



ECONOMIC Bulletin YEAR 2016

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FRANSABANK

ECONOMIC Bulletin

YEAR 2016

Report - Lebanon's Economic Performance in 2016

| | |
|-------------------------|-----------|
| I. General Introduction | 2 |
| II. Real Sector | 3 |
| III. Public Finances | 6 |
| IV. Monetary Situation | 7 |
| V. Financial Sector | 11 |
| VI. Foreign Sector | 13 |
| VII. Economic Prospects | 14 |

Study - Lebanese Energy Security: Current Status and Prospects

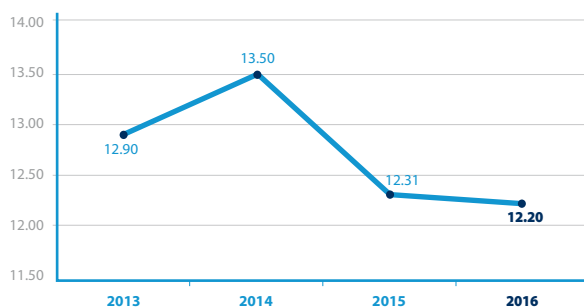
| | |
|--|-----------|
| I. Introduction: A Global Context | 15 |
| II. Energy Security Requirements | 16 |
| 1- Adequacy capacity | 16 |
| 2- Diversity | 16 |
| 3- Reliability | 16 |
| III. Lebanon in terms of Energy Security | 17 |
| IV. Lebanon's Policies for Energy Security | 18 |
| V. Conclusion | 19 |

II. Real Sector

1- Construction and Real Estate

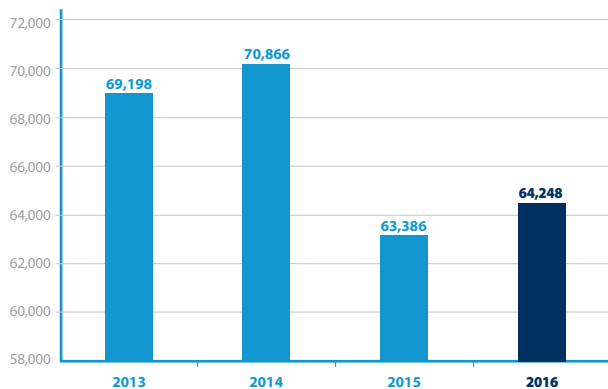
Based on the figures released by the Order of Engineers of Beirut and Tripoli, the construction permits decreased by 0.9% to reach 12.2 million square meters in 2016, as compared to 12.31 million square meters in 2015. Mount Lebanon accounted for 42.2% of the total construction permits, followed by the North with 15.5%, the South with 14.3%, Bekaa with 10%, Nabatieh with 9.5%, and Beirut with 4.2%.

- Construction Permits (Square meters, million) -



Moreover, the number of real-estate sales transactions has increased by 1.4%, to reach 64,248 transactions in 2016, as compared to 63,386 transactions in 2015.

- Number of Real Estate Sales Transactions -

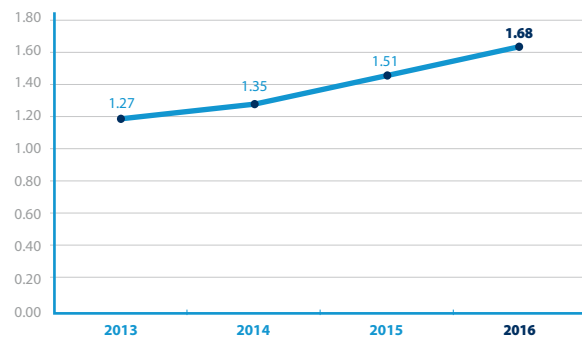


2- Tourism

According to the figures released by the Ministry of Tourism, the number of tourists visiting Lebanon increased by 11.2% to reach 1,688,357 in 2016, as compared to 1,517,927 in 2015.

As for the distribution of tourists by countries, it shows that the greater part of visitors were from Europe with 33.4% of aggregate visitors, followed by visitors from the Arab countries with 31.1%, visitors from the Americas with 17.6%, visitors from Asia with 7.4%, visitors from Africa with 6.1%, and visitors from Oceania with 4.4%.

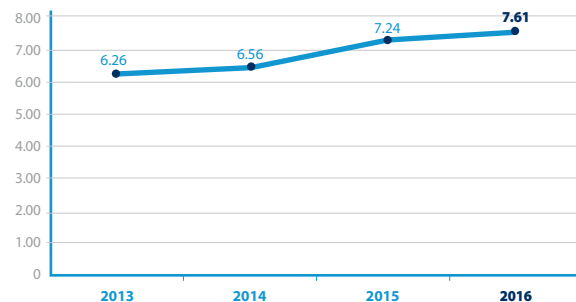
- Number of Tourists (million) -



3- Airport Activity

Based on the figures released by Beirut - Rafic Hariri International Airport (HIA), the number of airport passengers increased by 5.1% to reach 7,610,231 in 2016, as compared to 7,240,397 in 2015. While the total number of flights increased by 2.7% to reach 70,740 in 2016, as compared to 68,880 in 2015.

- Passengers at HIA (Million) -



Lebanon's Macroeconomic Performance During 2016

I. General Introduction

In general, the Lebanese economy has witnessed an improvement in its economic activity during 2016 relative to the last year.

This is shown by the increase in most indicators of the real sector. The number of property sales surged by 1.4%, the number of tourists by 11.2%, the number of containers via Beirut port by 7.2%, and the number of passengers through HIA by 2.2%.

In parallel, inflation declined by 0.8% during the same period, coupled by surging net public debt (5.91%), while the trade deficit and the fiscal deficit surged by 4.1% and 27% respectively.

Also, the total trading volume at BSE surged by 61.4%, with higher capital inflows (44.69%), and a surplus of USD 1.2 billion in the balance of payments.

Moreover, the Central Bank of Lebanon's foreign-currency denominated assets surged by 9.7% to USD 40.7 billion at the end of 2016, while consolidated assets of the banking sector surged by 9.9% to USD 204.3 billion during the same period.

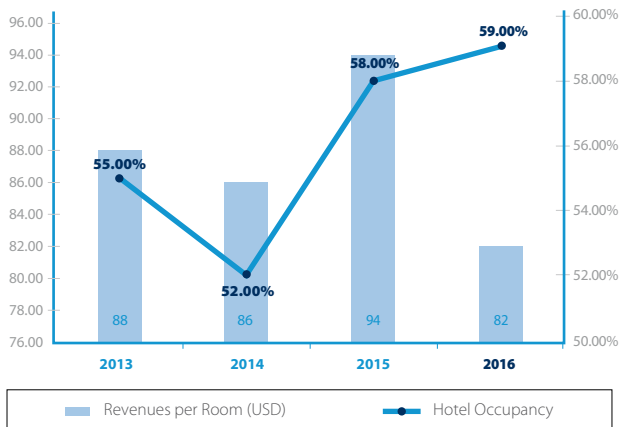
Lebanon's real GDP growth is expected to be at 2% in 2017 based on IMF estimates relative to 1.4% in 2016.

7- Hotel Occupancy

Based on the data issued by the Ministry of Tourism, the occupancy rate at hotels increased by 1% to reach 59% in 2016, as compared to 58% in 2015.

Further, revenues per available room decreased by 12.76% to reach USD 82 in 2016, as compared to USD 94 in 2015.

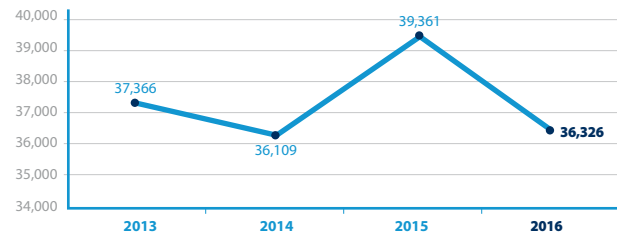
- Hotels Activity Indicators -



8- Cars Sales

Based on the figures released by the Association of Automobile Importers in Lebanon, the number of cars sold during 2016, decreased by 7.7% to reach 36,326 in 2016, as compared to 39,361 cars in 2015.

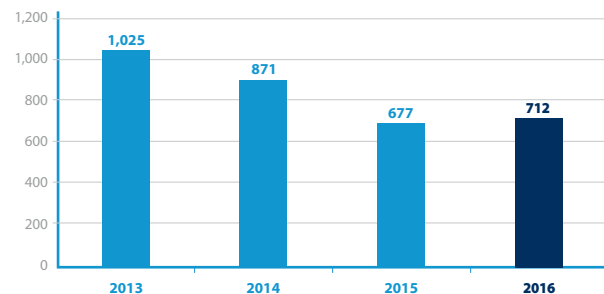
- Number of cars sold -



9- Kafalat Loan Guarantees

Based on the figures released by the Kafalat Corporation, loans under the guarantee of Kafalat have decreased by 0.4% to reach an amount of USD 92.9 million in 2016, as compared to USD 93.3 million in 2015. The number of loan guarantees increased by 5.2% to reach 712 in 2016, as compared to 677 in 2015. Whereas, the average loan size decreased by 5.32% to reach USD 130,490 in 2016, as compared to USD 137,828 in 2015.

- Number of Kafalat loan guarantees -



Real Sector

| Indicators | 2016 | 2015 | Variation |
|---|-----------|-----------|-----------|
| Construction Permits (SQM, million) | 12.2 | 12.31 | -0.9% |
| Real-Estate Sales Transactions | 64,248 | 63,386 | 1.4% |
| Number of tourists | 1,688,357 | 1,517,927 | 11.2% |
| Number of Passengers at HIA | 7,610,231 | 7,240,397 | 5.1% |
| Customs Revenues (USD, billion) | 1.46 | 1.42 | 2.8% |
| Cleared Checks (USD, billion) | 68.1 | 69.6 | -2.2% |
| Hotel Occupancy Rate (%) | 59 | 58 | 1.0% |
| Number of Containers at Beirut Port | 855,877 | 798,392 | 7.2% |
| Number of Car Sales | 36,326 | 39,381 | -7.7% |
| Amount of Kafalat Guarantees (USD, million) | 92.9 | 93.3 | -0.4% |

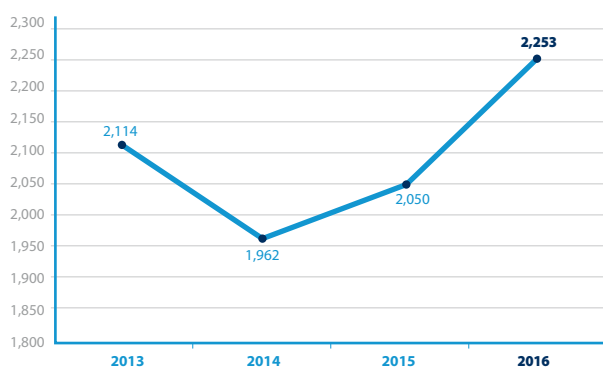
Sources: Official Departments in Lebanon

4- Beirut Port

Figures released by the Beirut Port Authority show that the total tonnage of loaded and unloaded merchandise increased by 6.3% to reach 8.7 million tons in 2016, as compared to 8.2 million tons in 2015.

The number of containers increased by 7.2% to reach 855,877 containers in 2016, as compared to 798,392 containers in 2015. Whereas the total number of ships surged by 9.9% to reach 2,253 in 2016, as compared to 2,050 in 2015.

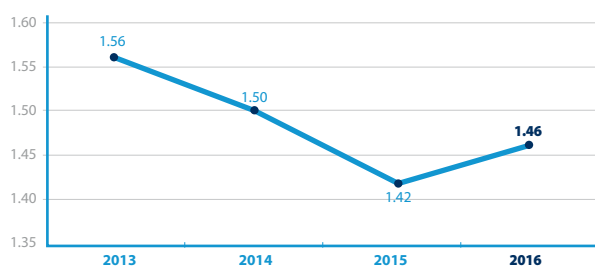
- Number of Ships at Beirut Port -



5- Customs Receipts

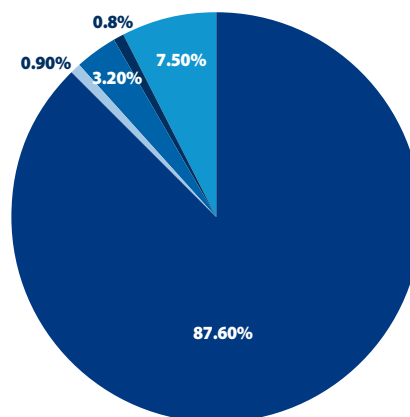
Based on the figures released by the Customs Directorate, customs revenues increased by 2.8% to reach USD 1.46 billion in 2016, as compared to USD 1.42 billion in 2015.

- Customs Receipts (USD, billion) -



The Port of Beirut continues to be the main point of customs revenues, accounting for 87.6% of the total, followed by the Hariri International Airport, the Port of Tripoli, the Masnaa Crossing point, and Port of Saida with 7.5%, 3.2%, 0.9% and 0.8% respectively.

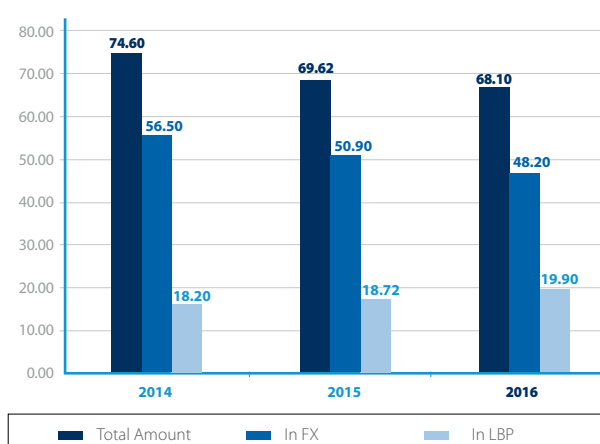
- Points of Customs Receipts -



6- Clearing Activity

Based on the figures released by the Association of Banks in Lebanon, the value of cleared checks decreased by 2.2% to reach USD 68.1 billion in 2016, as compared to USD 69.62 billion in 2015. The value of cleared checks in Lebanese pounds rose by 6.3% to reach USD 19.9 billion in 2016, as compared to USD 18.72 billion in 2015, while the value of cleared checks in foreign currencies decreased by 5.3% to reach USD 48.2 billion in 2016, as compared to USD 50.9 billion in 2015. The dollarization rate of cleared checks decreased from 73.1% to 70.8% year-on-year.

- Evolution of Clearing Activity (USD, billion) -



Public Finances

| Indicators | 2016 | 2015 | Variation |
|---|-------|-------|-----------|
| Public Revenues (USD, billion) (8 Months) | 6.9 | 6.6 | 4.54% |
| Public Expenditures (USD, billion) (8 Months) | 9.4 | 8.6 | 9.3% |
| Deficit (USD, billion) (8 Months) | 2.5 | 2 | 27% |
| Deficit /Expenditures (%) | 26.6 | 23.25 | 3.35% |
| Gross Public Indebtedness (USD, billion) | 74.88 | 70.3 | 6.51% |
| Net Public Debt (USD, billion) | 65.3 | 61.6 | 5.91% |

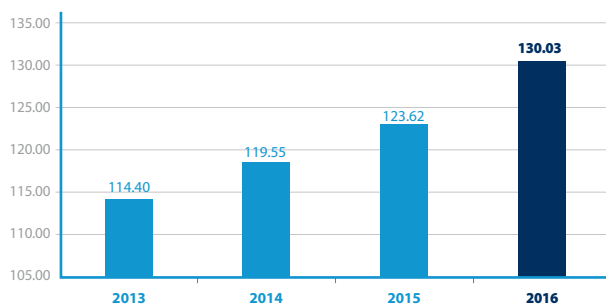
Sources: Ministry of Finance and Central Bank of Lebanon

IV. Monetary Situation

1. Money Supply

Based on the data issued by the Central Bank of Lebanon, Money supply (M3) expanded broadly by 5.18% to reach USD 130.03 billion over 2016, as compared to USD 123.62 billion 2015. This resulted from a rise in foreign currency deposits of USD 3.15 billion, the local currency denominated time deposits rose by USD 2.44 billion, and the money supply (M1) and T-bills surged by USD 820 million.

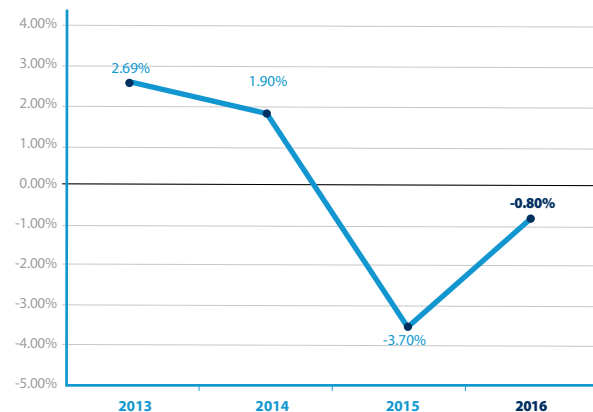
- Money Supply (M3) (USD, billion) -



2. Consumer Prices

Based on the figures issued by the Central Administration of Statistics, inflation declined by 0.8% in 2016. This is due to the decrease in prices of some commodities in the Lebanese market, such as communication costs, which decreased by 12.6%, followed by prices of electricity, fuel and gas (-6.7%), and transportation costs (-5.7%).

- Consumer Price Index -



III. Public Finances

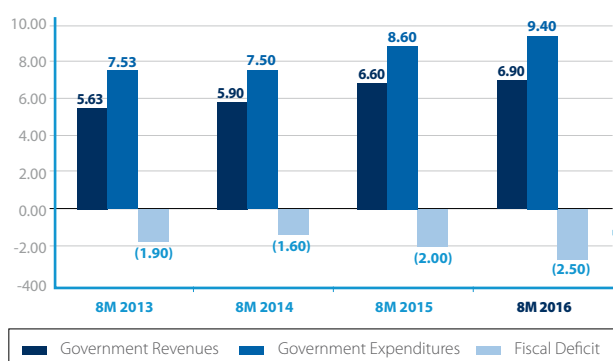
1. Fiscal Deficit

According to the figures released by the Ministry of Finance, the fiscal deficit has increased by 27% to reach USD 2.5 billion in the first eight months of 2016, as compared to USD 2 billion in the same period of 2015.

Overall government revenues which include budget and Treasury receipts, increased by 4.54% to reach USD 6.9 billion in the first eight months of 2016, as compared to USD 6.6 billion in the same period of 2015. Total tax revenues increased by 1.4%, to reach USD 4.97 billion in the first eight months of 2016, as compared to USD 4.90 billion in the same period of 2015.

While on the spending side, total public expenditures, which include budgetary and Treasury spending, increased by a yearly 9.3% to reach USD 9.4 billion in the first eight months of 2016, as compared to USD 8.6 billion in the same period of 2015, caused mainly by a surge in treasury expenditures.

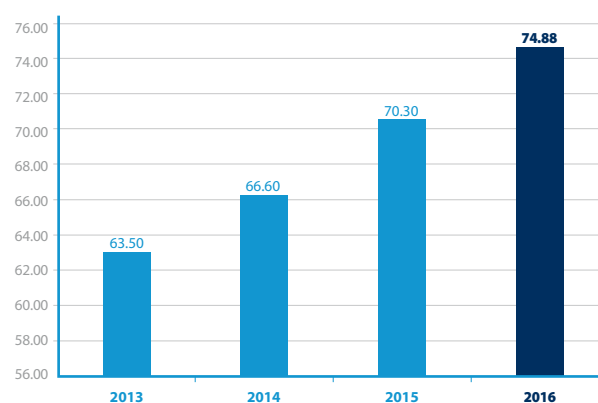
- Public Finance Indicators (USD, billion) -



2. Public Debt

Based on the figures issued by the Ministry of Finance, the gross public debt increased by 6.51% to reach USD 74.88 billion at the end of 2016, as compared to USD 70.3 billion in 2015.

- Gross Public Debt (USD, billion) -



Domestic debt increased by 7.18% to USD 46.65 billion in 2016, as compared to USD 43.3 billion in 2015, while external debt increased by 4.56% to USD 28.23 billion in 2016, as compared to USD 27 billion in 2015. Local currency debt accounted for 62.3% of gross public debt in 2016 compared to 61.6% a year earlier, while foreign currency denominated debt represented 37.7% of the total at the end of 2016 relative to 38.4% a year earlier.

Net public debt, which excludes the public sector's deposits at the Central Bank of Lebanon and at commercial banks from overall debt figures, increased annually by 5.91% to USD 65.3 billion in 2016, as compared to USD 61.6 billion in 2015.

the level of overall markets' activity in Lebanon as well as at the level of a wide spectrum of investment activities ... with the sincere hope of a return to stability in neighboring countries, and a healthier economic situation in oil exporting countries that host high numbers of Lebanese expatriates.

Until that moment comes when all such factors become favorable again, it appears that the consolidated figures pertaining to the turnover in the retail trade markets have remained modest, and the positive signals have remained with no tangible impact, as results continued to display a nominal drop of - 1.92 % in comparison to the figures of the last quarter of 2015. The application of the CPI (as published by CAS for this period) on the nominal figures result in a much more severe drop that stood at - 5.00 % in real terms.

It is also important to note that the CPI continued to display an upward trend for the second consecutive quarter (on a year to year comparison basis), confirming renewed inflationary pressures, as the fourth quarter 2016 CPI reflected a + 3.14 % increase over the fourth quarter 2015 figures.

It should also be mentioned that the above figures do include changes in volumes of sales in the sector of Liquid Fuels (to avoid price fluctuations effects). This sector has witnessed - for the period under review, an increase of + 3.11 %.

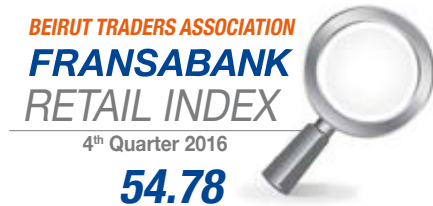
The consolidation of the retail trade sectors' results excluding the liquid fuels sector results into a - 3.70 % nominal decline, while the real figures show a drop that reached - 6.72 %.

| 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 % |
| 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 % |

Yearly Variation between 4th Quarter '15 and 4th Quarter '16

| | Q4 - 2015 | Q4 - 2016 | |
|--|------------------|------------------|-----------------|
| Nominal Year to Year Variation (incl. Liquid Fuels) | 100.00 | 98.08 | |
| Nominal Year to Year Variation (excl. Liquid Fuels) | 100.00 | 96.30 | |
| CPI between Dec '15 and Dec '16 (as per the official CAS figures) | | + 3.14 % | |
| Real Year to Year Variation (incl. Liquid Fuels) | 100.00 | 95.00 | - 5.00 % |
| Real Year to Year Variation (excl. Liquid Fuels) | 100.00 | 93.28 | - 6.72 % |

3. Beirut Traders Association – Fransabank Retail Index



The optimism that had started to emerge during the third quarter of the year 2016 was complemented by the accelerated succession of positive events during the fourth quarter – political understandings, followed by the election of a president at the end of the month of October of 2016. All this political “détente” underpinned the markets’ mood with a wave of optimism and with the feeling that the long prevailing situation would start to change and witness a renewed appetite for spending by traditional consumers leading to a revitalization of the retail markets’ energy and activity.

And the markets did actually experience a momentum build-up on the demand side, and pretty encouraging dynamism in the various retail sectors. This momentum was however short-lived, and the markets re-experienced a state of lethargy during the period of formation of the new government, and remained so even after its announcement, strongly suggesting that all parties were still expecting more positive signals and deeds.

Thus, and despite the concordance of such encouraging events with the approach of the Christmas and end-of-year season – with all underpinning drives for consumption in such period, it appears that the markets – and hence the consumers, did not yet regain the sufficient vitality to start harvesting the fruits of the brighter situation, and this quarter’s consolidated results continued to display a noticeable down-slide in comparison to the results of the same quarter of the previous year.

Thus, it appears that the consumption problem in Lebanon – in the various retail trade sectors, has become a structural problem, and that psychological factors are not anymore the sole – or at least the main, factor, despite its paramount importance. Other essential reasons have substantial consequences, with causality effects on the purchase power of households and their priorities in spending, as well as on the structure of the consumers segments and profiles (in terms of nationalities’ distribution

- be it Lebanese, or refugees, or Gulf nationals and other tourists, etc...).

It has become evident that the purchase power of Lebanese households has witnessed during the last period a noticeable regression due to the poor economic situation and the lack of growth, coupled with the invasion of the Lebanese labor market by a skilled and experienced Syrian manpower and labor force that has significantly lower remuneration demands than their Lebanese counterparts (as confirmed lately in an IMF report), and also in light of the decrease in the value of transfers executed by Lebanese abroad to their families in Lebanon – especially transfers from the Lebanese working in the Gulf or African states (also according to official reports).

What we should look forward to then is the approval of a budget by the government; a budget that takes into account all requisites and requirements for a resumption of growth of the Lebanese economy, that would directly result into improved purchase power of households, through the bias of targeted and planned public expenditure, a cut in expenditure, a minimization of wastage, and the avoidance of new tax burdens. This should come on top of a strict rejection by Lebanese authorities of international instances programs aiming at financing the creation of new jobs for refugees, on the grounds that such programs would guarantee a return of refugees to their country in the medium term.

It is equally important for the government and the concerned parties to re-establish an encouraging economic and taxation environment that would be characterized with attractive regulations for new and profitable investment opportunities and openings.

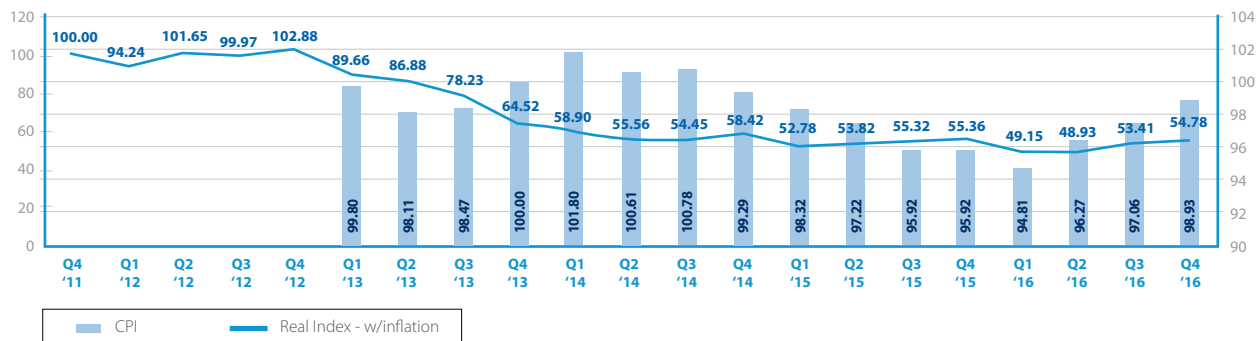
To top all these measures, strict rules and regulations on foreign work permits should be enforced, and accompanied by incentives for the employment of Lebanese manpower with all levels of academic and technical backgrounds and in all sectors of the economy.

On the other hand, it is also of tantamount importance for the government and all concerned parties to work hard on re-establishing Lebanese Gulf relations to their traditional status, and inciting the governments of these states to levy all restrictions on the travel of their citizens to Lebanon, because of the important weight of these at

BTA - Fransabank Retail Index for Q4 - 2016 (Base 100 : Q4 - 2011)

| | 2011 | | | | 2012 | | | | 2013 | | | | 2014 | | | | 2015 | | | | 2016 | | | |
|------------------------------|------|-------|--------|--------|--------|-------|-------|-------|--------|--------|--------|--------|-------|-------|-------|-------|--------|--------------|--------------|--------------|--------------|--|--|--|
| | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | | | |
| 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 | | | |
| 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 | | | |
| 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 | | | |

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



The persisting state of weakness that was witnessed in the retail trade market despite the positive political developments that have marked the last quarter of 2016 came as a major disappointment for market players and shed light on the fragility of the economy that has now become of structural nature. Obviously, there will be no salvation for this state of things without an improvement in the purchase power of households and without the long expected return of visitors from the Gulf states in particular and of tourists in general. These prerequisites should also be imperatively accompanied by strict measures to eradicate the on-going parallel economy that has spread throughout all regions and sectors in Lebanon and that is severely jeopardizing the legal and legitimate Lebanese trading community in particular, and the Lebanese economy in general terms, because of its weakening and endangering effects on growth and development essential bases.

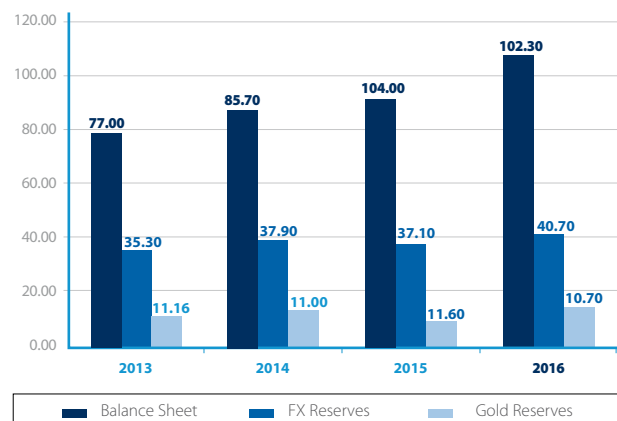
4. Central Bank of Lebanon's Foreign Assets

According to the figures released by the Central Bank of Lebanon, its balance sheet decreased by 1.7% to reach USD 102.3 billion in 2016, as compared to USD 104 billion

in 2015. Assets in foreign currencies increased by 9.7% to reach USD 40.7 billion in 2016, as compared to USD 37.1 billion in 2015. Its gold reserves decreased by 8.7% to reach USD 10.7 billion in 2016, as compared to USD 11.6 billion in 2015.

Also deposits of the financial sector rose by 13.3% to reach USD 84.2 billion in 2016, as compared to USD 74.3 billion in 2015, due to capital inflows into the banking sector.

- Central Bank's Indicators - (USD, billion)



When analyzing the results for every sector separately, it appears that while some sectors continued to experience a slowdown in activity, other sectors were able to achieve relatively improved results. This is a further sign that prioritization in the spending pattern continues to be the name of the game, and that households are giving preference to consumption on basic needs and goods and have more refrain in spending on non-essential items. The main sectors that continued to post weaker real results included:

- Cars Dealers (- 13.51 %)
- Home Accessories (- 9.94 %)
- Clothing (- 8.91 % after a - 10.07 % drop in the previous quarter)
- Restaurants and Snacks (- 7.26 % after a + 6.59 % improvement in the previous quarter)
- Malls (-7.00 %)
- Musical Instruments (- 4.47 %)
- Perfumes and Cosmetics (- 1.98 %)
- Silverware and Decorative Items (with a renewed drop of - 1.03 % after the slight improvement witnessed in the previous quarter)
- Watches and Jewelry (- 0.99 %)
- Supermarkets and Food Shops (- 0.61 %)
- Liquor & Spirits (-0.27 % after a + 4.97 % improvement in the previous quarter) and Tobacco (- 4.65 % after a + 4.43 % improvement in the previous quarter)

On the other hand, some sectors did witness an improvement in their real figures, and included mainly:

- Books & Stationery & Office Supplies (+ 12.96 %)
- Furniture (+ 9.86 %)
- Shoes and Leather Products (a sector that is witnessing a positive + 7.24 % increase after a long period of decline)
- Toys (+ 6.16 %)
- Bakeries & Pastries (with sales increasing at a slower pace + 5.80 % after having registered + 11.19 % in the previous quarter)
- Sports Items & Equipment (+ 5.06 %)
- Pharmaceuticals (+ 4.10 %)
- Medical Equipment (with sustained improvement in this sector at + 1.80 %)
- Household Electrical Equipment (with a slight + 1.04 % increase in real sales)

- While Cellular Phones and Building Equipment sales remained almost stable as compared to their levels of the fourth quarter of 2015.

It is also necessary to look into the sectorial variations details between the third and the fourth quarters of 2016, whereas the expected improvement did not materialize: despite the “good news” and despite the traditional seasonal factors, the consolidated real results only displayed a very modest increase.

In figures, and while the nominal consolidated increase reached + 2.90 %, real figures indicate only a mere + 0.91 % between the third and the fourth quarter of this year. These figures do include the decline in terms of quantities in the Liquid Fuels sector, which posted - 1.79 % for this period. Yet again, it should be noted that while some sectors posted a noticeable improvement in their turnover figures, other sectors continued to recede, as detailed below:

- Pharmaceuticals (- 24.01 %)
- Tobacco (- 21.43 %)
- Shoes and Leather Products (- 18.23 %)
- Restaurants and Snacks (- 10.52 %)
- Bakeries & Pastries (- 5.78 %)
- Optical Instruments (- 5.39 %)
- Clothing (- 3.76 %)
- Household Electrical Equipment (- 1.98 %)
- Building Equipment (- 1.06 %)

Sectors witnessing an improvement in their real sales (mainly because of seasonal factors) included:

- Liquors (+ 29.05 %)
- Toys (+ 28.23 %)
- Malls (+ 26.00 %)
- Watches and Jewelry (20.34 %)
- Building Equipment (+ 13.10 %)
- Home Accessories (+ 7.45 %)
- Supermarkets and Food Shops (+ 5.70 %)
- Sports Items & Equipment (+ 3.72 %)
- Cars Dealers (+ 3.40 %)
- Perfumes and Cosmetics (+ 1.34 %)

As a result, with the base index 100 fixed at the fourth quarter of 2011, and with a quarterly inflation rate of + 1.93 % for the fourth quarter of 2016, as per the official CAS report, we hereby announce that the “BTA-Fransabank Retail Index” is (with all sectors included): 54.78 for the fourth quarter of the year 2016.

Banking Sector

| Indicators | 2016 | 2015 | Variation |
|---|--------|--------|-----------|
| Total Assets (USD, billion) | 204.3 | 185.9 | 9.9% |
| Total Deposits (USD, billion) | 162.29 | 151.39 | 7.2% |
| Total loans (USD, billion) | 57.68 | 54.7 | 5.4% |
| Ratio of Private sector's loans to Deposits (%) | 35.54 | 36.13 | -0.59% |
| Banks' capital Base (USD, billion) | 19.98 | 15.53 | 28.65% |

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

2. Capital Market

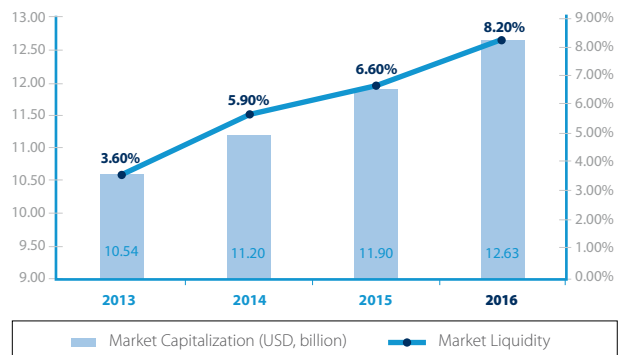
Figures released by the Beirut Stock Exchange (BSE) indicate that the total trading volume increased by 61.4% to reach 120.5 million shares in 2016, as compared to 74.6 million shares in 2015. While aggregate turnover surged by 54.5% to reach USD 971.6 million in 2016, as compared to USD 629 million in 2015.

Market capitalization increased by 6.1% to reach USD 12.63 billion in 2016, as compared to USD 11.9 billion in 2015, of which 83.1% was in banking stocks, 14.5% in real estate stocks, and 2.4% in industrial stocks. The market liquidity ratio increased by 2.6% to reach 8.2% in 2016, as compared to 5.6% in 2015.

The average daily traded volume for the period surged by 84.4% to 396,682 shares as compared to an average daily volume of 215,112 shares in 2015. The average daily

traded value for the period increased by 72.72% to reach USD 2.7 million in 2016 as compared to an average daily value of USD 1.57 million in 2015.

- Stock Market Activity -



Beirut Stock Exchange

| Indicators | 2016 | 2015 | Variation |
|--|-------|------|-----------|
| Market Capitalization (USD, billion) | 12.63 | 11.9 | 6.1% |
| Total Trading Volume (Shares, million) | 120.5 | 74.6 | 61.4% |
| Aggregate Turnover (USD, million) | 971.6 | 629 | 54.5% |
| Average Daily Value (USD, million) | 2.7 | 1.57 | 72.72% |

Sources: BSE and Central Bank of Lebanon

Monetary Situation

| Indicators | 2016 | 2015 | Variation |
|--|---------|---------|-----------|
| USD/LBP Exchange Rate | 1,507.5 | 1,507.5 | 0.0% |
| The Central Bank of Lebanon's Assets in FX (USD, billion) | 40.7 | 37.1 | 9.7% |
| The Central Bank of Lebanon's Gold Reserves (USD, billion) | 10.7 | 11.6 | -8,7% |
| Money Supply M3 (USD, billion) | 130.03 | 123.62 | 5.18% |
| Inflation Rate (%) | -0.8% | -3.7% | 2.9% |

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

V. Financial Sector

1. Banking Sector

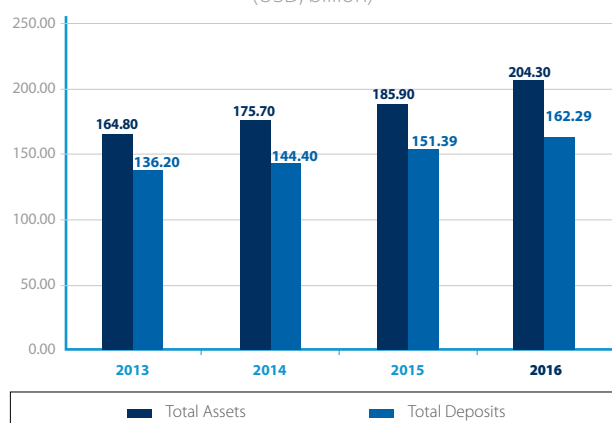
Based on the figures released by the Central Bank of Lebanon, the banking sector's total assets increased by 9.9% to reach USD 204.3 billion in 2016, as compared to USD 185.9 billion in 2015. Private sector deposits have also increased by 7.2% to reach USD 162.29 billion in 2016, as compared to USD 151.39 billion in 2015.

Deposits in Lebanese pounds rose by 4.4% to reach USD 55.5 billion in 2016, as compared to USD 53.14 billion in 2015. While deposits in foreign currencies increased by 8.69% to reach USD 106.79 billion in 2016, as compared to USD 98.25 billion in 2015. The dollarization rate of deposits increased by 0.9% to reach 65.8% in 2016, as compared to 64.9% in 2015.

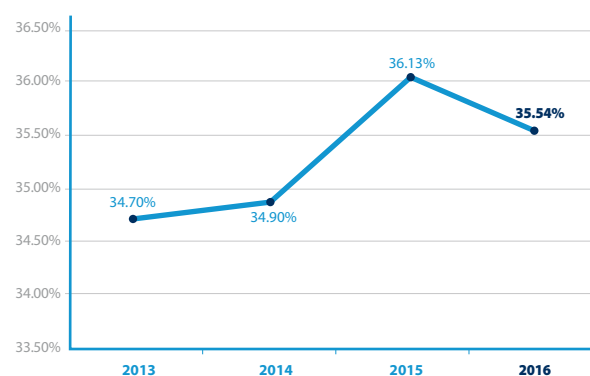
Further, loans to private sector have increased by 5.4% to reach USD 57.68 billion in 2016, as compared to USD 54.7 billion in 2015. Lending in Lebanese pounds increased by 14.7% to reach USD 15.66 billion in 2016, as compared to USD 13.65 billion in 2015. While lending in US dollars increased by 2.36% to reach USD 42.02 billion in 2016, as compared to USD 41.05 billion in 2015.

The ratio of private sector loans to deposits decreased by 0.59% to reach 35.54% in 2016, as compared to 36.13% in 2015. The banks' aggregate capital base has increased by 28.65% to reach USD 19.98 billion in 2016, as compared to USD 15.53 billion in 2015.

- Banking Assets and Deposits -
(USD, billion)



- Loans to Deposits Ratio -



Foreign Sector

| Indicators | 2016 | 2015 | Variation |
|------------------------------------|-------|-------|-----------|
| Trade Deficit (USD, billion) | 15.7 | 15.09 | 4.1% |
| Exports (USD, billion) | 3 | 2.97 | 0.8% |
| Imports (USD, billion) | 18.70 | 18.06 | 3.5% |
| Capital Inflows (USD, billion) | 16.9 | 11.68 | 44.69% |
| Balance of Payments (USD, billion) | 1.2 | -3.4 | 135.29% |

Sources: Higher Customs Council and Central Bank of Lebanon

VII. Economic Prospects

The Lebanese economy is expected to witness a better performance in 2017 than its level in 2016 with an expected real growth rate between 2% and 2.5% based on the World Bank and the International Monetary Fund (IMF) estimates respectively, as compared to 3.3% average growth in the MENA countries.

Lebanon's real GDP growth rate has been declining since 2011 as it fell from 3.4% in 2010 to 3.2% in 2011, 2% in 2012, 1.8% in 2015, and 1.4% in 2016. This trend might be reversed in 2017 as the presidential election and the formation of a new government would decrease the uncertainty level and enhance the security environment.

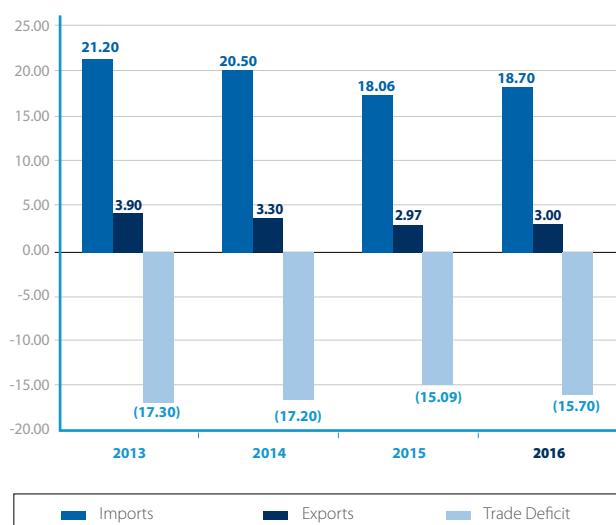
VI. External Sector

1. Foreign Trade

According to the figures issued by the Higher Customs Council, imports increased by 3.5% to reach USD 18.7 billion in 2016, as compared to USD 18.06 billion. While exports increased by 0.8% to reach USD 3 billion in 2016, as compared to USD 2.97 billion in 2015, leading to an increase of 4.1% in trade deficit to reach USD 15.7 billion in 2016, as compared to USD 15.09 billion in 2015.

The main sources of imports are China with 11.2% of total imports, followed by Italy (7.5%), United States (6.3%), and Germany (6.2%). While the main sources of exports are South Africa with 21.1% of total exports, followed by UAE (9.7%), Saudi Arabia (9%), and Syria (6.7%).

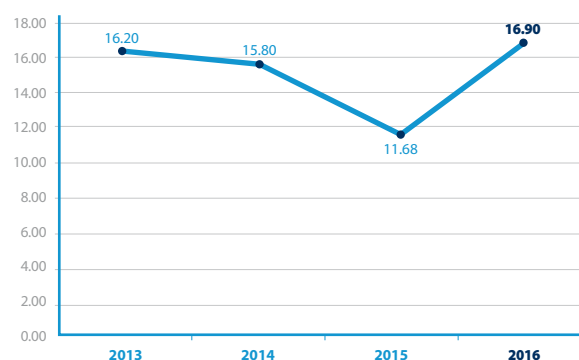
- Foreign Sector Indicators (USD, billion) -



2. Capital Inflows

Capital inflows surged by 44.69% to reach USD 16.9 billion in 2016, as compared to USD 11.68 billion in 2015, which indicates a remarkable increase from its previous level as a result of the prudent financial policies implemented by the Central Bank, and the decrease in local political tension.

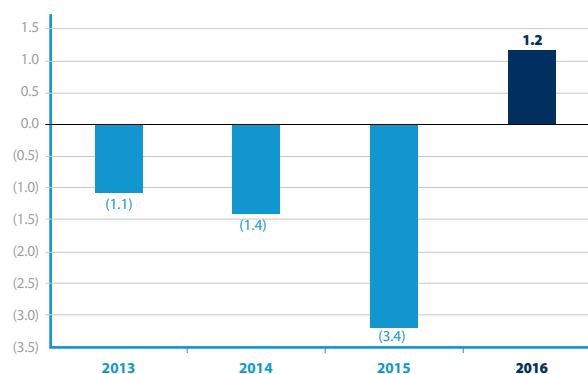
- Financial Inflows (USD, billion) -



3. Balance of Payments

Based on the figures issued by the Central Bank of Lebanon, Lebanon's balance of payments posted a surplus of USD 1.2 billion in 2016, as compared to a deficit of USD 3.4 billion in 2015. This cumulative deficit over 2016 was caused by a surplus of USD 4.8 billion in the Central Bank of Lebanon's net foreign assets and a deficit of USD 3.6 billion in those of banks and financial institutions.

- Balance of Payments (USD, billion) -



II. Energy Security Requirements

There are four key characteristics of an energy supply system that constitute the pillars of Energy security:

1- Adequate capacity:

Proper dimensioning for adequate capacity addresses the difference between the expected likely volumes that can be supplied within a country, against the likely maximum demand. Ensuring adequate capacity for the energy system allows the system to absorb sudden fluctuation in demand and to buffer supply outages and reduce the likelihood of price spikes (GOV UK, 2014). The interconnection of energy systems - particularly electricity, must also be considered in terms of capacity. A limited market or connection increases the risk of supply disruption by reducing the options available to meet demand.

2- Diversity:

Diversity covers the mix of fuel types, their place of origin, the amount and nature of the energy supply infrastructure, and the number of companies involved and their market shares. Diversity reduces the system's exposure to any one particular risk, and so reduces the impact on the system if any one risk is realized (IEA, 2014). A well-balanced energy system, comprises various power generation technologies covering a large range of fuel types and renewable energies and with suitable capacity, enables the advantages of each to be maximized. This balanced system allows prices to remain reasonably stable, and ensures a continuing supply to the consumer.

3- Reliability:

Reliability is the ability of a system to perform and maintain its function in routine circumstances, as well as under certain contingent conditions. Reliability relates to the certainty with which an aspect of the supply chain will fulfill its function, taking account of the reliability of sources, infrastructure and delivery networks. Reliability indicates the risk that an aspect of the system will fail to deliver. An important aspect of reliability is how flexible components of supply are (Australian Gov, 2009).

Measures to improve Reliability are the following:

1- Resilience measures - to reduce the likelihood of "sudden shock" events affecting energy supplies and reduce the impact of any event that might occur.

2- Ease of transport – energy must be readily available, and thus the ease and safety with which fuels and electricity can be transported is a key driver for reliability of energy supply.

3- Availability of infrastructure expertise – to achieve a diverse energy mix, countries must have access to different energy sources, requiring both infrastructure and expertise, whether in generation technologies, fuel handling, access to delivery systems such as pipelines, ports or electricity interconnections and transmission lines (worldcoal, 2014).

4- Competitive markets incentivize companies to provide reliable supplies to attract and retain customers. Governments can set the framework for the delivery of energy supply through competitive markets, providing transparency, stability and an attractive fiscal regime which encourages businesses to invest, as well as by regulation to ensure effective competition.

5- Sufficient Investment - Investments are needed in a timely manner to maintain a secure, affordable and sustainable energy system in a country. It is the responsibility of the Government to establish strategic goals within the electricity and gas markets, and to ensure that an appropriate framework is in place to enable delivery (Yergin, D. 2011).

6- Hold emergency stocks – Emergency stocks of fuels increase the reliability of the energy supply chain by allowing for the necessary time for the system to adapt to a sudden shock in fuel supplies (APEREC, 2002).

III- Lebanon in terms of Energy Security

Anyone living in Lebanon can tell that the electricity supply during the last decades has been of poor quality, sporadic and unreliable. Electricity rationing and reliance on back-up private generators is commonplace in all areas.

Study - Lebanese Energy Security: Current Status and Prospects

I. Introduction: A Global Context

Nowadays, the acquisition of energy has become a major determinant for governments to foster industrial activities and achieve the desired economic growth. However the availability of energy as any other renewable resource is scarce and might be extinct in the long run. Therefore, many nations have been formulating their strategies to control energy sources and achieve high energy reserves to guarantee the supply of energy for their industries in the long run. This what has been described as the energy security that should be reached by every nation to ensure the supply of oil and gas and sustain its economic growth.

Development and cost efficient investment in energy systems has a proven correlation to GDP growth. When electricity supply experiences frequent interruption or is prohibitively expensive, economic growth tends to slow down, stagnate or even contract (WEC Lebanon, 2008). Originally, energy security was a straightforward strategic objective aimed at ensuring fuel for national defense. Energy security still relates nowadays to the uninterrupted availability of energy sources at an affordable price (IEA, 2014).

Strong growth in energy demand, rising oil prices, and uncertain supply from key energy exporters has led to continued concerns about energy security. Also there are a number of concerns and fears such as: oil and other fossil fuel depletion. The challenges of the energy industry in every country to provide electricity supply that is secure, affordable and sustainable have migrated with time into the concept of Energy security. Energy security must be delivered alongside achievement of the legally binding targets on carbon emissions and renewable energy that many countries have committed for. When assessing the challenges of energy security, there are short-term challenges, such as the potential for disruption arising from volatile energy sources market prices or technical failures in infrastructure, industrial action or severe weather conditions. An economy is vulnerable to such challenges when its energy supply system lacks resilience

to technical failures or is dependent on a narrow range of energy sources along with the inability to switch away from the energy source whose price is increasing (IEA, 2014). Longer-term challenges arise from changes to market structure, geopolitical patterns and climate change. To such challenges an economy is vulnerable if it is unable to improve its ability to broaden the range of energy sources or is unable to increase its ability to generate and implement new forms of energy. Long-term energy security is thereby mainly linked to timely investments to supply energy in line with economic developments and environmental needs (IEA, 2014).

For facts about Global Energy Security Since 1990, the world global energy consumption has been increasing nearly 2% per year or 50% in total and is expected to increase further by 56% by 2040 (IEA, 2013). The efficiency improvements and energy saving measures being undertaken in many countries will only moderate this demand growth by a small percentage ranging between 1.3% to 2.6% by 2030 (IEA, 2013). The renewable energies share of the global energy consumption mix is not expected to be more than 18% to 30% of the total global demand by 2030 (IRENA, 2013). With the Nuclear energy global share being on the decline by dropping from 13% in 2010 to 7% in 2015, the most sustainable option for the deployment of scale of power generation capacity to meet the global energy demand growth till 2030 will remain that of fossil fuels which will keep on covering around 70% of the total market demand by 2030 (World Bank, 2013). Energy security is thereby still largely dependent on the physical availability of primary energy sources in sufficient quantities in particular coal, oil, fuel and gas combined with the affordability of these energy sources. Renewable energies, energy savings measures and demand side responsiveness will play an increasingly important role in providing Energy security in line with their technological maturity and development, and subject to their price competitiveness.

and retention of customers a difficult task. The market is thereby governed by a limited number of suppliers in the absence of genuine competition.

5- Sufficient Investment – Lebanon’s macroeconomic stability is poor and the regulation of the energy market is pending the political consensus on the modalities of implementation of Law 462 and the IPP Law. The appropriate framework to attract investments and enable the delivery of the services is still lacking.

6- Hold emergency stocks – Lebanon has emergency stocks of fuel oil in the oil installations and has launched the procurement of further storage capacity to improve its energy security.

IV. Lebanon’s Policies for Energy Security

1. Lebanon Short Term energy security

Lebanon scores badly on most short term energy security criteria. The core of the Lebanese energy supply system EDL is fragile and the system is largely exposed to potential disruptions. Moreover the system lacks resilience to technical failures and is unable to switch away from the fuel whose price is increasing. Finally the system has no ability to meet the energy demand, nor to react promptly to sudden changes in the supply-demand balance.

Most short term energy security indicators are expected to improve within the next three years in case of timely implementation of the related policy paper initiatives but the short term energy security will not become solid enough if EDL corporate structure is not consolidated.

2. Lebanon Long Term energy security

Having initiated infrastructure projects aiming to reduce dependence on any one source of imported energy, increasing the number of suppliers, exploiting native fossil fuel and renewable energy resources, and reducing overall demand through energy conservation measures, Lebanon doesn’t score badly on the Long Term energy security scale.

Lebanon is still however vulnerable as it is unable to ensure timely investments to supply energy in line with economic developments and environmental needs and fails to meet challenges arising from changes to market structure, geopolitical patterns and climate change.

V. Conclusion

Infrastructure development taking many years from preparation, studies, planning, procurement, till implementation and the related policies covering usually long periods of time during which governments are prone to change many times, the evolution of energy systems requires stable institutional frameworks that are not pray to the ups and downs of political turmoil.

The global integrated vision of the energy sector that was set by the electricity policy paper, has addressed many of the most critical issues that relate to the security shortcomings of the Lebanese energy system and has set an adequate plan for the timely resolution of these issues. However, its implementation being done in the absence of an appropriate institutional body leaves it exposed to the high political risks that prevail in Lebanon.

The noted energy security shortcomings are mostly related to the low levels of political stability which is hindering the elaboration of adequate legal and administrative frameworks that can quickly boost the energy supply sector in case properly designed especially in view of the large potential of exploiting native fossil fuel.

Lebanon needs to have at the earliest an independent regulatory authority that holds a clear long term vision of the energy sector development, sets the policies and monitors the plans execution far from the political turmoil and changes which have prevented in the past the execution of many infrastructure projects.

In 2009 the supply of energy averaged 21.22 hours for greater Beirut area and 15.79 hours for the South with an average of 18 hours (75%) for the whole country (MEW, 2010).

The reliability of Lebanon's energy supply system is probably the aspect of its energy security that requires the most attention as it is the most fragile of all and constitutes its Achilles heel.

An energy supply system cannot be reliable if it generates deficit and lacks the capacity to manage its own infrastructures.

Today Lebanon has an existing tariff that is noticeably below the actual cost of production and the energy supply system has relatively high levels of losses all resulting in yearly substantial deficits. The utility administration is lacking both the necessary funds and human resources for the management of existing infrastructure or for handling future investments. According to the policy, the success of any future project requires the administrative upgrading of EDL because it is the core entity of the sector. To achieve this goal, corporatization as the ideal solution was recommended by many stakeholders.

Meanwhile, Lebanon's energy supply system is unable to perform and maintain its function in routine circumstances, as well as under certain contingent conditions. The lack of confidence in the electricity supplied by the utility led most users to rely largely on their own private generators.

The main reasons for the low reliability performance are the following:

1- Poor Resilience – Due to the negative energy balance, the fragility of the power plants as well as the transmission and distribution grids, the likelihood of "sudden shock" events caused by equipment failures is high. Overloading of equipment and nodes regularly cause system failure and the limited capacity to intervene and restore back the service often lead to long interruption times while the possibility to rely on energy imports in case of sudden shock is also limited. Improvements on this item can be expected only when sufficient and timely investments will be made on the plants and the grids.

2- Difficulties of transport - HFO and DO fuels are supplied by ship tankers directly to the main plants and oil facilities to be distributed by truck tankers to secondary facilities. In the absence of the planned domestic coastal pipeline and the FSRU, NG supply has been limited since 2009 to Deir Ammar plant only via the Arab Gas Pipeline. Fuel transport is thereby generally non-reliable and affecting negatively the reliability of the energy supply system.

The transmission system in Lebanon has high technical losses reaching 3.5% and the current status of the transmission grid cannot accommodate the evacuation of the additional energy that will be delivered by the new plants (MEW, 2010).

Electrical energy transport is thereby generally non-reliable and affecting negatively the reliability of the energy supply system. The existing infrastructures can barely handle the current generation capacity and need substantial upgrades to cope with the planned developments.

3- Availability of infrastructure expertise - Lebanon has expert resources in most fields spread around the world but is unable to attract these back to their home country under the prevailing economic and political context.

The already scarce expert human resources of EDL and other public establishments that have expertise in the existing infrastructures are being drained by the inadequate pay scale and working conditions. Most Lebanese companies having infrastructure expertise also operate outside Lebanon and are not attracted by the home market under the current conditions.

Foreign companies having expertise in specific types of infrastructure rarely consider moving in Lebanon due both to the unattractive market conditions and the small scale of the domestic market. Lebanon is thereby exposed to failures in supplies due to the limited number of suppliers and lack of domestic expertise.

Expertise in new types of planned infrastructure as the NG pipeline, FSRU and oil exploration can however be easily developed provided the proper conditions are met.

4- Competitive markets - Lebanon is plagued by low levels of political stability, control of corruption, and rule of law coupled with incoherent laws making the attraction

The Economic Bulletin is a research document that is owned and published by Fransabank SAL. This bulletin provides the reader with an overview of the most recent developments in the Lebanese economy and the banking sector in general, coupled with a study on the most prominent emerging developments in the banking and finance sectors both on the local, regional and international aspects.

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