



Beirut, Lebanon's rapidly developing capital.

Resilience at the Crossroads

Lebanon's economy is growing at a rapid pace, thanks to a robust banking system and a Diaspora with strong links to home.

When recession sent most of the world's economies into a tailspin, Lebanon's financial structure held firm. In fact, the country's economy has displayed strong growth in the last three years.

A small and mountainous republic at the crossroads of the Mediterranean Basin and the Arab hinterland, Lebanon has built on its reputation as a strong banking economy for the region, producing growth rates of around 9% year-on-year since 2007.

Having recovered from a bloody civil war that lasted from 1975-1990, Lebanon suffered a 34-day military offensive and blockade from Israel in 2006 in response to the seizure of two Israeli soldiers by Hezbollah militia. President Michel Suleiman, elected two years ago, has done much to unify the proud nation of 4.3 million and start a new chapter in its fascinating history.

"We have been regarded as a safe haven for many Arab depositors because we have a very robust banking sector that is very well capitalized and well supervised by the central Banque du Liban," Raya Haffar El Hassan, Lebanon's Minister of Finance, explains.

"We have not been affected at all by the recession, mainly due to those factors, but also because we have strong links to our Diaspora who account for a large proportion of Lebanese nationals. They invest in Lebanon, in real estate, which is in high

demand, and Lebanese corporations also send their income home."

Major foreign banks and brokers are also returning to operate in an open and liberal financial market that encourages competition and is often held as a model of modernization and restructuring within the region.

Tarek Khalife, chairman and general manager of Credit Bank, says: "The competitive advantage of any bank is service, in Lebanon or any other country. It's about being responsive, flexible, and giving added value with advisory and management services. We came from being number 30 in the country to number 15, and it was done by cementing a reputation for catering to the private sector, increasing the circulation of loans, and serving the small and middle markets.

"There are no liquid gas investors to finance, as in Qatar, and no oil fields like in Kuwait and Saudi Arabia. Instead, Lebanon has great finance at the country level—we have large hospitals, hotels, companies contracting services, and also some multinationals, since the Lebanese are nomadic in business."

Khalife believes Lebanon's main asset is its people, who are multilingual, highly educated, and good at business. "Lebanon



Raya Haffar
El Hassan
Minister of Finance



SUDDEN CRISIS
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has a heritage of knowledge. You can meet Lebanese bankers in any bank in Europe. It's somewhere in their genes."

Bank Audi, the largest bank in the country which has 10 international branches, says that in addition to the capital inflow, which has been around U.S.\$60 billion, Lebanon's approach to risk has also kept recession from its door.

"The central bank says we cannot finance real estate developments for more than 50% of their value, we are not allowed to hold any foreign currency position in excess of 1% of our equity, and we cannot finance equity acquisition for more than 15% of the investment's value," says Freddie Baz, chief financial officer and strategy director at Bank Audi. "But it is not only that. There's also a risk philosophy among local management: 90% of our funding comes from cash deposits and we don't gamble with our depositors' money."

He continues: "Lebanon's high capital flows have translated into significant new ways of giving loans to the private sector, which has allowed them to be translated into a cumulative GDP growth of 29%—one of the highest ratios worldwide.

"Bank Audi has a share in this growth; in fact, we have received close to 22% of the total increase in deposits in domestic markets. We are the number one bank; so these figures are not surprising, but we've become a larger number one because the asset differential between us and the second bank represents U.S.\$6 billion dollars."

For now, the CFO confirms, the bank's strategy is to consolidate and strengthen its domestic leadership. "This is only

possible if we maintain our business diversification strategy and widen the scope of our products and services," he says.

Solutions Providers

At the other end of the spectrum, global financial information systems solutions provider BML Istisharat has discovered there are also advantages to being small. "Our bigger competitors find it difficult to change their platform because of their huge customer base, while we are able to switch very easily," says chairman Joe Faddoul.

"Lebanon's high capital flows have translated into new ways of giving loans to the private sector."

Freddie Baz, CFO & Strategy Director, Bank Audi


A recognized provider of banking insurance and ERP software products with more than 60% of revenues derived from exports to the U.S., Western Europe, and the Middle East, BML Istisharat is helping more than 300 clients worldwide—many of them *Fortune* 500 companies—achieve their business goals.

Faddoul, who wants the company to be recognized as the partner of choice for banks, insurance, and manufacturing companies, says: "We are looking first to go horizontally by covering some new markets, and then vertically by offering new services such as outsourcing." ●

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- Sector Research: an extensive analysis of specific sectors of activity, including banking, telecommunication, real estate and others.
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