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Sectoral performance: The year in review

The upcoming year will be a critical one for Lebanon's economic revival, following the sluggish performance characteristic of the last few years. While the first quarter of 2002 saw the introduction of the VAT, the Paris II donor conference took center stage in the second half of the year. The pledge of \$4.4 billion in soft loans injected optimism, particularly in terms of building confidence. This was followed by a commitment from the banking sector to buy \$4 billion worth of zero-interest government debt to help reduce debt-servicing costs. While the country's fundamental woes will take years to overcome, the government's stated commitment to move forward with economic reform and privatization will shape the outlook for 2003.

Following is an *li Monthly* review of the developments, trends and performance of different sectors in 2002:

Banking Sector



Number of Banks and Branches
For the Lebanese banks, 2002 was a year of consolidation. Characterized by modest growth, banks looked internally to strengthen operations and

increase profitability.

While the number of banks decreased from 68 in 2001 to 63 by the end of 2002, the number of branches grew from 780 to 793. There was also an increase in the number of ATMs around the country, from 571 to 620 machines for the same period.

Banking sector deposits

Total deposits of both the private and public sectors in Lebanese banks reached close to \$41.7 billion in 2002, compared with \$40.5 billion by the end of 2001, an increase of \$1.2 billion (3%).

These amounted to \$29,342 million in foreign currency deposits and \$12,358 million

in local currency deposits. The dollarization of deposits reached 73% in September 2002, compared with 62% in 2000.

Private sector lending

Loans to the private sector amounted to approximately \$15,158 million, compared with \$14,721 million by the end of 2001, or an increase of \$437 million (3%). Foreign currency loans reached almost \$12,505 million, equivalent to 82.5% of total lending, while loans in Lebanese pounds totaled \$2,653 million.

Looking back at previous years, foreign currency lending increased by 0.4% in 2002 while local currency loans grew by 14.2%. This is mainly due to government-subsidized loans to the agricultural, industrial and tourism sectors, as well as to housing projects.

Public sector lending and Central Bank assets
Banks operating in Lebanon finance the major part of the budget deficit, with their share of the government debt reaching LL25,850 billion (\$17.2 billion) or 56% of total public debt. This is a decrease of 8.8% from the year 2000 and 12.8% from 1999 and was due to the reluctance of banks to subscribe to Central Bank treasury bills.

The banks have close to \$6,550 million worth of government debt in foreign currency (or 50.6% of total debt in foreign currency) with \$10,650 million in local currency (or close to 59.2% of total government debt in Lebanese pounds).

As for Lebanese banks' deposits at the Central Bank, these total approximately LL10,100 billion or \$6.7 billion (in both foreign and local currencies), whereas in 2000 they were LL 7,132 billion or \$4.7 billion. This increase is attributed to Central Bank circulars issued in 2001 which raised the reserve requirements that banks must place against their deposits.

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Banking sector revenues