

ECONOMIC Bulletin

FIRST QUARTER 2017



FRANSABANK

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II. Real Sector

The real sector of Lebanon's economy experienced an improved performance in the first quarter of 2017 relative to the corresponding period last year. The activity of leading economic sectors enhanced, thus expanding the aggregate economic activity, both on the demand and supply sides.

1- Agriculture and Industry

The amount of agricultural and industrial exports grew by 10.1% in the first two months of 2017 to reach USD 455.5 million, relative to USD 413.7 million a year earlier.

This surge in agricultural and industrial exports would have been greater had insurance and shipping costs were lower, but the war in Syria and the observed instability in the region continues to reflect negatively on these costs.

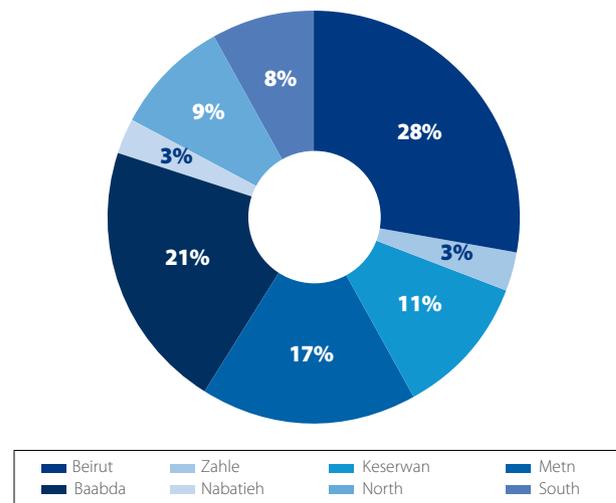
This export growth is fueled by an expanded economic activity and better production operations.

The figures released by the Central Bank show that electricity production, an indicator of industrial production, surged by 13.1% on annual basis in the first two months of 2017 to reach 2,240 million kWh, relative to 1,980 million kWh a year earlier.

2- Real Estate and Construction

According to the figures of the Real Estate Registry and Ministry of Finance, the number of property sales operations increased by 14% on annual basis to reach 17,081 operations in the first quarter of 2017. Also, the value of property sales rose by 14.3% annually to reach USD 2,339.7 million during the same period. In parallel, the property taxes improved by 15.3% year-on-year to reach USD 126.1 million during the said period.

- Value of Real Estate Transactions Distributed in Lebanese Regions (First Quarter 2017) -



In addition, the number of property transactions increased by 12.2% from 40,647 transactions in the first quarter of 2016 to 45,593 transactions in the first quarter of 2017.

These figures reflect a better performing real-estate sector as far as the demand side is considered.

The figures released by the Orders of Engineers and Architects of Beirut and Mount Lebanon show that the number of new construction permits reached 4,165 permits in the first quarter of 2017, with a decrease year-on-year of 2.5% from 4,273 permits in the same period last year.

The surface area of the construction permits was 3,160,753 square meters in the first quarter of 2017, with a decrease of 3.4% from 3,272,378 square meters in the same period last year.

The figures released by the Central Bank indicate that cement deliveries, an indicator of construction activity and real-estate supply, increased by 1.1% on annual basis to reach 651,071 tons in the first two months of 2017, relative to 643,964 tons in the same period last year.

Lebanon's Macro economy in the First Quarter of 2017

I. General Introduction

Lebanon's macro economy recorded a relative improvement and better performance during the first quarter of 2017 relative to the same period of 2016 due mainly to more favorable domestic political environment and a deceleration of regional turmoil. This was accompanied by an improving real-estate sector and monetary as well as banking conditions, and strong capital inflows and balance of payments.

The real sector's performance improved with a positive growth in the leading indicators of most productive and services sectors, thus reflecting a better aggregate demand (spending) in the national economy.

The monetary authorities have maintained its monetary stabilization and economic stimulus policies. The country recorded inflation due to expanding money supply and economic activity.

The banking sector of the country recorded a better activity, with an expanding and growing banking activity.

The balance of payments achieved a substantial surplus due to greater capital inflows, despite the widening trade deficit.

The fiscal conditions, however, remain highly unfavorable due to continued fiscal deficits and growing public indebtedness.

Economic growth is expected to continue in 2017, with enhanced real growth rates. Economic reforms must be the major priority of domestic authorities in order to support economic growth rates in the years to come. This should be accompanied by special efforts to address the continued negative repercussions of the Syrian crisis on the domestic economy and society.

The tourists from Iraq ranked first with 15.9% of the total tourists in the first quarter of 2017, followed by France (7.8%), U.S. (6.9%), Egypt and Jordan (5.2% each), Canada (4.5%), Saudi Arabia (4.2%), Germany and U.K. (3.7% each).

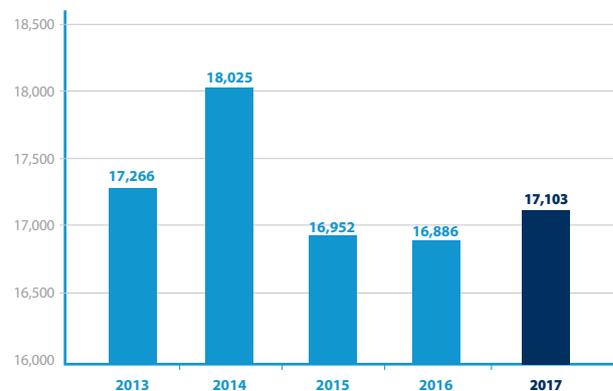
According to the figures of Global Blue, the VAT refund operator for international shoppers, indicate that **total spending by tourists** in Lebanon surged by 8% on annual basis in the first quarter of 2017. Visitors from Saudi Arabia, UAE and Kuwait accounted for 37% of total tourists spending. Also, the total number of refund transactions by tourists increased by 1% in the first quarter of 2017 compared to the same period of 2016.

The statistics of the Association of Automobile Importers in Lebanon show that the number of new sold cars totaled 8,118 cars in the first quarter of 2017, with an increase of 1.6% from 7,990 new cars sold in the same period last year.

According to the statistics of the Association of Banks in Lebanon, the total value of cleared checks, mirroring private consumption and investment spending, increased by 1.3% on annual basis, from USD 16,886 million in the first quarter of 2016 to USD 17,103 million in the first quarter of 2017. Also, the total value of returned

checks dropped by 8.5% on annual basis to reach USD 319 million in the first three months of 2017. This reflects a slight improvement in private spending during the period under consideration.

- Value of Cleared Checks, First Quarter (USD, million) -



The Economic and Social Fund for Development (ESFD) reported that it guaranteed 144 loans for a total of USD 2.45 million to SMEs in Lebanon in the first quarter of 2017. SMEs constitute a major pillar of the corporate sector, and a driving force of economic activity and job creation in Lebanon.

Real-Sector Indicators

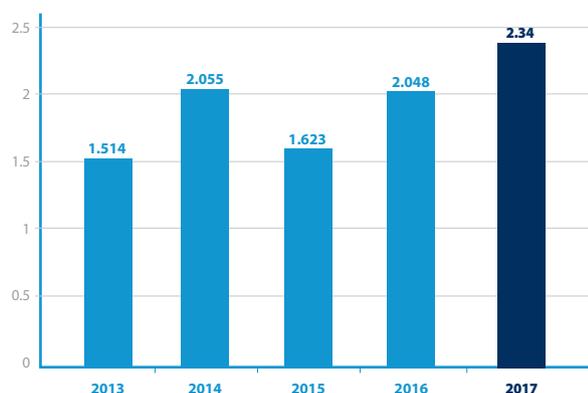
Indicators	2017 Q1	2016 Q1	Variation %
Agricultural & Industrial Exports (USD, million)*	445.5	413.7	10.1
Construction Permits (sqm)	3,160,753	3,272,378	(3.4)
Cement Deliveries (tons)*	651,071	643,964	1.1
Real-Estate Transactions (USD, million)	2,340	2,047	14.3
Number of Tourists	345,168	306,516	12.6
Number of Passengers at HIA	1,519,283	1,517,765	0.1
Cleared Checks (USD, billion)	17.1	16.9	1.3
New Car Sales (number)	8,118	7,990	1.6
Hotel Occupancy Rate (%)	61.6	54.5	7.1
Electricity Production (kwh, million)*	2,240	1,980	13.1
Goods & Quantity at Beirut Port (000, tons)	2,179	2,173	0.3
Revenues of Beirut Port (USD, million)	57.5	59.1	(2.7)

* First 2 months

Sources: Official and Related Directorates

These figures suggest a curbed supply in the real-estate sector in the first quarter of 2017 relative to the same period last year.

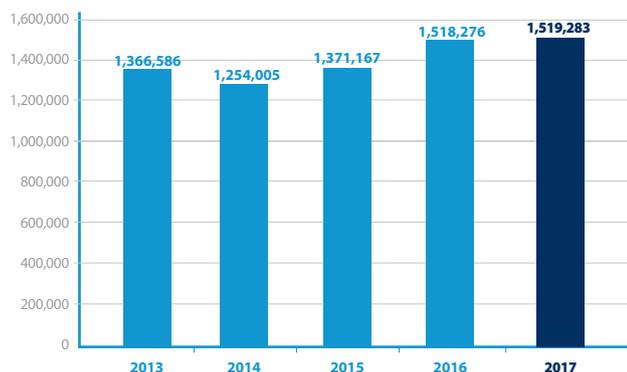
- Value of Transactions, First Quarter (USD, Billion) -



3- Trade and Services

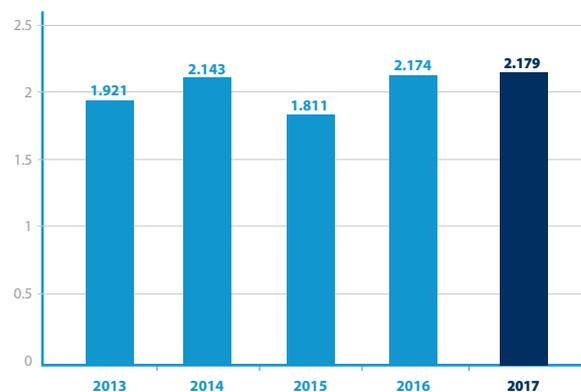
The statistics released by the **Hariri International Airport** indicate that the total number of passengers increased by 0.1% on annual basis to reach 1,519,283 passengers in the first quarter of 2017. The total freight handled by the airport grew by 0.7% on annual basis, during the same period. However, the number of aircraft recorded a decrease of 6.2% on annual basis during the said period. These figures suggest a slight improvement in the airport activity and hence the tourism activity.

- Passengers at the Airport-First Quarter -



According to the statistics of the **Port of Beirut**, the Ports' revenues recorded a decline by 2.7% on annual basis to reach USD 57.5 million in the first quarter of 2017. The number of ships recorded an annual decrease of 9.6% to reach 461 ships in the first quarter of 2017. In parallel, the number of containers recorded an annual increase of 3.3% to reach 199,819 containers during the same period. In addition, the quantity of goods grew by 0.3% year-on-year to reach 2,179 thousand tons in the first quarter of 2017. Lastly, transshipments increased by 14.3% on annual basis to reach 87,283 containers during the same period. These figures indicate that the Port of Beirut activity, an indicator of maritime transport and trade, recorded a better performance during the period under consideration.

- Port of Beirut Quantity of Goods, First Quarter (Thousand Tons) -



According to the Survey of Ernst and Young, the Beirut's **hotel occupancy rate**, an indicator of tourism activity, improved from 54.5% in the first quarter of 2016 to 61.6% in the first quarter of 2017. The average room rate increased from USD 139 to USD 140, and the rooms yield improved from USD 76 to USD 86 during the same period. These figures reflect an improving hotel activity during the period under consideration.

According to the Ministry of Tourism figures, the **number of tourists** visiting Lebanon, mirroring the tourism activity, reached 345,168 in the first quarter of 2017, with an annual increase of 12.6% from 306,516 tourists in the same period of 2016. Tourists from the Arab countries constituted nearly 36.7% of the total in the first quarter of 2017, followed by tourists from European countries (31%), Americas (13.6%), Asia (8.7%), Africa (6.6%), and Oceania (3.4%).

3- BTA – Fransabank Retail Index



Despite all the good will and wishful thoughts, no signals were detected with regards to an agreement on a new electoral law between the various parties. At the same time, apprehensions subsisted towards the voting of a package of new taxes to cover the extra expenditure to be incurred by the government, should the new salary grid be adopted, as well as, to cover the growing deficit between public revenues and public expenditures as per the new budget project submitted, while no efforts seem to be exerted towards the adoption of serious measures to fight waste and refrain corruption in public institutions, in particular in the Electricity and Customs sectors.

The above undermining situation is unfortunately coinciding with the failure of public authorities to enforcing any serious and efficient measures so far to protect and preserve the Lebanese labor market and refrain its invasion by the ever-growing Syrian labor force. At the same time, no positive results were achieved with regards to receiving financial help and support from the international community to face the burden implied by the Syrian refugees to Lebanon, while international organizations continued to exert relentless pressure on Lebanese official parties to facilitate the absorption of the Syrian labor force into all sectors of the Lebanese economy.

A natural result of all the above undermining factors was an increased pressure on the purchase power of Lebanese households, on top of the inflationary pressures sparked by the spontaneous wave of optimism that followed the

election of a president, the nomination of a prime minister and the formation of a new government, as well as by the renewed increase in fuel prices with effects radiating at all levels of the economy – an economy that had been subject to recession for a certain number of quarters now. All the above has naturally resulted in a weaker level of markets activity with households setting priorities in their patterns of consumption, while the volume of consumption of refugees in local markets remains very low.

Needless also to mention that the lack of transparency and/or vision in the local political, economic and financial arenas continued to refrain the emergence of any new public or private projects and investments – neither local nor foreign. And hopes are still clearly built on the eventuality of the return of tourists and visitors – especially from the gulf countries, to Lebanon this coming summer. Yet, and until all problems are resolved and the situation regains a long awaited serenity, most retail trade sectors continued to experience undermining recessionary pressures. Turnover figures persisted in their downward trend in many sectors, especially in real terms i.e. after applying the official CPI figures announced by the Central Administration of Statistics for the period under review. It is important to note here that the CPI has maintained in the first quarter of 2017 its upward trend – a trend that had started in mid-2016, and that of course helps reveal further the increasing weakness of activity in the markets. The average consolidated nominal drop between the first quarter of 2016 and the first quarter of 2017 has reached – 4.17 % (inclusive of the – 3.08 % result in the Liquid Fuels sector in terms of volume). The real consolidated drop (i.e. after applying the + 5.12 % inflation rate as published by CAS for this period) stood at – 9.08 %.

If we exclude the variations in the Liquid Fuels sector, the consolidated nominal decrease stands at – 4.56 %, and the real consolidated drop reaches – 9.44 % between the first quarter of 2016 and the first quarter of 2017.

III. Fiscal Policy and Indebtedness

The fiscal conditions in Lebanon remain highly unfavorable in light of continued fiscal deficits and growing public indebtedness, and the crowding-out effect of private investment fueled by public borrowing.

According to the Ministry of Finance figures, public indebtedness of Lebanon increased by 8.6% on annual basis, from USD 71.1 billion at end-March 2016 to USD 77.2 billion at end-March 2017. The public debt in foreign currency reached USD 29.9 billion, increasing by 9.6% from a year later. The public debt in Lebanese Pound totaled USD 47.3 billion at end-March 2017, with an increase of 8% from end-March 2016.

Local-currency debt accounted for 61.3% of the total public debt at end- March 2017, against 38.7% for the foreign-currency debt.

At end- March 2017, commercial banks held about 49% of the total public debt, relative to 53.7% a year later.

The net public debt, which excludes the public sector deposits at the Central Bank and commercial banks from overall debt figures, rose by 6% on annual basis to reach USD 65.9 billion at end-February 2017.

In this sense, public indebtedness continues its growth trajectory, fueled by continued fiscal deficits due to the firm imbalance between the revenues and spending of the country.

Indicators	2017 Q1	2016 Q1	variation %
Gross Public Debt (USD, billion)	76.1	71.2	6.9
Net Public Debt (USD, billion)*	65.9	62.2	6.0

* First 2 months

Sources: Ministry of Finance and Central Bank of Lebanon

IV. Inflation and Monetary Policy

The monetary authorities have maintained its monetary stabilization policy as well as economic stimulus policy in the first quarter of 2017. This period experienced the return of inflation following deflation in the past two years.

1- Central Bank

The Central Bank's statistics reveal that its balance sheet increased by 7.8% on annual basis to reach USD 101.9 billion at the end of March 2017, compared to USD 94.6 billion during the same period of 2016. Assets in foreign currencies reached USD 40.1 billion at the end of March 2017, with an increase of 9.6% from USD 36.6 billion at the end of March 2016.

As for the gold reserves, its value grew by 0.7% year-on-year to reach USD 11.5 billion in the first quarter of 2017. These figures reflect a better financial status of the Central Bank.

2- Inflation

The Price Index of the Central Administration of Statistics increased by 4.9% on annual basis in the first quarter of 2017, compared to a decline of 3.2% in the same quarter of 2016. This reflects the return of inflation in the first quarter of 2017, following deflation in 2016 and 2015, and hence expanding money supply where M3 grew by USD 1,477 million in the first quarter of 2017 relative to USD 890 million in the same period last year.

- Tobacco (- 8.39 % after a - 4.65 % in the previous quarter) and Liquor & Spirits (- 1.39 % after a - 0.27 % in the previous quarter)
- Supermarkets and Food Shops (- 5.25 % after a slight - 0.61 % in the previous quarter)
- Bakeries & Pastries (- 3.69 % after many quarters of improved results)
- Construction Material (- 1.13 %)
- Watches and Jewelry (- 0.68 %)
- Restaurants and Snacks (- 0.56 % only after a - 7.26 % drop in the previous quarter)
- Perfumes and Cosmetics (- 1.98 %)

On the other hand, the sectors that witnessed sustained levels of activity or improvement in their real figures, included (in addition to malls + 5.00 %):

- Household Electrical Equipment (+ 15.32 %)
- Books & Stationery & Office Supplies (+ 13.49 %)
- Household Equipment (+ 12.91 %)
- Pharmaceuticals (+ 12.30 %)
- Medical Equipment (+ 8.89 %)
- Sports Items & Equipment (+ 2.96 %)
- Toys (+ 1.45 %)

But if we analyze the results of the various sectors in terms of quarterly variations between the last quarter of 2016 and the first quarter of 2017, and even after taking into consideration seasonal factors, a quickly escalating deterioration is noticed, and commercial activity is displaying an alarming state of weakness. On one side, the level of decline in the consolidated nominal turnover has exceeded the - 12 % level between the last quarter of 2016 and the first quarter of 2017, and on the other side there appears to be no positive signs of improvement of the current situation as long as no drastic actions are implemented by concerned public parties.

The analysis of detailed figures shows that all retail trade sectors (with the exception of the Sports Equipment sector where a + 3.19 % improvement was reported) have recorded a drop in their real sales figures during the first quarter of this year, as compared to the previous quarter, with some sharp decreases in some of the sectors.

While the volume of Liquid Fuels sales remained almost unchanged during this first quarter, as compared to the

volume of sales during the last quarter of 2016 (-0.37%), and in addition to the Furniture sector and the Building Equipment sector where declines were the sharpest, results are as detailed below:

- Home Decorative Items (- 55.87 %)
- Liquors (- 40.45 %)
- Malls (- 29.00 %)
- Musical Instruments (- 20.56 %)
- Optical Instruments (- 20.42 %)
- Toys (- 18.51 %)
- Cellular Phones (- 17.59 %)
- Shoes and Leather Products (- 17.13 % after a - 18.23 % drop in the previous quarter)
- Books and Stationary (- 16.94 %)
- Perfumes and Cosmetics (- 15.91 %)
- Watches and Jewelry (- 15.33 %)
- Tobacco (- 15.30 % after a - 21.43 % in the previous quarter)
- Pharmaceuticals (- 15.29 % after a - 24.01 % in the previous quarter)
- Medical Equipment (- 15.20 %)
- Supermarkets and Food Shops (- 15.08 %)
- Bakeries & Pastries (- 13.28 % after a - 5.78 % in the previous quarter)
- Household Electrical Equipment (- 8.78 % after a - 1.98 % in the previous quarter)
- Used Cars Dealers (- 5.76 %)
- Clothing (- 3.37 % after a - 3.76 % in the previous quarter)
- Restaurants and Snacks (- 0.17 % after a - 10.52 % in the previous quarter)

As a result, with the base index 100 fixed at the fourth quarter of 2011, and with a quarterly inflation rate of + 0.74 % for the first quarter of 2017, as per the official CAS report, the "BTA-Fransabank Retail Index" registered (with all sectors included) 47.97 for the first quarter of the year 2017.

This figure compares to the level of 54.78 for the fourth quarter of 2016. It means that our index has again dropped below the 50 mark as was the case during the first two quarters of 2016.

CPI (as per CAS official results)	
Q4 '14 / Q4 '13	- 0.71 %
Q1 '15 / Q1 '14	- 3.38 %
Q2 '15 / Q2 '14	- 3.37 %
Q3 '15 / Q3 '14	- 4.67 %
Q4 '15 / Q4 '14	- 3.40 %
Q1 '16 / Q1 '15	- 3.57 %
Q2 '16 / Q2 '15	- 0.98 %
Q3 '16 / Q3 '15	+ 1.03 %
Q4 '16 / Q4 '15	+ 3.14 %
Q1 '17 / Q1 '16	+ 5.12 %
Q4 '14 / Q3 '14	- 1.49 %
Q1 '15 / Q4 '14	- 0.98 %
Q2 '15 / Q1 '15	- 1.12 %
Q3 '15 / Q2 '15	- 1.18 %
Q4 '15 / Q3 '15	- 0.16 %
Q1 '16 / Q4 '15	- 1.15 %
Q2 '16 / Q1 '16	+ 1.54 %
Q3 '16 / Q2 '16	+ 0.82 %
Q4 '16 / Q3 '16	+ 1.93 %
Q1 '17 / Q1 '16	+ 0.74%

Yearly Variation between 1st Quarter '16 and 1st Quarter '17

	Q4 - 2015	Q4 - 2016	
Nominal Year to Year Variation (incl. Liquid Fuels)	100.00	95.83	
Nominal Year to Year Variation (excl. Liquid Fuels)	100.00	95.44	
CPI between Mar '16 and Mar '17 (as per the official CAS figures)		+ 5.12 %	
Real Year to Year Variation (incl. Liquid Fuels)	100.00	90.92	- 9.08 %
Real Year to Year Variation (excl. Liquid Fuels)	100.00	90.56	- 9.44 %

It should be noted here that the consolidated results experienced by the markets – either from year to year or from quarter to quarter, are the weakest that were reported for many quarters back.

Yet, and as usual, all sectors of retail trade were not affected similarly, although drops were reported in the majority of such sectors, while just a few experienced sustained, or even improved, levels of activity, as detailed below:

The main sectors that continued to post weaker real results, as compared to Q1 2016, in addition to the Liquid Fuels sector (- 3.08 % in volume), the Building Equipment sector, and the Cellular Phones sector (were the sharpest drops were reported), included:

- Shoes and Leather Products (- 21.11 % after a short lived relapse in the previous quarter that stood at + 7.24 %)
- Musical Instruments (- 20.56 % after a - 4.47 % in the previous quarter)
- Furniture (- 18.24 % after a - 9.86 % in the previous quarter)
- Used Cars Dealers (- 14.03 % after a - 13.51 % in the previous quarter)
- Home Accessories (- 13.11 % after a - 9.94 % in the previous quarter)
- Clothing (- 11.30 % after a - 8.91 % in the previous quarter)

its policy of expanding its macro-prudential tool kit to limit risks in the financial sector, especially with respect to loans extended by banks to car or housing ownership.

Banks are asked to build general reserves against their performing commercial loans portfolio, and to build collective provisions against performing retail loans.

Monetary Indicators

Indicators	2017 Q1	2016 Q1	Variation
USD/LBP Exchange Rate	1,507.5	1,507.5	0.0%
The Central Bank of Lebanon's Assets in FX (USD, billion)	40.1	36.6	9.6%
The Central Bank of Lebanon's Gold Reserves (USD, billion)	11.5	11.4	0.7%
Money Supply M3 (USD, billion)	1,477	890	66.0%
Inflation Rate (%)	4.9%	-3.2%	8.1%

Sources: Central Bank of Lebanon, Association of Banks in Lebanon, and Central Administration of Statistics.

V. Financial Markets

The Banking Sector has maintained its growth in the first quarter of 2017. However, the performance of the Beirut Stock Exchange was inferior when compared to the first quarter of 2016.

1- Banking Sector

The statistics of the Association of Banks in Lebanon reveal that the consolidated balance sheet of commercial banks in Lebanon totaled USD 205.8 billion at the end of the first quarter of 2017, with an annual increase of 9.7% in the same period of 2016.

The banks' lending to the private sector reached USD 57.2 billion, with an annual growth of 3.9% during the same period. The dollarization rate of private sector lending dropped from 74.8% at end-March 2016 to 71.7% at end-March 2017.

The banks' lending to the public sector reached USD 37.7 billion at end-March 2017. The deposits of banks at the

Central Bank increased by 19.4% on annual basis to reach USD 85.9 billion at end-March 2017.

The private sector deposits grew by 7.8% on annual basis to total USD 164.4 billion at the end of the first quarter of 2017. The dollarization rate of deposits was 66.1% in the first quarter of 2017, compared to 64.8% in the same period last year.

The ratio of private sector loans-to-deposits was 34.8% at end-March 2017, down from 36.1% at end-March 2016.

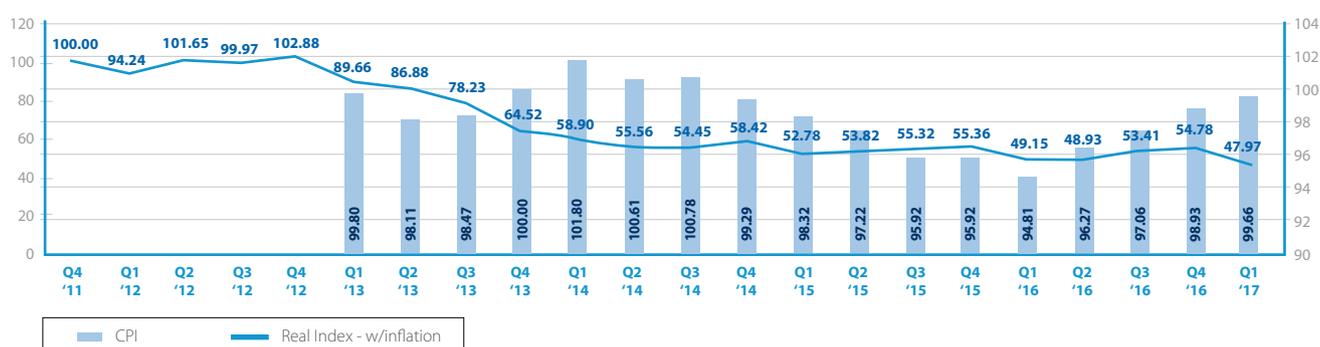
The banks' aggregate capital base reached USD 18.46 billion in the first quarter of 2017, up by 1.2% from USD 18.2 billion in the same period of 2016.

These figures clearly reflect a continued growth in the banking sector, and further expansion in the banking activity and market.

BTA - Fransabank Retail Index for Q1 - 2017 (Base 100 : Q4 - 2011)

	2011				2012				2013				2014				2015				2016				2017
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1			
Real Index - w/out inflation	100	95.77	100.55	108.54	112.66	90.83	87.85	78.60	65.87	59.68	55.30	55.22	57.57	51.51	51.94	52.77	52.911	46.27	46.79	51.49	53.86	47.51			
Real Index - w/ inflation	100	94.24	101.65	99.97	102.88	89.66	86.88	78.23	64.52	58.90	55.56	54.45	58.42	52.78	53.82	55.32	55.56	49.15	48.93	53.41	54.78	47.97			
CPI						99.80	98.11	98.47	100.00	101.80	100.61	100.78	99.29	98.32	97.22	96.07	95.92	94.81	96.27	97.06	98.93	99.66			

Evolution of the BTA - Fransabank Retail Index (Base 100 : Q4 - 2011)



Today, our hopes are building high on the positive signs that have started to emerge lately, especially with regards to reaching an agreement for a new electoral law, and with the budget project under study, but also in light of a steadily quiet security situation and the expectation of seeing tourists coming back to Lebanon as of this summer. All these positive indicators are supposed to have a positive impact on markets and on consumers, and the level of activity is expected to regain its vitality and the wheel of the economy should turn again, redirecting the “BTA-Fransabank Retail Trade Index” towards an upward trend.

4- Interest Rates

The Association of Banks in Lebanon recommended that member banks raise the Beirut Reference Rate (BRR) in U.S. dollars to 6.72% in May 2017 from 6.65% in April 2017. Also, the Association recommended the raise in the BRR in LP to 8.67% from 8.65% during the same period. These figures suggest a slight rise in interest rates, reflecting sound monetary stability in Lebanon in current times.

5- Stabilization Policy

The Central Bank of Lebanon has continued its monetary stabilization policy during the first quarter of 2017, just like in the previous years. The stability in the exchange rate (USD1 = LBP 1507.5) persists, thus contributing to overall monetary and economic stability.

To support this monetary stability, the monetary authorities have maintained their policy of moderating growth in money supply. This is crucial also for controlling inflation.

6- Economic Stimulus Measures

The depressed levels of economic growth over the last years together with the monetary stability measures adopted by the Central Bank has allowed it to continue its stimulus package during the first quarter of 2017 in the form of subsidized loans to key economic sectors like real estate and startups or venture capital funds targeting the knowledge economy. Also, the Central Bank continues

VI- Foreign Sector

The balance of payments, mirroring the aggregate foreign sector activity, was much better in the first quarter of 2017 relative to the same period of 2016, due to the substantial increase in capital inflows which resulted in an offsetting of the trade deficit and produced a substantial surplus in the said balance.

1- Trade Balance

For the first two months of 2017, the value of total imports reached USD 3.25 billion, with an increase of 13.2% a year later. In parallel, total exports surged by 10.1% to reach USD 455.5 million during the same period. As such, the trade deficit widened to USD 2.8 billion, growing by 13.8% on annual basis, mainly due to an increase of USD 380 million in imports.

The export-to-import coverage ratio was 14% in the first two months of 2017, relative to 14.4% in the same period last year, thus reflecting a drop in this coverage ratio due to a greater growth of imports over exports.

The rise in imports during the first two months of 2017 was due to an increase of 32% in imported oil and mineral fuels, and 56% in imported jewelry, and 8.7% in imported machinery and mechanical appliances.

The rise in exports during the same period was stimulated by an increase of 57% in jewelry products, 28% in base metals, and 5 times more in mineral products.

Total re-exports grew by 83.6% to reach USD 131.3 million at end-February 2017, from USD 71.5 million at end-February

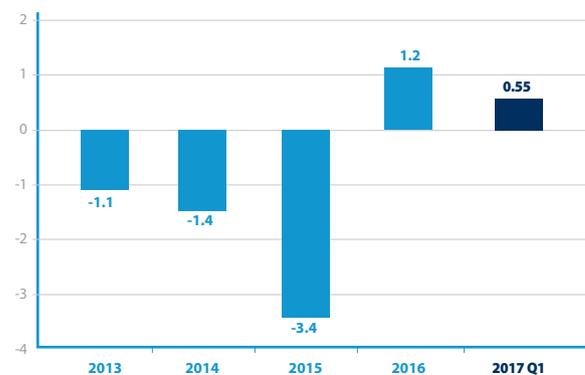
2016. This mirrors an active re-export activity in Lebanon during the period under consideration.

According to the figures of the Central Bank, the value of letters of credit opened to finance imports to Lebanon grew by 55.2% year-on-year in the first quarter of 2017 to reach USD 1.8 billion, relative to USD 1.2 billion in the same period of 2016.

In parallel, the amount of documentary letters of credit opened to finance exports from Lebanon totaled USD 1.1 billion in the first quarter of 2017, relative to USD 374.5 million in the same period of 2016, thus growing by nearly 3 times in one year.

These figures indicate a better trade activity for Lebanon, on both the exports and imports side.

- Balance of Payments (USD, Billion) -



Banking Sector Indicators

Indicators	2017 Q1	2016 Q1	Variation
Total Assets (USD, billion)	205.8	187.6	9.7%
Total Deposits of Private Sector (USD, billion)	164.4	152.5	7.8%
Total Loans to Private Sector (USD, billion)	57.2	55.1	3.9%
Bank's Capital Base (USD, billion)	18.46	18.2	1.2%

Sources: Central Bank of Lebanon and Association of Banks in Lebanon

2- Beirut Stock Exchange

The figures announced by the Beirut Stock Exchange (BSE) indicate that total trading volume reached 18,565,372 shares in the first four months of 2017, with a decrease of 49.8% from 36,989,347 shares in the same period last year.

Aggregate turnover decreased by 57.6% in the first quarter of 2016 from USD 338.5 million to USD 143.5 million in the first quarter of 2017.

Market capitalization of BSE increased by 4.1% on annual basis to reach USD 11.4 billion at end-March 2017.

The market liquidity ratio dropped from 3.1% in the first four months of 2016 to 1.2% in the same period of 2017.

For the first four months of 2017, banking stocks accounted for 85.6% of the total market capitalization, followed by real-estate shares (11.9%) industrial enterprises (2.2%), and trade stocks (0.3%).

Beirut Stock Exchange Indicators

Indicators	2017 Q1	2016 Q1	Variation %
Market Capitalization (USD, billion)	11,401	10,951	4.1
Total Trading Value (USD, million)	85	279	(69.6)
Aggregate Turnover (USD, million)	143.5	338.5	(57.6)
Total Trading Volume (shares)*	18,565,372	36,989,347	(49.8)
Market Liquidity Ratio (%)*	1.2	3.1	(1.9)

* First 4 months.

Sources: BSE and Central Bank of Lebanon

Study - Lebanon's Real Estate Sector: Current Status and Future Trends

I. Introduction

The real estate sector has been always a major pillar of Lebanon's economy, in the past, in current time, and in the future.

Over the past years, the real estate market has been witnessing relatively stable conditions, with small ups and downs, from year to year, especially since 2010.

In recent years, the real estate sector has continued to experience a slow activity, mainly fueled by a curbed demand and supply, with prices of real estate remaining relatively sticky.

Given the currently uncertain political and economic conditions in Lebanon, in addition to the political and economic turmoil in the region, the domestic and foreign demand (especially from the Lebanese diaspora and Gulf citizens) for real estate will continue to be weak in the short and intermediate terms.

If the domestic political authorities of Lebanon prove its ability to restore internal and external confidence, confirm political and security stability, enhance the domestic economic and social conditions, implement radical and deeply structural reforms on the fiscal and economic fronts, and incentivize the Gulf citizens and businessmen to come back again to Lebanon, only under these conditions the real estate market will be positioned on a rather fast pace and uptrend development.

The real estate market is a significant sector of Lebanon's economy as it contributes to nearly 15% of GDP. Also, it impacts positively on the government public finances, as real estate registration fees stand at nearly 8% of public revenues as of end-2016. Also, public revenues generated from the real-estate sector fees (or taxes on property), stands at more than 11.6% of total government revenues for the same period.

Development of Real Estate Registration Fees and Taxes on Property (USD, million)

Year	Registration Fees	Taxes on Property
2011	560	759
2012	577	791
2013	562	797
2014	574	826
2015	513	782
2016e	550	800

2016: own estimate

Source: Real Estate Registry.

II. Market Demand

The real estate demand has relatively recovered in 2016 relative to 2015, but remains lower than its annual average during the period 2010-2015. However, it remains higher than the levels recorded prior to 2010.

In 2016, the number of property sales increased on annual basis by 1.4% to reach 64,248 transactions, relative to 63,386 transactions in 2015. In amount, the property sales grew from nearly USD 8 billion in 2015 to USD 8.4 billion in 2016, an annual increase of 4.9%. In this sense, the demand for real estate was enhanced between 2015 and 2016, as indicated by the relatively growing property sales.

However, when considering the period 2011-2016, the volume of real estate transactions (or equally the volume of property sales) experienced a major drop, from nearly 82,984 transactions in 2011, to 64,248 transactions in 2016.

With respect to the value of real estate transactions (or equally the value of property sales), it rather stabilized

2- Capital Balance

According to the Lebanese Customs and Central Bank figures, financial inflows to Lebanon totaled USD 3.3 billion in the first two months of 2017, relative to USD 2.1 billion a year earlier, thus growing annually by 57%. This mirrors a significant inflow of financial funds from foreign markets, in light of the observed political and security stability, as well as the observed economic recovery.

3- Balance-of-Payments

The statistics announced by the Central Bank show that Lebanon's balance-of-payments recorded a surplus of USD 554.8 million in the first quarter of 2017, relative to a deficit of USD 644.2 million in the same quarter last year. The recorded surplus was due to an increase of USD 1.1 billion in the net foreign assets of banks and financial institutions, and a decrease of USD 522.8 million in the net foreign assets of the Central Bank.

Foreign Sector Indicators

Indicators	2017 Q1	2016 Q1	Variation %
Trade Deficit (USD, billion)*	2.8	2.46	13.8
Exports (USD, billion)*	455.5	413.7	10.1
Imports (USD, billion)*	3.25	2.87	13.2
Capital Inflows (USD, billion)*	3.3	2.1	57
Balance of Payments (USD, billion)	554.8	(644.2)	

* First 2 months.

Sources: Higher Customs Council and Central Bank of Lebanon.

VII- Growth Prospects

Real economic growth is expected to continue during 2017, at rates better than the one recorded in 2016. This will be stimulated by the currently observed political and security stability, expanding aggregate economic activity, continued monetary stabilization policy, and growing capital inflows.

The IMF projects the real GDP growth rate of Lebanon at 2% in 2017, up from 1% in 2016. The World Bank projects the real GDP growth rate at 2.5%, up from 1.8% during the same period.

Inflation is estimated at 2.6% in 2017 and 3.8% according to the IMF and World Bank respectively.

Also, the breakdown of construction permits by usage purposes reveals that it is mostly for residential buildings with 81.4% of the total, followed by commercial building (8.4%), economic sectors buildings (3.8%), public services buildings such as schools and hospitals (2.5%), tourism and hotel buildings (2.1%), and others (1.9%).

An emerging trend in the real estate sector seems to be the opening of shopping malls, and food and beverage restaurants and cafés, both inside Beirut and its suburbs, as well as in other cities.

Another indicator of current supply in the real estate market or building activity is cement deliveries. In fact, the volume of cement deliveries did not experience sharp ups and downs between 2011 and 2016, running nearly around a stable level of 5 million tons. The highest record during this period was in 2013 (5.6 million tons). Between 2015 and 2016, cement deliveries rose by 4.1% over 2015 to reach 5.2 million tons at the end of 2016.

Development of Cement Deliveries 2011 – 2016

Year	Cement Deliveries (thousand tons)
2011	5,550
2012	5,309
2013	5,858
2014	5,517
2015	5,043
2016	5,247

Source: Order of Engineers of Beirut and Tripoli.

IV. Real Estate Prices

Prices of real estates have experienced a relative stickiness over the past years, mainly due to several factors as follows:

- (i) The real estate market is currently dominated by a large stock of unsold properties which has accumulated over the past few years.
- (ii) The slowdown in the domestic real estate market, caused mainly by the observed slowdown in economic activity and growth recorded over the past few years.
- (iii) The household sector is the main driver of residential property sales, thus reducing the speculation activity in the domestic market.
- (iv) The economic slowdown in Lebanon over the past few years has negatively impacted the overall investment climate, thus encouraging real estate development companies to slow down their real estate investment projects.
- (v) The granted discounts on real estate prices, due to aggressive buyer negotiations with developers, reflect the real need of these developers to sell unsold properties as much as possible, under current economic conditions.
- (vi) The low demand for real estates by Arab citizens in general, and Gulf citizens in specific, have cause prices to be sticky.

Hence, unless these factors are moderated, the prices of real estates will continue to be sticky in the near and medium terms. Certainly a positive shock to the real estate market, both on the demand and supply sides, is a necessary condition to recover and prosper the real estate sector in Lebanon in the years to come.

If we consider the years 2015 and 2016, the average price for one square meter ranges between USD 3000 - 4000 for areas in the neighbourhood of Rizk hospital, Sioufi, Sodeco, Sanayeh and Gemmayzeh; and USD 4000 - 5000 for areas in the neighbourhood of Hamra, Koraytem, Sassine, Furn el-Hayek, Tallet el-Khayat, Clemenceau, Verdun and Saifi; and USD 5000 - 7000 for areas in the neighbourhood of Sursock, Raouche, Ain el-Mreisseh, Beirut Central District, Manara and Ramlet el-Baida.

around USD 8-9 billion during the same period. The highest record was in 2012 with a value of USD 9.2 billion, and the lowest record in 2016 with a value of USD 8.4 billion. The average level of the value of real estate transactions during this period was USD 8.7 billion.

Development of the Value and Volume of Real Estate Transactions 2011 – 2016

Year	Volume	Value (USD, billion)
2011	82,984	8.8
2012	74,569	9.2
2013	69,186	8.9
2014	70,795	9.0
2015	63,386	8.0
2016	64,248	8.4

Source: Real Estate Registry.

If we consider property sales transactions by region, we see that Beirut's share remains the highest with 26.4% of the total, followed by Baabda (23.6%), Metn (17.8%), Kesrouan (10.4%), South (10.2%), North (7.2%), Bekaa (3.6%) and others (0.8%).

In fact, the high prices of real estates in Beirut have forced many middle-income consumers to shift their demand for real-estates to areas outside Beirut such as Baabda and others.

Also, the demand for real estates is characterized by two major facts: first, the demand of the Lebanese is for small to medium-sized apartments; and second, the demand is for buying rather leasing.

The demand for real estates, mainly the rental one, was boosted over the last years, by the incoming Syrian refugees, who are seeking shelter from the ongoing Syrian war.

The demand for, or investment in lands, was negatively influenced by the unfavorable political and economic conditions over the past few years. It was equally influenced by the relatively high prices of lands, as well as the low foreigners' interest in raw land investments.

The land transactions constitute nearly 30% of the total real estate transactions. The number of land transactions fell from 51,604 transactions in 2011 to 37,062 transactions in 2015 (end-November). Consequently, the value of sold lands experienced a decrease over the same period, from nearly USD 2.81 billion by November 2014 to USD 2.32 billion by November 2015.

III. Market Supply

Following the trends recorded on the demand side in the real estate sector since 2011, the construction permits, as the major indicator of future market supply, experienced a drop from 16,465 million square meters in 2011 to 12.2 million square meters in 2016. Between 2015 and 2016, construction permits decreased by a moderate 0.9%. However, in number, construction permits improved by nearly 14.5% between 2015 and 2016.

Development of Construction Permits 2011 – 2016

Year	Construction Permits (thousand Square meters)
2011	16,465
2012	14,681
2013	12,925
2014	13,546
2015	12,339
2016	12,200

Source: Order of Engineers of Beirut and Tripoli.

Real estate engineering and development companies are gradually meeting the new trends in demand by the Lebanese citizens. They are focusing on more compact housing units, and even office units, perhaps between 100-150 meter square for residential purposes, and 80-200 meter square for business purposes.

The breakdown of construction permits by area reveals that Mount Lebanon has the lion's share of 43.4% of the total, followed by the South (24.4%), then North (18%), Bekaa (10.1%), and Beirut (4%).

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V. Real-Estate Sector Financing

The commercial banking sector in Lebanon is the major source of financing the needs of contractors and investors for construction, and the needs of buyers for housing. The real estate activity constitutes today, like in the past, a significant and rewardable activity for banks.

This bank financing for the construction and housing needs was also motivated by the Central Bank's stimulus package which was released over the past two years. This initiative came in order to compensate for the large gap between the purchasing power of the Lebanese citizens and high prices of real estates, and also to promote the demand for property.

The stimulus package focuses on lending commercial banks at a discounted rate so that they can re-lend to the real estate sector. In this sense, housing loans extended by banks to Lebanese citizens rose to more than an estimate of USD 12 billion in 2016, relative to USD 10.9 billion in 2015, while it was USD 2.8 billion in 2009.

Development of Housing Loans 2009 – 2016

Year	Housing Loans (USD, million)
2009	2,805
2010	4,511
2011	5,982
2012	7,269
2013	8,535
2014	9,879
2015	10,917
2016e	12,000

2016: own estimate

Source: Central Bank of Lebanon.

As for lending to construction, it went upwards since 2011, rising from nearly USD 7.1 billion in 2011 to USD 10.8 billion in 2015, and further to an estimate of more than USD 12 billion in 2016. The developers and investors are increasingly responding to the new needs of home-buyers for small to medium-sized apartments that fit their financial potentials.

Development of Construction Loans 2011 – 2016

Year	Construction Loans (USD, million)
2011	7,132
2012	8,137
2013	9,181
2014	9,599
2015	10,836
2016 e	12,000

2016: own estimate

Source: Central Bank of Lebanon.

VI. Real Estate Market Outlook

We have analyzed in this study the past and current trends in the real estate sector, and the factors delaying the upturn in the domestic market on the levels of demand, supply, financing and prices.

In the near and medium runs, we expect the status quo to prevail in the Lebanese real estate market, given the current political-economic-social conditions in Lebanon. The real estate market will continue to be slow, especially with the continued war in Syria and turmoil in some regional markets that are exerting constraints on FDIs to the region and Lebanon.

The domestic real estate market needs a positive shock in the form of more advanced levels of political stability, economic recovery and larger demand on the part of domestic and foreign citizens for housing, lands and business offices. This political and economic shock is necessary to enhance the investors and buyers sentiment for further construction and housing activities, and to encourage wealthy Gulf investors to come back again to Lebanon.

Definitely, the status quo does not embody a risk of collapse in prices of real estates in the future, given the factors supporting the stability of the real estate market on the demand and supply sides. Prices will continue to be sticky in the short to medium terms.

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