2003, after the United States asked Lebanon to freeze the assets of six individuals and five 'charities' affiliated with the Palestinian terrorist group Hamas, the Central Bank sent a letter to all banks asking them to disclose any accounts they have in Lebanon. However, senior politicians later demanded a halt to the probe. A similar reversal took place regarding nearly half a billion dollars deposited by the former Iraqi regime in Lebanese banks – Central Bank officials initially pledged to surrender the funds, but later backtracked." This debacle is far from concluded. (Middle East Intelligence Bulletin, Volume 6, No. 1, January 2003).

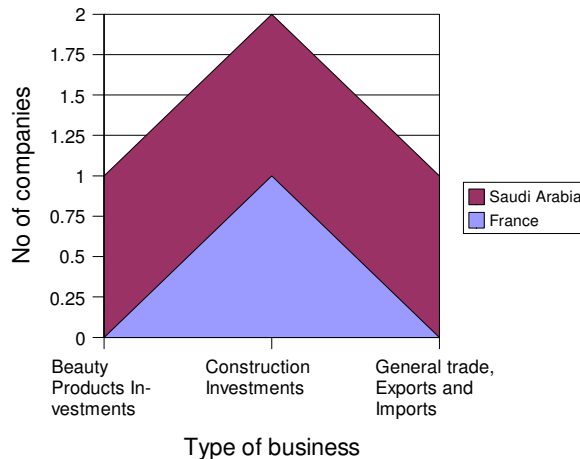
9. FOREIGN INVESTMENT

The Lebanese government has taken limited steps to encourage foreign companies to invest in Lebanon. It had previously amended the Foreign Ownership Law which was primarily aimed at consolidating investment in the real estate sector by allowing non-Lebanese investors to acquire a greater percentage of land than previously permitted.

This is due in part to fears from instability caused by the existence of armed non-governmental groups (such as Hizbullah, Palestinian factions and others), or because of the weak and expensive communications infrastructure.

Data and statistics collected from the ministry of economy website(<http://www.economy.gov.lb/MOETEN/MOET-highlights.html>), shows that only a handful number of investors (not exceeding 5) from Saudi Arabia and France, were registered for the year 2003. At the mean time, only ten exclusives agencies from different countries were registered in the ministry.

Foreign Companies registered 2003

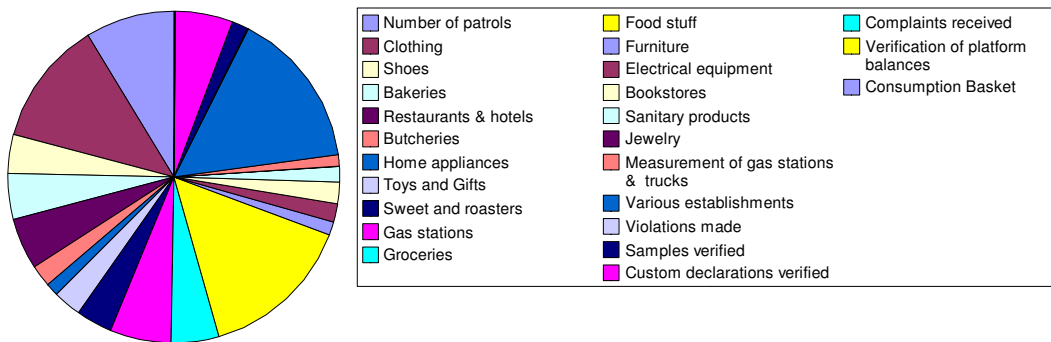


10. CONSUMER PROTECTION

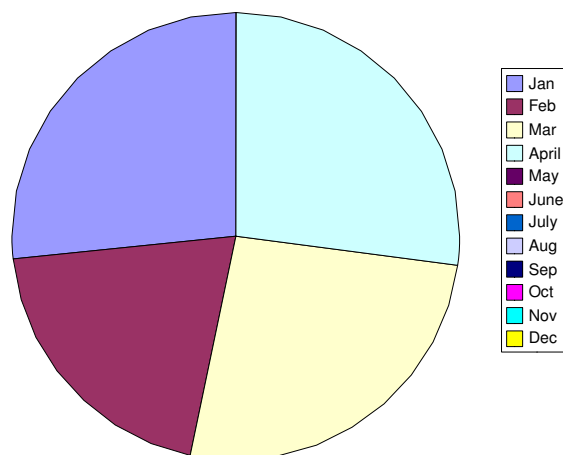
Based on data collected from the ministry of economy website (<http://www.economy.gov.lb/MOETEN/MOET-highlights.html>), it looks like the authorities are on the right track in terms of consumer protection.

Data analyzed for 2003, shows an extensive patrol for the period between January 2003 up to March 2003 (which is the shopping period), while it does not show any activity for the remaining period of 2003.

Consumer protection 2003 (by business)



Consumer protection patrols 2003 (by Month)



11. FINANCIAL PERSPECTIVE, SOLUTIONS AND PRIORITIES FOR 2004

The main challenge will be to meet the 3% GDP growth rate Lebanon committed to for the year 2004 during Paris II without Iraq playing “its traditional role of partner for the Lebanese economy” and the Iraqi situation’s “affect on tourism and real estate.” Progress must be made “on the legislative and administrative levels” “if Lebanon is to take its share of ...foreign investments.” (1stLebanon.net, International Agencies Forecast)

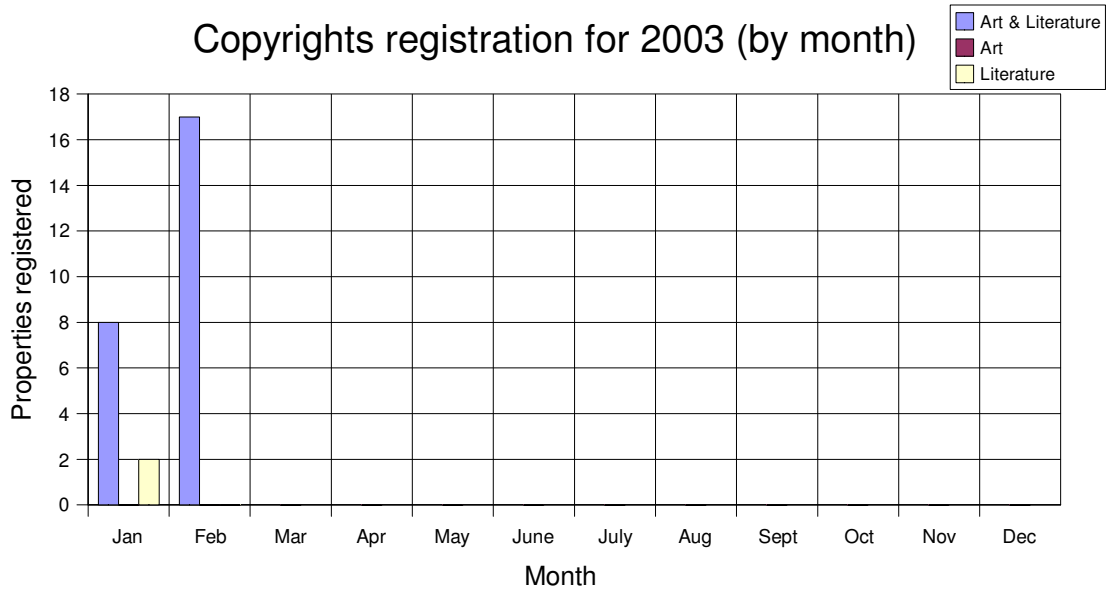
The World Bank and the European Union need to be involved with Lebanon in implementing more social development programs, the acceleration of CDR’s three year plan, more industrial modernization and most importantly, the reduction of the private sector’s debt that has jumped from 40% to 80” of the GDP in the past ten years.

“Unfortunately, this scheme still depends on economic and political factors.” (1stLebanon.net, International Agencies Forecast)

“Sustaining a healthy macroeconomic environment is critical, which requires reducing the fiscal deficit. As of December 23, the fiscal deficit to GDP stood at approximately 14 percent of GDP. While such a high deficit is not unusual during reconstruction phases, it is simply not sustainable. Net public debt stood at approximately 165 percent of GDP by end 2003, and remains on an unsustainable path, which by all means calls for a strong fiscal adjustment.” (World Bank, MENA – Lebanon, updated March 2004).

12. INTELLECTUAL PROPERTY AND COPYRIGHTS PROTECTION

The Lebanese government didn't do much in order to regularize and implement a Zero tolerance towards protecting intellectual properties and enforce copyrights protection. This strategy is encouraging a culture of piracy, and exodus of intellectual work to migrate outside the country looking for a better conditions. Based on data collected from the ministry of economy, (<http://www.economy.gov.lb/MOETEN/MOET-highlights.html>), we can see that during 2003, only 27 intellectual artistic property was registered at the Lebanese ministry of economy, mainly in the Art and culture.



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