LEBANON

A RESILIENT ECONOMY, AN INVESTMENT OPPORTUNITY

Saudi American Bank البنك السعودي الامريكي

A RESILIENT ECONOMY, AN INVESTMENT OPPORTUNITY

Produced by the office of the SAMBA Chief Economist.

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Key FACTS AND FIGURES 1994-1998

	1994	1995	1996	1997	1998
Population*	3.00	3.20	3.70	4.00	4.10
LBP/$	1,680	1,621	1,571	1,539	1,516
GDP					
Nominal ($bn)	9.110	11.122	12.996	14.867	16.167
Real GDP Growth	8.00%	6.50%	4.00%	4.00%	3.00%
GDP per capita ($)	3,037	3,476	3,512	3,717	3,943
Inflation (LBP CPI)	8.00%	10.60%	8.80%	7.80%	4.00%

* Source: CAS, SAMBA Estimates, BDL, MOF

Government Finances (LBP Billion)	1994	1995	1996	1997	1998
Total Revenues	2.241	3.033	3.536	3.752	4.430
Total Expenditures	5.204	5.856	7.245	9.161	7.817
w/o Interest expenses	1,488	1,875	2,693	3,380	3,214
Primary Balance	-1,475	-948	-1,016	-2,029	-173
Total Deficit	-2,963	-2,823	-3,709	-5,409	-3,387

Source: BDL/MOF

Balance of Payments ($ Million)	1994	1995	1996	1997	1998
Trade Balance	-4,865	-5,906	-6,209	-6,248	-5,815
Exports	676	816	783	649	716
Imports	5,541	6,722	6,992	6,897	6,531
Services Balance	31	438	425	635	750
Transfers	735	881	1,277	1,460	1,020
Current Account	-4,099	-4,587	-4,507	-4,153	-4,250
Current Account % GDP	-44.99%	-41.24%	-34.68%	-27.93%	-28.90%
Capital Account	5,231	4,843	5,293	4,573	4,500

Source: MOF, BDL, SAMBA Estimates

Monetary	1994	1995	1996	1997	1998
FX Reserves ($ Billion)*	8,085	6,598	7,345	5,629	5,969
Foreign Exchange	2,751	3,026	3,935	2,959	3,318
Gold	5,334	3,572	3,410	2,670	2,651
Import Cover (mos)	18	12	13	10	11
Total Gross Debt (LBP - Billion)	na	14,079	20,109	23,412	27,985
Total Gross Debt ($ Million)	na	8,686	12,800	15,212	18,459
Public Sector Deposits (LBP - Billion)	na	2,710	3,871	1,406	2,142
Net Debt ($ Million)	4,868	7,061	10,386	14,348	16,996
Net Internal Debt ($ Million)	3,995	5,729	8,503	11,943	12,892
Net Foreign Debt ($ Million)	873	1,332	1,883	2,405	4,104

Source: MOF, SAMBA Estimates

* FX owned by BDL. It does not include FX deposits held at BDL by Banks and other financial institutions

Markets	1994	1995	1996	1997	1998
LBP 3-month T-Bill (Effective Rate)	13.49%	16.01%	14.29%	13.09%	11.77%
$ 3-month T-Bill	4.70%	5.60%	5.50%	5.70%	5.70%

Source: BDL, SAMBA Estimates

Summary

Lebanon has made impressive progress in recent years:

Political Stability and Reconstruction: The country has made significant progress toward rebuilding national unity, as demonstrated by the smooth transition of executive powers in late 1998. The work to rebuild physical infrastructure (electricity, telecommunications, roads) is about 75 percent complete.

Financial Stability: Lebanon's financial situation is stable. Official foreign exchange reserves are substantial. The Lebanese Pound (LB) is experiencing modest appreciation in a steady exchange rate environment.

Fiscal Reform and Privatizations: Following a smooth political transition, the new government is working to implement a Five Year Plan to reduce the nation's budget deficits and official debt. The program would accelerate privatizations and reform the tax system to improve revenue collections while keeping tax rates at competitive levels.

Regional Economy and Politics: Higher world oil prices that benefit the Gulf economies benefit Lebanon with higher transfers of income from Lebanese workers and businesses in the Gulf. Middle East peace would certainly entail positive impacts for Lebanon's economy, as Lebanon is well-positioned as a regional hub.

Substantial stresses remain, however. Aside from the fragility of regional and local politics, the government's finances and the balance of payments have structural weaknesses, and GDP growth is in decline. Even with these risks, the trends pointing in Lebanon's favor are creating investment opportunities in:

Lebanese Financial Paper: Lebanese pound-denominated Treasury Bills offer double digit yields in the range of 11 to 14 percent, while the currency continues to gradually strengthen against the dollar.

Lebanese Eurobonds: Some $4 billion in value in 24 outstanding sovereign and corporate bond issues denominated in US dollars and euros are available.

Lebanon's Stock Market: Rebuilt in 1996 and still in its infancy, the Lebanese stock market is open to foreign investors, and shares are traded in dollars. Look for privatizations and new listings to add depth to the market.

Real Estate: The recent market decline combined with improved prospects for peace offer Saudi investors income-producing properties with attractive yields (9-12 percent). Non-income producing real estate investments purchased for capital gain only could remain depressed for some time.

Other Direct Investment: Lebanon is open to foreign investment in local business ventures. Services, especially tourism, already attract substantial foreign investment. Banking, insurance, health services, jewellery, energy, industry, agriculture, information technology and professional services are all promising areas for investment.

The Real Economy: Strengths and Improvements

An enduring hallmark of the economy of Lebanon is its resilience.

An enduring hallmark of the economy of Lebanon is its resilience. Few countries have had to contend with such challenges as arose during Lebanon's civil war. Throughout the strife and now in its aftermath, an important source of economic strength for Lebanon is the Lebanese Diaspora–that dispersal to the world of large numbers of Lebanon's business people and professionals, recently estimated to number about 12 million (roughly three times Lebanon's domestic population). The Diaspora is an important source of capital (both financial and human) that effectively expands the country's economic potential far beyond its own borders. Indications are that for the last several years offshore Lebanese have been rebuilding their positions at home. Their sustained contributions–amounting in 1998 to at least $4.8 billion in non-resident bank deposits–are an important factor to explain Lebanon's sustained high inward capital account flows.

The human capital of Lebanon is just as important. The obstacle to rapid integration into the global economy for many emerging markets is the lack of professional skills, credentials, contacts and affiliations needed to support international business. For Lebanon, all of these are in place thanks to the Diaspora with their global affiliations and high level of education.

Within Lebanon, the Lebanese worker is similarly highly educated. Lebanon has a high literacy rate–in excess of 94 percent by most estimates. Many Lebanese are tri-lingual, speaking fluent Arabic, English and French.

Except for specific "less glorious" jobs (garbage collection, house maids, non-skilled category of construction workers and agriculture workers), the work force in Lebanon consists mainly of Lebanese citizens. While it is true that Lebanese workers are relatively more expensive than some foreign counterparts, this higher marginal cost is mitigated by the higher quality of work performance offered by the Lebanese work force. Labor organizations are still active in certain sectors (bank employees, teachers, public sector workers) but have lost ground in recent years. Labor laws are quite comprehensive and provide a satisfactory framework to regulate employer/employee relationships.

Lebanon came out of its civil war with a policy of rapid reconstruction, with both official and commercial borrowing to accomplish it.

Reconstruction Progress

Lebanon came out of its civil war with a policy of rapid reconstruction, with both official and commercial borrowing to accomplish it. During the five years from 1994-1998 (inclusive), Lebanon's gross domestic investment amounted to about $19.1 billion, or 34 percent of accumulated GDP for the period (about $65 billion). About $13.6 billion, or 70 percent of the investment, was by the private sector, where bank lending contributed roughly half of the necessary capital, the balance coming from share issues and infusions by private individuals.

Lebanon's economic and financial foundations are stabilized and improving. Inflation has been tamed, GDP per capita has been rising, and commercial life is regaining the air of normalcy across most of the country, particularly in Beirut.

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Private sector customer deposits in Lebanese banks are now nearly $31 billion, or nearly twice GDP.

Lebanon's foreign debt amounted to about $4.2 billion or 27 percent of GDP at year-end 1998.

The Lebanese pound has been stable and experiencing modest appreciation since 1993. The Bank of Lebanon's foreign exchange reserves (including gold) are large and growing. (See table.)

Lebanon: Financial Indicators	1993	1998
GDP (US$-bil)	$7.6	$16.1
GDP per Capita	$2,625	$3,943
Inflation (LP CPI)	29%	4%
Exchange Rate (LB per US$)	1,711	1,516
FX Reserves (US$-bil)	$2.2	$5.97
Reserve Cover (months imports)	5.4	10.7
Int. Rate Differential (LP-US$, %)	15%	6%
Customer Deposits (US$-bil)	$11.9	$30.7
of which, non-Resident (US$-bil)	$0.8	$4.8

Reflecting confidence built since 1993 in the financial system and its regulatory structure, the differential between Lebanese pound and U.S. dollar interest rates has narrowed from about 15 percent to 6 percent. Private sector customer deposits in Lebanese banks (from residents and non-residents) have risen, now to nearly $31 billion, or nearly twice GDP. Confidence in the economy was recently demonstrated by successful Eurobond issues for both official and private Lebanese borrowers. Despite misgivings to the contrary, the 1998 elections did not disrupt economic progress. The political transition was smooth, and served to attract attention from both investors and businessmen to the new government's policy to accelerate privatization and economic liberalization.

As for the financing for government investment, about half was financed through foreign commercial borrowing. The contracts of Lebanon's Council for Development and Reconstruction (CDR) account for the two-thirds of the public investment total ($3.6 billion). Lebanon's foreign debt amounted to about $ 4.2 billion or 27 percent of GDP at year-end 1998. More than one-fourth of this amount, however, was on soft terms such that the ratio of national exposure to foreign commercial creditors to GDP is at a manageable level of around 18 percent.

At this point, the foreign commercial borrowing levels do not appear to constrain the completion of the reconstruction plan. The most costly portions of the remaining work are for ports, irrigation water, waste water and solid waste disposal. In each of these areas, a variety of privatization schemes are under review where the cash flows to repay loans and give investor returns would come from cash flows generated by the projects.

Market Diversification

Foreign investment in Lebanon is relatively open except for restrictions on the purchase of shares in Lebanese banks, real estate investments and participation in public service concessions. To improve the investment climate, a string of regulations have been introduced or are being prepared to upgrade financial market processes and capital markets development. These are in the area of fiduciary responsibilities, investment funds, leasing and oversight of the stock exchange.

Developed Banking Sector

Lebanon's banking system benefits from a low tax environment, very strict banking secrecy laws, unrestricted capital flows and a savvy financial sector workforce.

Lebanon's banking system benefits from a low tax environment, very strict banking secrecy laws, unrestricted capital flows, and a savvy financial sector workforce. Fueled by Lebanon's high interest rates and capital repatriation by resident and offshore Lebanese, the banks' total assets have grown more than three-fold since 1993 to nearly $37 billion (more than twice GDP). Loans to the private sector, however, comprise only one third of total assets and nearly half of those loans are to the trade sector. The total loans for industry and construction are less than for trade, indicating the banks' relatively restrained contribution to national capital formation. Almost 90 percent of the loans to the private sector are denominated in foreign currency. Credit to private individuals amount to only about 12 percent of total loans, or 4 percent of total assets. The largest asset category is credits to the government, about 80 percent in LB-denominated T-bills, with the rest in dollar-denominated Lebanese T-bills. Foreign asset holdings, although rising more slowly than other asset classes, are substantial at about 18 percent of total assets; most of these are placements to offshore banks.

Lebanon: Banking Statistics	1993	1998
Physical Infrastructure		
Reserves	$0.8	$4.3
Claims on Private Sector	$3.4	$12.4
(foreign currency denom.)	($3.1)	($11.0)
Claims on Public Sector	$2.3	$11.9
(foreign currency denom.)	$0.0	($2.0)
Foreign Assets	$4.1	$6.6
Other	$0.2	$1.3
Assets = Liabilities	$11.0	$36.6
Liabilities and Capital		
Private Sector Deposits	$8.4	$25.8
(of which, foreign currency)	($5.7)	($15.7)
Public Sector Deposits	$0.1	$0.2
Non-Residents Deposits	$0.8	$4.8
(of which, foreign currency)	($0.7)	($4.4)
Non-Resident Banks	$0.4	$1.3
Other Liabilities	$1.0	$2.0
Capital Accounts	$0.3	$2.4

The banking industry has seen a wave of consolidation supported by central bank regulations encouraging mergers among Lebanese banks.

In relation to the size of Lebanon's economy, the banks have exceptionally high levels of customer deposits, amounting to 190 percent of GDP. This reflects the large and growing deposits of non-residents. During the year 1997 alone, non-resident deposits grew by more than $1 billion. That year is important because it suggests the prominent investment presence of the Lebanese Diaspora in global emerging market countries, where market turmoil stimulated capital repatriation to relative safe-havens, and the close relationship between Lebanon and the Gulf, where high oil prices buoyed Lebanese worker remittances. Overall, since 1993, both the resident and non-resident deposit categories have grown at impressive annual average rates of 25 percent and 43 percent per year, respectively. The great bulk of this growth was foreign currency-denominated deposits, which now account for two-thirds of total customer deposits. (The proportion is higher for non-residents). If the government is successful controlling its deficits and appetite to borrow, and regional peace initiatives advance, Lebanon's banks will clearly be in a strong position to expand and facilitate foreign investment in the country.

In the meantime, the banking industry has seen a wave of consolidation supported by central bank regulations encouraging mergers among Lebanese banks. This consolidation is likely to continue.

Continuing Weaknesses and Challenges

Fiscal Stresses

The nation's most pressing structural problem is the government's accumulated debt and its ongoing deficits.

The nation's most pressing structural problem is the government's accumulated debt and its ongoing deficits. By any measure, these are both too large. Now at about $18.6 billion, the total accumulated debt (domestic and foreign) amounts to about 115 percent of GDP. Each of the resident 3.7 million population could be said to owe more than $5,000, more than one year's GDP per capita of about $3,943. From 1997 to 1998, the budget deficit declined by about $1 billion to $2.3 billion. That nevertheless continued to represent some 14 percent of estimated 1998 GDP, or 43 percent of total government expenditures. Debt service alone consumes 41 percent of budget expenditures, and more than 72 percent of budget revenues.

Government Budget, Deficits and Debt

(LBP Billion)	1994	1995	1996	1997	1998
Government Finances					
Total Revenues	2,241	3,033	3,533	3,753	4,430
Total Expenditures	5,204	5,856	7,225	9,162	7,816
Deficit	-2,963	-2,823	-3,692	-5,409	-3,386
Primary Deficit /1	-1,475	-948	-1,039	-2,031	-172
Government Debt:					
Domestic	6,712	9,287	13,358	18,381	19,544
External ($ million)	873	1,332	1,883	2,405	4,104
Total Debt to GDP (percent)	53	63	80	97	105

/1 Overall deficit excluding interest on debt

Debt service alone consumes 41 percent of budget expenditures.

The Bank of Lebanon, however, has an unblemished history for managing this large load. The bulk of this debt was raised internally or without resort to foreign commercial sources. The current government is now looking beyond deficit-financed reconstruction to debt and deficit control.

A long term fiscal plan aims to bring the deficit down to less than 5 percent of GDP and debt to 96 percent of GDP by 2003.

The 1998 election made clear that major segments of the political spectrum want to address the issues surrounding debt and the budget. The newly elected government has adopted a long term fiscal plan with the goal of bringing the deficit down to less than 5 percent of GDP and debt to 96 percent of GDP by 2003. On the revenue side, steps are planned to strengthen tax collection, which is now extremely weak. The 1999 budget has increased corporate taxes (from 10 percent to 15 percent), individual tax rates (from 10 percent to a maximum 21 percent) and dividend tax rates (from 5 percent to 10 percent). The bulk of government revenues come from customs duties. As Lebanon moves toward accession to the WTO, it will need to move away from high tarrifs and toward a more disciplined domestic tax base.

Slowing GDP Growth

In the debate over budget measures, considerations for economic growth and household incomes are increasingly important. Real GDP growth slowed from a high of 8.5 percent during 1993-95 to around 3.0 percent in 1997-98, and will slow to 0.0 to 2.0 percent for 1999. Some slow-down would be expected in view of the decline in reconstruction activities. However, the question remains, "What will be the future sources of growth for personal incomes and the economy overall?"

Sources of Economic Demand In Lebanon	1993	1994	1995	1996	1997	1998
National Expenditure ($-Bil)	**12.4**	**14.6**	**17.4**	**19.4**	**21.1**	**22.3**
Consumption	10.1	11.6	13.6	15.4	16.9	18.1
Private	9.2	10.5	12.2	13.8	15.2	16.5
Government	0.9	1.1	1.4	1.6	1.7	1.6
Investment	2.2	3.0	1.7	4.0	4.2	4.2
Private	2.0	2.1	2.7	2.9	2.9	3.1
Government	0.3	0.9	1.1	1.1	1.3	1.1
Trade Balance	-4.9	-4.8	-5.9	-6.2	-6.2	-5.8

Over the last seven years, at one time or another, Lebanon has enjoyed economic stimulus from many directions: from private and public investment spending, personal and official consumption and improvements in the balance of trade in goods and services. Generally in 1999, the demand trends have turned lower.

Balance of Payments Concerns

Lebanon's balance of payments shows a chronic current account deficit as merchandise imports exceed exports.

Lebanon's balance of payments shows a chronic current account deficit as merchandise imports exceed exports. The deficit has been financed during this decade by strong inflows of foreign investment and transfers (worker remittances). Against this backdrop it is noteworthy that the government has been able to build its foreign asset position. For the six years from 1993-98, the annual increases in the central bank's foreign assets accumulated to $4.9 billion, in line with its reported increase in foreign exchange reserves over the same timeframe, from $1.5 billion to $6.4 billion. These reserves represent about 57 percent of the Lebanese pound money supply (M2).

Main Exports 1998	%
Chemical Products	12.2%
Jewelry	11.5%
Electrical Equipment	10.3%
Textiles	10.1%
Food Products	9.9%
Metal Products	9.5%
Other	36.5%

Main Export Destinations	%
Saudi Arabia	12.2%
UAE	9.9%
France	8.8%
USA	6.6%
Syria	6.5%
Other	56.0%

Lebanon's heavy reliance on merchandise imports amounted in 1998 to $ 7.1 billion, or 44 percent of GDP.

Lebanon's heavy reliance on merchandise imports amounted in 1998 to $ 7.1 billion, or 44 percent of GDP. Imports surged in the early years of reconstruction, reaching a peak of $7.6 billion in 1996, but have declined by $0.5 billion since then. That is a significant trend because Lebanon's GDP was 15 percent larger in 1998 than in 1996. This suggests that the local productive sectors are recovering to supply an increasing portion of what the nation consumes. Such recovery is also suggested by the export data, where between 1993 and 1996 the value of exports rose by 46 percent to over $1 billion. The value has slipped back since then owing in part to soft world commodity prices, but export volumes remain strong. Recovery in the services sector is also evident. Tourism-related services contributions have grown from almost nothing in 1993 to $0.8 billion in 1998. Private transfers–the very important worker remittance flows–have surged. From 1993 to 1997, private transfers rose by $0.8 billion to $1.4 billion. As an indication of the importance of the Gulf region to Lebanon, remittances fell by 30 percent (in-line with oil price declines) during 1998.

Lebanon's balance of payments should benefit from higher oil prices and trends toward peace and recovering emerging markets.

Lebanon's balance of payments should benefit from higher oil prices and trends toward peace and recovering emerging markets, as well as domestic reform and liberalization. Oil and some commodity prices have since recovered, so exports and remittances could rebound further. The rapid growth in tourism-related contributions to the services account appears to have momentum. The capital inflows from the Lebanese diaspora will continue for the long term, its magnitude affected by both external factors such as global economic performance, and internal factors such as confidence in the Lebanese economy. Thus, Lebanon can sustain a current account deficit for a long period. As confidence by the outside investor in Lebanese stability grows, an increase in foreign direct investment (bricks and mortar) as well as foreign portfolio investment (stocks and bonds) would add further capital inflows to finance the merchandise trade deficit.

The Opportunities Ahead: A Fresh Look at Investment in Lebanon

Investors with a view that trends are turning in Lebanon's favor and with a tolerance for the risks involved can now find interesting opportunities.

The range of financial products and services offered in the Lebanese market is relatively broad, to include Eurobond issues, London-listed global depository receipts (GDR's) for several of the largest Lebanese companies (e.g., Solidere), well-developed brokerage services and active investment banking activities that have created advanced and innovative varieties of hybrid securities (convertible bonds), financial derivatives (equity options) and financial securitizations (mortgage bonds).

On balance, a variety of positive forces are aligned in Lebanon's favor that make it a country well worth looking at for investment opportunities. These forces include:

- The accomplishments and winding down of the reconstruction plan
- Improvements in the regional economy (e.g., from higher oil prices) which point to rising export demand, remittances and inward capital flows
- Growing consensus for budget and administrative reforms
- Commitments to more privatization, both for existing and new enterprises
- Improvements in the efficiency and openness of local markets
- Progressively advancing economic integration with Syria
- Accession to the WTO and what this entails for integration with the global economy
- Deepening relations with the Arab, EuroMed and other regional economic blocs
- Improving prospects for peace with the potential to spur regional economic expansion.

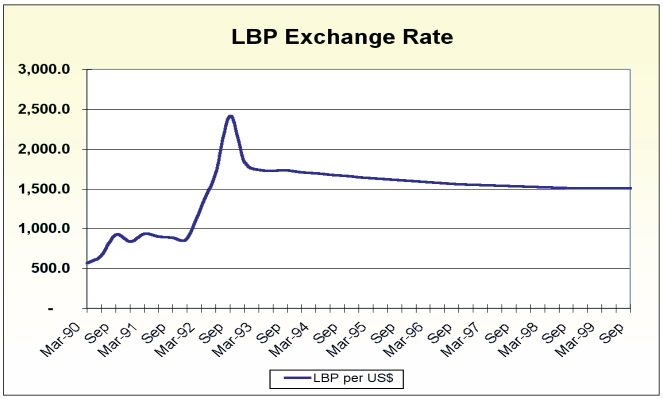
Investment in any country coming out of civil war and located alongside protagonists in a long-standing regional conflict entails substantial risk. But investors with a view that trends are turning in Lebanon's favor and with a tolerance for the risks involved can now find interesting opportunities. Some opportunity arises from Lebanon moving to address issues left as a legacy of reconstruction. For example, if budget reforms succeed to take pressure off Lebanese interest rates, then an investment in long-term fixed income Lebanese bonds could enjoy price appreciation and perhaps continued foreign exchange gains. Similarly, an investment in the Lebanese share market could stand to benefit from the improvements in market volumes and values that would follow from steps to restructure and reform the local capital markets and privatize. Opportunities for investors also arise to participate in privatizations, or the new projects needed for the integration of infrastructure in the region. And, there would be growing opportunities for direct investment, for example, to participate in business consolidations, real estate development or a growing tourism industry.

Possible Investment Opportunities

Lebanese Treasury Bills, denominated in Lebanese pounds, offer double digit yields in the range of 11 percent to 14 percent.

Lebanese Financial Paper

Lebanese Treasury Bills, denominated in Lebanese pounds, offer double digit yields in the range of 11-14 percent. While there is a narrowing trend in the difference between Lebanese pound and U.S. dollar T-bill rates, that differential is still nearly 4 percent for short-tenors, and more than 6 percent for long-tenors. There are also appreciation pressures on the pound, which could translate into even higher yields in dollar terms.



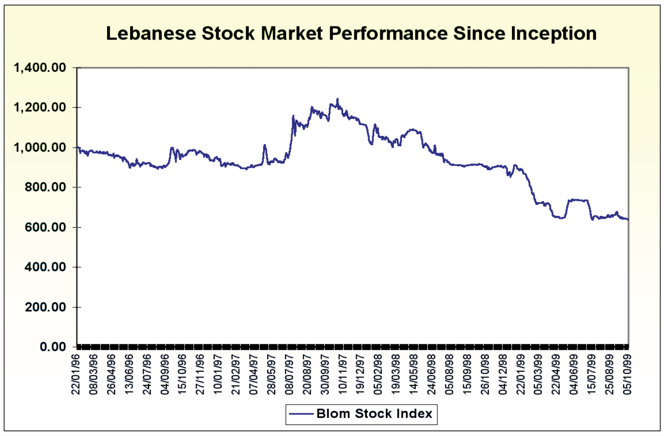
Lebanese Eurobonds

Over the last 6 years, Lebanon has led the region in tapping international capital markets. As of mid-1999, there were 24 outstanding sovereign and corporate bonds in the market totaling $ 4.0 billion in value. These bonds trade, and there will undoubtedly be new issues. Lebanon's debt securities are listed on international exchanges, denominated in dollars or euros, and carry premium yields.

Lebanon's Stock Market

The local stock market, re-established in January 1996, remains in a nascent stage.

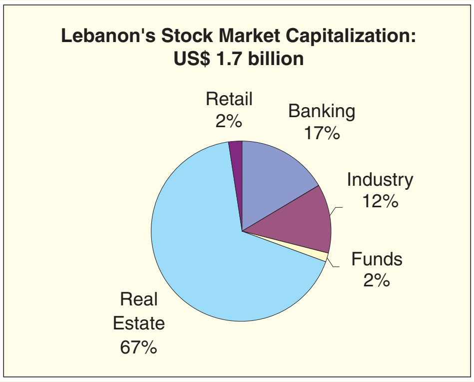
The local stock market, re-established in January 1996, remains in a nascent stage. Only twelve companies are actively traded (some with two classes of shares) and trading volumes are low. Just one company, Solidere, accounts for 2/3 of total market capitalization. The next largest sector is banking where there are five listings. There are only a few industrial and retail listings. Market capitalization stood at $1.7 billion in September 1999. The Blom Stock Index, which indicates share price performance, was at about 640 in October 1999, down from a peak of over 1200 at the end of 1997. One reason the local share market has not gained more steam is the competing appeal of high-yielding Lebanese Treasury bills.



The privatization of some $5 billion in government assets would provide more depth to the stock market.

The privatization of some $5 billion in government assets, an element of the current government's Five Year Plan, would provide more depth to the stock market. There is not yet a national consensus on privatization, however, so much political debate of this issue is likely before concrete steps are taken.

Despite these limitations, investors can find value. Several of the banks are producing strong earnings and growth, and at prevailing prices the shares carry price/earnings ratios as low as 8, with dividend yields in the range of 5-7 percent.



Privatizations

A privatization law is under preparation providing for a Higher Privatization Council to take strategic decisions and supervise their implementation. It will also introduce such anti-trust legislation as will be needed to preserve competition among privatized companies. Among the first to be considered for privatization are:

- The Casino du Liban
- Middle East Airlines (Lebanon's flag carrier)
- The Oil Refineries in Tripoli and Zahrani
- Substantial portions of the telecommunications network
- Government holdings in Intra Investments
- The state electricity sector
- The state tobacco company
- The water distribution sector

Direct Investment

Under conditions that reform, liberalization and peace help to foster, a variety of direct investment opportunities are evident in each of Lebanon's economic subsectors.

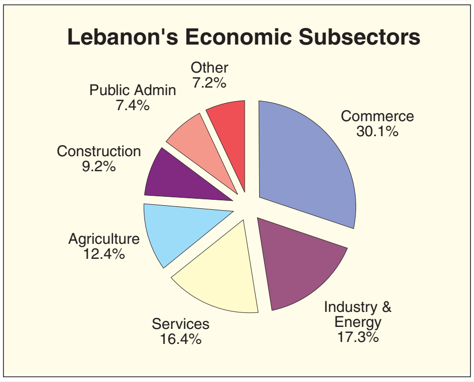
The services sector (16 percent of GDP), especially tourism, already attracts substantial foreign investment, particularly from the Gulf where the appeal of Lebanon is well known. The tourism sector has already seen an abundant flow of new investments in hotel development during the last 2-3 years with several more projects in the pipeline. These have mainly included new and refurbished hotel properties in and around Beirut. A couple of marina projects have been completed recently and have attracted some foreign interest in the marina as well as in the land development projects around the marina. Several projects are also available in the health/leisure segment with proposals being considered for a luxury spa resort and other resorts which are expected to attract a good level of demand from Gulf investors in general.

The insurance and banking sector which has seen a wave of consolidation and rationalization still offers potential for joint ventures and direct passive investments as local companies drive to attain higher levels of corporate efficiency.

As elsewhere, the potential is expanding rapidly for new businesses related to telecommunications and e-commerce.

The health sector has been an attractive sector with high demand for health services from Gulf patients. A shortage of specialized institutions has also been identified. Several projects targeting specialized medical services are being considered in and around the Beirut area.

The restaurant industry has flourished during the last 4-5 years and continues to see interesting theme restaurants being launched. The downtown Solidere area will be the next niche market to see a flow of investment in this segment.



The entertainment segment has also seen a wave of new investments and continues to offer several opportunities for experienced operators and developers (water parks, bowling alleys, ice skating rinks and go-kart courses).

The industrial sector could also attract growing interest, especially if there is forward movement for market integration with neighboring countries, as well as European and other Mediterranean partners. Opportunities already are available for small to medium size ventures in the food production and processing area, mineral and juice products, wood and furnitures, chemical products and jewellery.

The agriculture sector with related dairy products production has also seen a substantial flow of investments. Several proposals are in the pipeline for the development of agricultural projects (exotic food plantation, flower production).

Telecommunication and e-commerce: this segment has had to wait for the completion of key telecommunication upgrading projects. As those services now are almost fully developed with up-to-date technology, more opportunities will become available to local and foreign investors.

With more rapid growth in professional services (doctors, lawyers, accountants), helped by the ongoing fiscal and economic reforms, companies that supply and support those services are expected to grow, fueled by higher demand from the

Lebanese Diaspora looking for opportunities at home. To illustrate this opportunity, we note the requirements for greater transparency in financial reporting which will fuel demand for qualified accounting services, and increase demand for professional advice (legal and financial) whether for government related projects or private sector projects. Once projects are in the development phase, they will require substantial investment in hardware and software which in turn will help to spur the creation of related commercial businesses to supply and service these requirements. In information technologies, Lebanese have the computer programming skills and multi-lingual ability to arabicize programs and Internet content.

While the above list is not exhaustive, it illustrates the wide spectrum of investment opportunities available in the re-emerging Lebanese economy. Saudi investors should look at opportunities from different perspectives: whether to use Lebanese channels for distribution of Saudi produced products or to transfer technology from Saudi Arabia to Lebanon through joint venture or direct financial investments. Passive or active investments are both valid options available with variable financial requirements.

Real Estate

Saudi investors can find attractive income producing real estate currently offering yields in the range of 9 to 11 percent.

Real estate investments in Lebanon have been traditionally the priority target for Saudi investors. With the recent market decline across the board and the improved prospects for peace in the region, Saudi investors might look again at the opportunities in this market. Current average yields on prime properties vary between 9 and 11 percent. Non-income producing and speculative real estate investments will likely remain depressed for some time.

Also worth noting are alternative investment opportunities in real estate companies. The most prominent of these being Solidere, the real estate company in charge of the development of downtown Beirut. This company's shares are listed on the Beirut stock exchange and are also available in GDR form. Currently, the Solidere share price, as with the market overall, is well off its 1997 highs. Real estate brokerage services are still unregulated. Thus investors should be careful when considering proposals from real estate intermediaries.

Special Interests in Lebanon for Saudi Arabia's Companies and Investors

For Saudi Arabia's investors and businessmen, the economy of Lebanon presents natural linkages and interesting opportunities. Lebanon has long been one of Saudi Arabia's most important trading partners, and Lebanese contractors, individual workers and professionals provide numerous services across the Kingdom. Lebanon's cultural affinity and temperate climate attract a growing flow of Saudi visitors. The Saudi government and Saudi private investors have helped finance Lebanon's reconstruction. Indeed, Saudi Arabia helped to mediate the agreement that ended the civil war—the Taif agreement.

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Before the civil unrest, Lebanon was special to Saudi Arabia for a variety of reasons. Many of Saudi Arabia's most prominent private and public sector leaders were educated in Lebanon's schools and universities, and there is considerable intermarriage among Lebanese and Saudi families.

Looking to the future, the interests of Saudi Arabia and Lebanon broadly overlap for greater regional economic integration. Saudi Arabia shares Lebanon's interest in seeing more rapid development and growth in Syria, for example. Saudi businessmen who have or want new business with Europe will want to watch closely Lebanon's movement to integrate into the EuroMed. Affiliations with Lebanese companies could offer added access to interesting new markets for Saudi companies. Saudi capital, official and private, has been vital to financing the reconstruction and efforts to build and maintain financial market stability.

Lebanon can also contribute importantly to Saudi Arabia's commitments to economic diversification and building the role of the private sector. The business communities of both countries share long-standing free market traditions. However, while the Saudis were enjoying the benefits of the oil boom, the Lebanese were enduring the period of national turmoil. Such adversity, however, served to hone the entrepreneurial skills and attitudes that Saudi Arabia will need more of as it seeks to spur its private sector. Such dynamics suggest that there would be ample and growing opportunities for Saudi and Lebanese businesses to form mutually beneficial and profitable new affiliations.

SAMBA Beirut: Support and Services for Saudi-Lebanese Business and Investment

SAMBA believes that the opportunities in Lebanon for Saudi Arabian businesses and investors will grow. Through its newly established Beirut representative office, SAMBA is uniquely positioned to identify these opportunities. Where a new investment opportunity is identified, SAMBA will evaluate it, and, where appropriate, refer it to its private and corporate clients in Saudi Arabia. Where needed, SAMBA will assist clients in structuring their investments and raising the necessary funding for their projects in Lebanon.

SAMBA is ready to help its Saudi customers establish and manage their investments and business interests in Lebanon as these diversify and grow. Similarly, SAMBA aims to help Saudi companies to make the necessary contacts and develop new affiliations in Lebanon.

With the opening of SAMBA's representative office in Beirut, SAMBA is building a bridge for its Saudi customers to use as they explore for opportunity in Lebanon and the region. With its Beirut representative office, SAMBA has lifted its horizons to touch the shores of the Mediterranean, and to cover broad new segments of the Arab world. In so doing, it will work to bring to its Saudi customers a variety of exciting new business and investment opportunities.