

**COUNTRY PROFILE:****LEBANESE REPUBLIC****DATED:****AUGUST 2008****CREDIT GUARANTEE:**

IES/02: ATTACHMENT A

	<i>Country Rating</i>	<i>U/W Method</i>
<i>Short-term</i>	ZZ	Off Cover

*Recent Political Highlights*

- ❑ Chief of state since May 2008 has been President Michel Sulayman. The president is elected by National Assembly for a six-year term. The next election will be held in 2014. Prime Minister Fuad Siniora is head of Government.
- ❑ A bomb exploded after being planted on the roof of a bus, killing many civilians and members of the military in the north Lebanese city of Tripoli on 13<sup>th</sup> August 2008. Tripoli is Lebanon's second largest city with mostly the Sunni Muslim population. Tripoli has witnessed many sectarian clashes between Sunni fighters and followers of the Alawite sect. The city is also close to the Palestinian refugee camp which experiences daily clashes between Lebanese troops and members of the al-Qaida-inspired Fatah Islam group. The explosion came in as the Lebanese president was due to make a landmark visit to neighbouring Syria – the first visit by a Lebanese president in three years.
- ❑ Syria and Lebanon agreed to resume work towards formally demarcating their borders but Damascus said the boundaries of the disputed Shebaa Farm would not be drawn until Israel withdrew from them. This would be a major step towards meeting international demands on Damascus to formalise ties with its smaller neighbour.

*Recent Economic Highlights*

- ❑ Lebanon has a population of 3.9m people with an expected growth rate of 1.2% in 2008.
- ❑ Lebanon had to rebuild itself from the 1975-1990 civil war that ravaged its economic infrastructure and halved national output. It borrowed heavily from domestic banks to fund the reconstruction. The Israeli-Hizballah conflict in July-August 2006 led to an estimated \$3.6bn in infrastructure damage. Donors pledged \$1bn in recovery assistance and later met in January 2007 and further pledged over \$7.5bn towards development projects and budget support on the condition of fiscal reform.
- ❑ Observers are doubtful if the national unity Government is able to deliver on its ambitious economic policies given the deep divisions among the Cabinet ministers. Economists and bankers agreed that this Cabinet would not implement any major reforms mentioned in the Paris III donor conference paper and it is also very unlikely that the opposition will approve the privatisation of the cellular networks before the parliamentary elections in 2009. The previous Government had hoped that Paris III reforms would allow Lebanon to reduce its \$42.3bn public debt and stimulate the economy.
- ❑ Capital Intelligence, the international credit rating agency, revised the outlook on Lebanon's 'B' long-term foreign and local currency ratings to stable from negative. The outlook on the 'B' long-term foreign currency ratings of six Lebanese banks has also been revised to stable. The ratings of the six banks continue to be constrained by the sovereign ratings. The agency said that political normalcy could open the way for further progress on economic and social reforms, potentially leading to higher credit ratings, although Capital Intelligence does not expect any significant reforms to occur before the next parliamentary elections planned for mid 2009.
- ❑ Telecommunications Minister Jebran Bassil pledged to reduce the cellular rates before the privatisation of the telecom sector, but stated that the issue requires some time to study thoroughly. Government relies heavily on revenues from the telecom sector to feed the treasury. Revenues from land lines and the cellular networks are close to \$1.3bn - 27% of total Government income. Lebanese cellular rates are among the highest in the world.
- ❑ The half yearly un-audited results of three leading banks in the country continue to show record profits (despite the recent political turmoil), that grew by an average of 40% compared to the same period last year. These banks have managed to ride the wave of political and economic uncertainty in the country and have proven their malleability in coping with crisis. With their geographic expansion strategies, the banks have undertaken to diversify their risk exposures and are likely to start reaping the benefits of their strategies in the coming years. (The banks are Blom, Audi and Byblos).

*Latest Trade Developments*

- ❑ Major exports: authentic jewelry, inorganic chemicals, miscellaneous consumer goods, fruit and vegetables, tobacco, construction minerals, electric power machinery and switchgear, textiles fibres and paper.
- ❑ Major imports: petroleum products, cars, medical products, clothing, meat and live animals, consumer goods, paper, textile fabrics, tobacco and electrical machinery.
- ❑ Main trading partners: Syria, UAE, Saudi Arabia, Switzerland, Italy, France, US, China and Germany.
- ❑ Iran and Lebanon held talks on the implementation of economic projects. The two countries reviewed avenues to activate their joint economic commission. Iran-Lebanon annual trade exchanges stand at \$100m, out of which Iran's share is much higher than its partner. Iranian exports to Lebanon comprise pistachio, saffron, date, precious stones, construction materials, hand-woven and machine carpets as well as oil and petrochemical products.
- ❑ South African exports to Lebanon totaled R174m in 2007 from R45m in 2006 and R36m in the year to March 2008.