# ECONOMIC Bulletin

## THIRD QUARTER 2016

FRANSABANK

# ECONOMICBulletin
THIRD QUARTER 2016

## Report - Lebanon's Economic Performance in Q3 2016


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## Study - Economic Growth Prospects in the Arab Region


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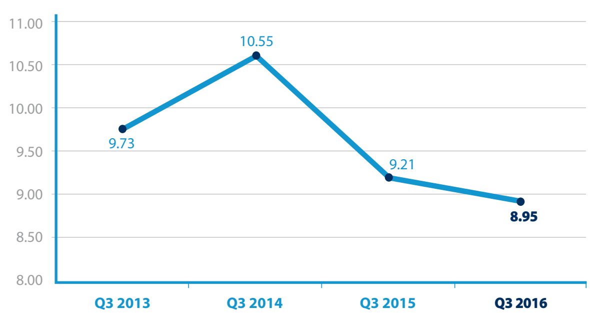
## II. Real Sector

### 1- Construction and Real Estate

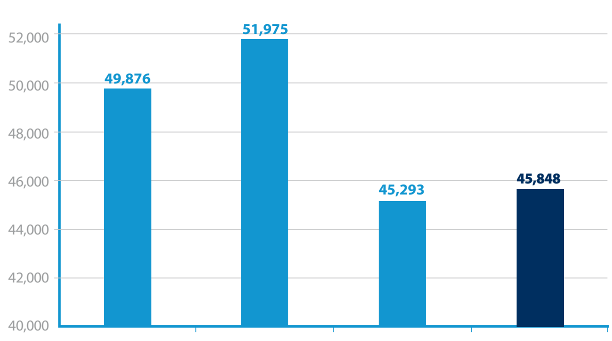
Based on the figures released by the Order of Engineers of Beirut and Tripoli, the construction permits decreased by 3% to reach 8.95 million square meters in the third quarter of 2016, as compared to 9.21 million square meters in the same period of the previous year. Mount Lebanon accounted for 43.4% of the total construction permits, followed by South Lebanon with 14.7%, North Lebanon with 13.1%, Bekaa with 12.4%, Nabatieh with 11.3%, and Beirut with 5.1%.

**- Construction Permits** (Square meters, million) **-**




On the other hand, the number of real-estate sales transactions increased by 1.2%, to reach 45,848 transactions in the first nine months of 2016, as compared to 45,293 transactions during the same period of last year.

**- Number of Real Estate Sales Transactions -**

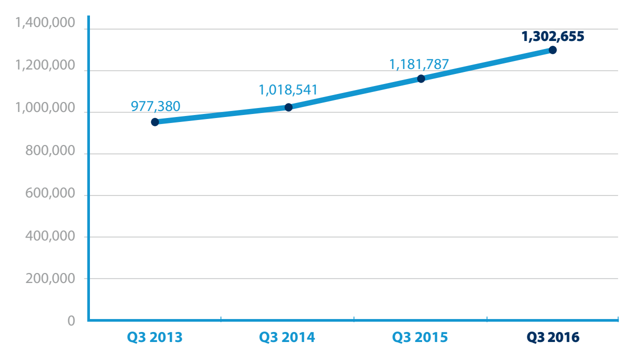



### 2- Tourism

According to the figures released by the Ministry of Tourism, the number of tourists visiting Lebanon increased by 10.2% to reach 1,302,655 tourists in the first nine months of 2016 as compared to 1,181,787 tourists in the same period of 2015.

As for the distribution of tourists by countries, it shows that the greater part of visitors were from European countries with 33.5% of aggregate visitors, followed by visitors from Arab countries with 30.4%, visitors from the Americas with 18.4%, visitors from Asia with 7.3%, visitors from Africa with 6%, and visitors from Oceania with 4.4%.

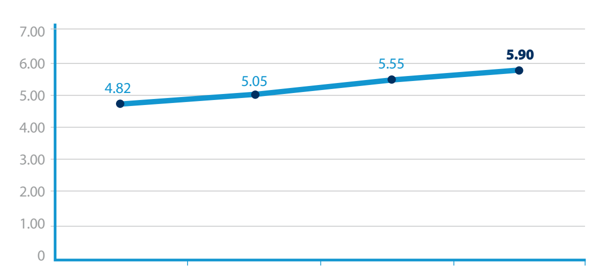
**- Number of Tourists -**




### 3- Airport Activity

Based on the figures released by Beirut-Rafic Hariri International Airport (HIA), the number of airport passengers increased by 6.4% to reach 5.9 million in the first nine months of 2016, as compared to 5.55 million in the same period of 2015. The total number of flights reached 27,135 flights up by 5.1% year-on-year, as compared to 25,818 flights in the same period of 2015.

**- Passengers at HIA** (Million) **-**



## Lebanon's Macroeconomic Performance during the Third Quarter of 2016

### I. General Introduction

In general, the Lebanese economy has witnessed a relative improvement in the performance of some sectors, unlike some other sectors during the third quarter of 2016 relative to the corresponding period of last year.

The construction permits decreased by 3% in the first nine months of 2016 relative to the same period of 2015, and the value of cleared checks declined by 2.3% during the same period, while the number of tourists increased by 10.2%, and the number of passengers by increased by 6.4%.

In parallel, inflation increased by 1.03% during the above-mentioned period, coupled by surging net public debt (7%), an increase in the fiscal deficit (25%), and the trade deficit increased by 9.3%.

Also, the total trading volume at Beirut Stock Exchange (BSE) increased by 0.8%, with higher capital inflows (36.26%), and a surplus of USD 554.9 million in the balance of payments during the third quarter of 2016.

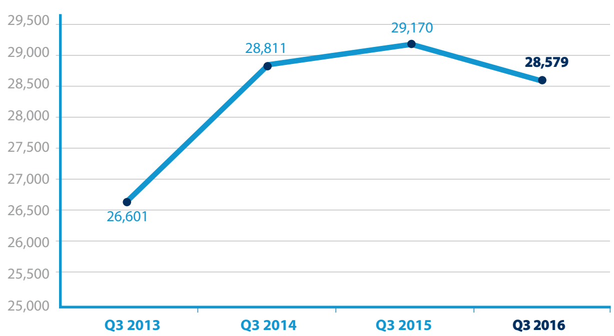
Moreover, the Central Bank of Lebanon's foreign-currency denominated assets increased by 9.5% to USD 40.6 billion at the end of September 2016, while consolidated assets of the banking sector grew by 9.2% to USD 198.1 billion during the same period.

The International Monetary Fund (IMF) revised Lebanon's real GDP growth to be at 1% in 2016.

### 7- Cars Sales

Based on the figures released by the Association of Automobile Importers in Lebanon, the number of cars sold decreased by 2% to reach 28,579 cars in the first nine months of 2016, as compared to 29,170 cars sold in the same period of 2015.

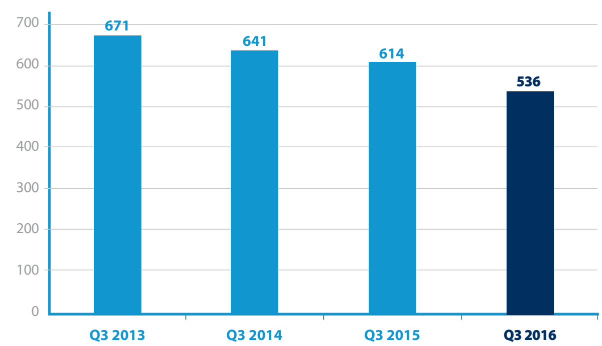
- Number of cars sold -




### 8- Kafalat Loan Guarantees

Based on the figures released by the Kafalat Corporation, loans under the guarantee of Kafalat increased by 1.2% in the third quarter of 2016 to reach USD 67.1 million, as compared to USD 66.3 million in the same period of 2015. The number of loan guarantees reached 536 loans in the said period, as compared to 614 loans in the same period of previous year. Whereas, the average loan size decreased by 3.4% to reach USD 134,401 as compared to USD 139,420 during the same period.

- Number of Kafalat loan guarantees -




## Real Sector

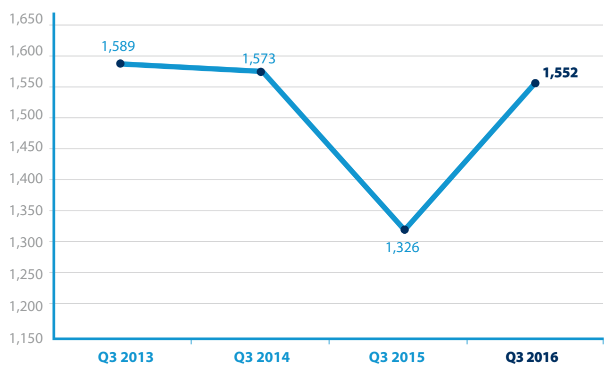
| Indicators | Q3 2016 | Q3 2015 | Variation |
|---|---|---|---|
| Construction permits (square meters, million) | 8.95 | 9.21 | -3% |
| Real-estate sales transactions | 45,848 | 45,293 | 1.2% |
| Number of tourists | 1,302,655 | 1,181,787 | 10.2% |
| Number of passengers at HIA (million) | 5.9 | 5.55 | 6.4% |
| Cleared checks (USD, billion) | 50.6 | 51.8 | -2.3% |
| Hotel occupancy rate (%) | 58 | 56 | 2% |
| Number of containers at Beirut Port | 636,307 | 584,840 | 8.8% |
| Number of car sales | 28,579 | 29,170 | -2% |
| Amount of Kafalat guarantees (USD, million) | 67.1 | 66.3 | 1.2% |

## 4- Beirut Port

Figures released by the Beirut Port Authority show that the port's revenues from loaded and unloaded merchandise increased by 1.6% to reach USD 180.4 million in the first nine months of 2016, as compared to USD 177.5 million in the same period of 2015.

The number of containers increased by 8.8% to reach 636,307 containers in the first nine months of 2016, as compared to 584,840 containers during the same period of 2015; while the total number of ships increased by 17% to reach 1,552 ships in the first nine months of 2016 as compared to 1,326 ships during the same period of last year.

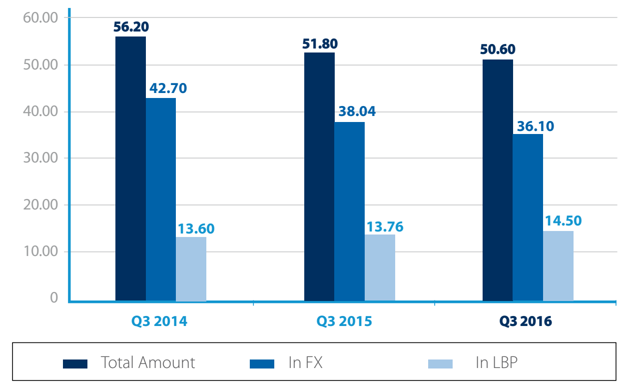
- Number of Ships at Beirut Port -




## 5- Clearing Activity

Based on the figures released by the Association of Banks in Lebanon, the value of cleared checks decreased by 2.3% to reach USD 50.6 billion in the first nine months of 2016, as compared to USD 51.8 billion in the same period of 2015. The value of cleared checks in Lebanese pounds increased by 5.4% to the equivalent of USD 14.5 billion in the first nine months of 2016, as compared to USD 13.76 billion in the same period of 2015. While the value of cleared checks in foreign currencies decreased by 5.1% to reach USD 36.1 billion in the third quarter of 2016, as compared to USD 38.04 billion in the third quarter of 2015. The dollarization rate of cleared checks declined from 73.4% to 71.3% year-on-year.

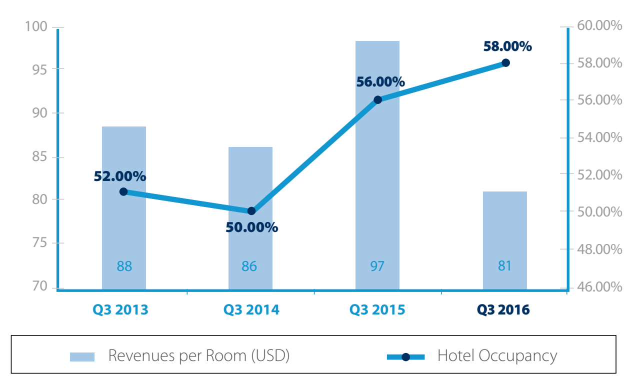
- Evolution of Clearing Activity (USD, billion) -




## 6- Hotel Occupancy

Based on the data issued by the Ministry of Tourism, the occupancy rate at hotels reached 58% in the first nine months of 2016, an increase of 2% as compared to 56% in the same period last year. Further, revenues per available room decreased by 18.55% to reach a value of USD 81 in the first nine months of 2016, as compared to USD 97 during the same said period of 2015.

- Hotels Activity Indicators -



## Public Finances

| Indicators | Q3 2016 | Q3 2015 | Variation |
|---|---|---|---|
| Public revenues (USD, billion) (8 months) | 5.0 | 5.2 | -3.8% |
| Public expenditures (USD, billion) (8 months) | 7.5 | 7.2 | 4.16% |
| Deficit (USD, billion) (8 months) | 2.5 | 2 | 25% |
| Deficit /Expenditures (%) (8 months) | 33.34 | 26.25 | 2.72% |
| Gross public indebtedness (USD, billion) | 74.4 | 68.7 | 8.7% |
| Net public debt (USD, billion) | 64.6 | 60.4 | 7% |

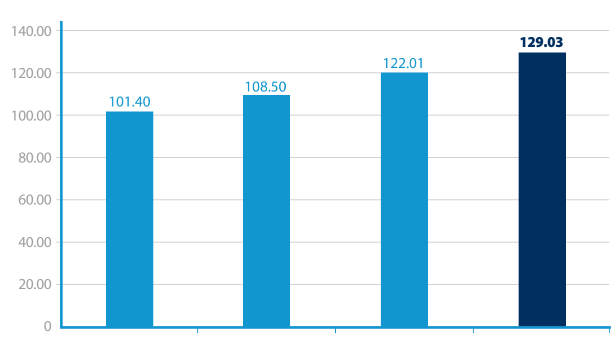
Sources: Ministry of Finance and Central Bank of Lebanon

# IV. Monetary Situation

### 1. Money Supply

Based on the data issued by the Central Bank of Lebanon, Money supply (M3) expanded by 5.75% to reach USD 129.03 billion at the end of the third quarter of 2016, as compared to USD 122.01 billion during the corresponding period of 2015. This resulted from an increase in foreign currency denominated time deposits of USD 4.2 billion, in local currency deposits of USD 2 billion, and an increase in money supply (M1) of USD 0.82 billion.

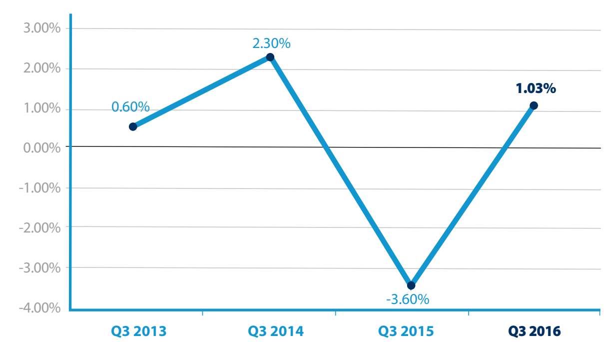
- **Money Supply (M3)** (USD, billion) -




### 2. Consumer Prices

Based on the figures issued by the Central Administration of Statistics, inflation increased by 1.03% by the end of the third quarter of 2016. This is due to the mild increase in prices of some commodities in the Lebanese market, such as the prices of clothes and footwear that increased by 12.1%, followed by cost of rent (7.5%), prices of restaurants and hotels (2.4%) and the cost of education (1.5%).

- **Consumer Price Index** -



## III. Public Finances

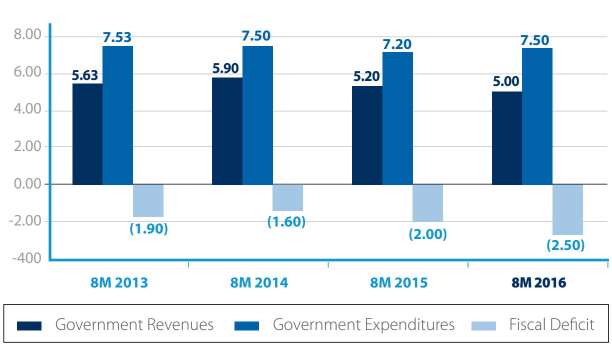
### 1. Fiscal Deficit

According to the figures released by the Ministry of Finance, the fiscal deficit increased by 25% in the first eight months of 2016, to reach USD 2.5 billion, as compared USD 2 billion in the same period of 2015.

Overall government revenues which include budget and Treasury receipts, decreased by 3.8%, to reach USD 5 billion in the first eight months of 2016, as compared to USD 5.2 billion in the same period of 2015. Budget revenues decreased by 2.3% to reach USD 4.78 billion in the first eight months of 2016, as compared to USD 4.9 billion in the same period of 2015. Total tax revenues decreased by 1.4%, to reach USD 3.74 billion in the first eight months of 2016, as compared to USD 3.8 billion in the same period of 2015.

While on the spending side, total public expenditures, which include budgetary and Treasury spending, increased by 4.16%, to reach USD 7.5 billion in the first eight months of 2016, as compared to USD 7.2 billion the same period of 2015, caused mainly by a surge in budgetary expenditures.

- **Public Finance Indicators** (USD, billion) -



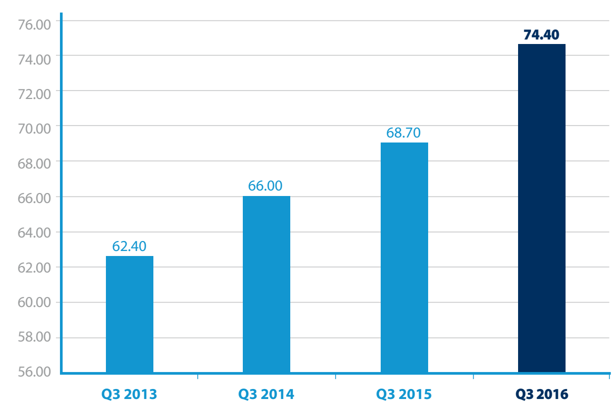

Interest payments on domestic and foreign debt increased by 5.4% to reach a total of USD 2.9 billion in the first eight months of 2016, as compared to USD 2.75 billion in the same period of 2015.

When excluding debt service, the level of the primary balance registered a cumulative surplus that decreased by 49% to reach USD 405 million in the first eight months of 2016, as compared to a surplus of USD 794 million in the same period of 2015.

### 2. Public Debt

Based on the figures issued by the Ministry of Finance, the gross public debt increased by 8.7% to reach USD 74.4 billion at the end of September 2016, as compared to USD 68.7 billion at the end of September 2015.

- **Gross Public Debt** (USD, billion) -




Domestic debt increased by 7.3% to reach USD 45.62 billion at the end of the third quarter of 2016, as compared to USD 42.52 billion in the same period of 2015. While external debt increased by 9.93% to reach USD 28.78 billion at the end of the third quarter of 2016, as compared to USD 26.18 billion in the same period of 2015. Local currency debt accounted for 61.31% of gross public debt at end-September 2016 compared to 61.9% a year earlier, while foreign currency denominated debt represented 38.31% of the total at the end of September 2016 relative to 38.1% 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 7% to reach USD 64.6 billion by the end of the third quarter of 2016, as compared to USD 60.4 billion.

## Yearly Variation between 3rd Quarter '15 and 3rd Quarter '16

| | Q3 - 2015 | Q3 - 2016 | |
|---|---|---|---|
| Nominal Year to Year Variation (incl. Liquid Fuels) | 100.00 | 91.66 | |
| Nominal Year to Year Variation (excl. Liquid Fuels) | 100.00 | 98.48 | |
| CPI between Sept '15 and Sept '16 (as per the official CAS figures) | | **+ 1.03 %** | |
| Real Year to Year Variation (incl. Liquid Fuels) | 100.00 | 90.83 | **- 9.17 %** |
| Real Year to Year Variation (excl. Liquid Fuels) | 100.00 | 97.62 | **- 2.38 %** |

The analysis of every sector's third quarter results separately reveals that – in comparison to the third quarter of 2015, most sectors did not have the necessary lag time to improve their performance and have better results - albeit the overall positiveness that prevailed towards the end of the quarter. But the downtrend appeared to be less severe. It is also important to note that few sectors did have better results though.

Main sectors that continued to post weaker results included:

- Cellular Phones (- 32.10 %)
- Shoes and Leather Products (- 22.43 %)
- Malls (-13.00 %)
- Home Accessories (- 13.00 %)
- Used Cars Dealers (- 12.36 %)
- Clothing (- 10.07 % after a - 5.30 % drop in the previous quarter)
- Toys (- 4.84 %)
- Watches and Jewelry (- 4.48 %)
- Furniture (- 4.26 %)
- Supermarkets and Food Shops (- 1.63 % after + 0.64 % increase in the previous quarter)
- Building Equipment (- 1.13 % after a + 13.37 % increase in the previous quarter)
- Perfumes and Cosmetics (- 0.96 %)

On the other hand, some sectors did improve, and included mainly:

- Pharmaceuticals (+ 40.58 % after a drop of - 15.84 % in the previous quarter)
- Bakeries & Pastries (+ 11.19 % after a drop of - 3.03 % in the previous quarter)
- Silverware and Decoration (+ 8.81 % after a drop of – 15.42 % in the previous quarter)
- Books & Stationery & Office Supplies (+ 6.75 %)
- Restaurants and Snacks (+ 6.59 %)
- Medical Equipment (+ 6.28 % after a drop of - 9.93 % in the previous quarter)
- Liquor & Spirits (+ 4.97 %) and Tobacco (+ 4.43 %)
- Household Electrical Equipment (+ 0.43 %)

But, if we look into the sectorial variations details between the second and the third quarters of 2016, an opposite picture is revealed, with most sectors reporting a radical improvement in their sales figures, to an extent that is better than what would be expected as a result of seasonal factors alone.

And while the consolidated increase of real turnover between the second and the third quarters of 2016 reached +14.74% (excluding the liquid fuels sector), it should be noted that some sectors posted much better rates of improvement, as detailed in the few examples below:

- Shoes and Leather Products (+ 35.46 %)
- Used Cars Dealers (+ 29.47 %)
- Bakeries & Pastries (+28.80 %)
- Malls (+ 28.00 %)
- Toys (+ 25.29 %)
- Perfumes and Cosmetics (+ 21.66 %)
- Restaurants and Snacks (+ 19.32 %)
- Clothing (+ 17.67 %)
- Silverware and Decoration (+ 17.66 %)
- Watches and Jewelry (14.90 %)
- Household Electrical Equipment (+ 14.24 %)

### 3. Beirut Traders Association – Fransabank Retail Index


Positive signals concerning an emerging solution for the election of a president for Lebanon started circulating around the end of the third quarter, and appeared to have an immediate positive impact – though relative, on the activity status in most sectors of the retail market, as the declining momentum witnessed a slow down after a long lasting period of deterioration.

The wave of positivism that occurred towards the end of the third quarter could not totally reverse the trend on a year to year basis, and the consolidated third quarter real results (i.e. after applying the CPI) still posted a drop of – 2.38% as compared to the results of the third quarter of 2015 (excluding variations in the liquid fuels sector).

But the effect was more promptly reflected on the quarter to quarter basis, as decline stopped and a rebound of + 14.74% was reported in the consolidated real turnover figures (excluding variations in the Liquid Fuels sector), between the second and the third quarter of 2016. Obviously, this positive result was obtained by the combination and simultaneity of both the usual seasonal effects and the underpinning positive outlook factors.

It should be noted that the consumption of liquid fuels (in terms of volume – thus irrespective of price changes) did drop by – 7.09% in the third quarter of 2016 as compared to the third quarter of 2015, but it increased by + 18.74% from the levels of the second quarter of 2016.

As for the CPI, it appears that this weighted indicator, for the first time in two years, did increase by + 1.03% as compared to the level of prices in the third quarter of 2015, and by + 0.82 % as compared to its level in the second quarter of 2016 (with the CPI of food products posting + 1.08 % and for health products + 1.03 %).

| 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 '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 %** |

## Monetary Situation

| Indicators | Q3 2016 | Q3 2015 | Variation |
|---|---|---|---|
| USD/LBP exchange rate | 1,507.5 | 1,507.5 | 0.0% |
| Central Bank of Lebanon's assets in FX (USD, billion) | 40.6 | 38.2 | 6.28% |
| Central Bank of Lebanon's gold reserves (USD, billion) | 12.2 | 10.36 | 18% |
| Money supply (M3) (USD, billion) | 129.03 | 122.01 | 5.75% |
| Inflation rate (%) | 1.03 | -3.6 | 4.63% |

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

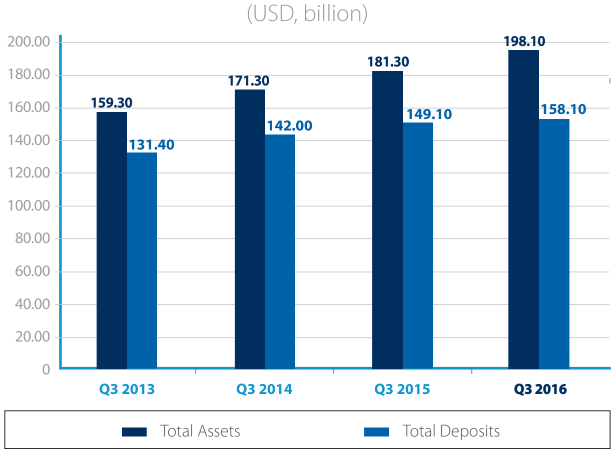
## V. Financial Sector

### 1. Banking Sector

Based on the figures released by the Central Bank of Lebanon, the banking sector's total assets increased by 9.2% to reach USD 198.1 billion at the end of the third quarter of 2016, as compared to USD 181.3 billion in the same period of 2015. Private sector deposits have also increased by 6.03% to reach USD 158.1 billion at the end of the third quarter of 2016, as compared to USD 149.1 billion during the same period of 2015.

Deposits in Lebanese pounds increased by 5% to reach USD 55.4 billion at the end of the third quarter of 2016, as compared to USD 52.8 billion in the same period of 2015. While deposits in foreign currencies increased by 6.7% to reach USD 102.8 million at the end of the third quarter of 2016, as compared to USD 96.4 billion during the same period of last year. Non-resident deposits increased by 25% to reach USD 33 billion at the end of the third quarter of 2016, as compared to USD 26.4 billion during the same period of 2015. The dollarization rate of deposits increased to 64.98% at end-September 2016 as compared to 64.62% at the same period of 2015.

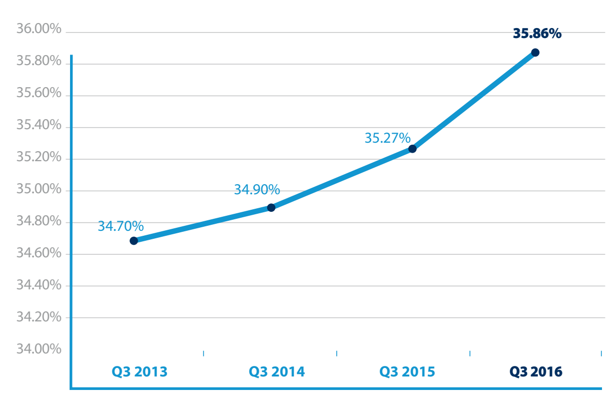
- Banking Assets and Deposits -
(USD, billion)




Further, loans to private sector increased by 7.7% to reach USD 56.7 billion at end-September 2016, as compared to USD 52.6 billion in the same period of 2015. Lending in Lebanese pounds increased by 6.29% to reach USD 41.73 billion at end-September 2016, as compared to USD 39.26 billion during the same period; while lending in US dollars increased by 12.21% to reach USD 14.97 billion at end-September 2016, as compared to USD 13.34 billion during the same period of last year.

The ratio of private sector loans to deposits increased from 35.27% at end-September 2015 to 35.86% at end-September 2016. The banks' aggregate capital base increased by 7.17% to reach USD 17.47 billion at end-September 2016, as compared to USD 16.3 billion during the same period of last year.

- Loans to Deposits Ratio -



As a result, with our base index 100 fixed at the fourth quarter of 2011, and with a quarterly inflation rate of + 0.82 % for the third quarter of 2016, as per the official CAS report, we hereby announce that the "BTA-Fransabank Retail Index" is (with all sectors included): 53.41 for the third quarter of the year 2016, against 48.93 in the second quarter and 49.15 in the first quarter of 2016; which shows that the index is finally increasing again.

## BTA - Fransabank Retail Index for Q3 - 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 |
| 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** |
| 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** |
| 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** |

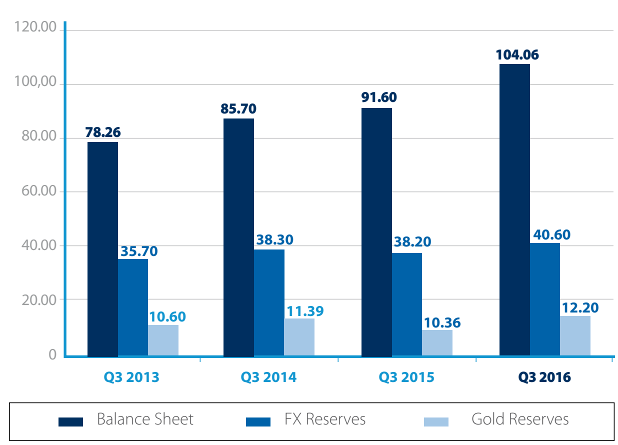
The deep conviction that the psychological factor is the primary and most important driving force of the activity in the Lebanese markets is clearly demonstrated in the above detailed third quarter results – although modest in the year to year figures. This is the first time, after many quarters, where positive variations are witnessed, even though the positive results were not generalized in all sectors. Yet, such performance may well be an indication of a long awaited revival of activity in the markets, with the hope that such revival shall soon reach all sectors. There is also deep faith that the expected stability and secure environment in the foreseeable future will guarantee the reawakening of the Lebanese economy from its gloomy situation, and its re-birth like the phoenix that is our national ideal.

### 4. Central Bank of Lebanon's Foreign Assets

According to the figures released by the Central Bank of Lebanon, its balance sheet increased by 14.5% to reach USD 104.1 billion at the end of the third quarter of 2016 compared to USD 91.6 billion in the same period of 2015. Assets in foreign currencies increased by 9.5% to reach USD 40.6 billion at the end of the third quarter of 2016, as compared to USD 38.2 billion in the same period of 2015. Its gold reserves increased by 18% to reach USD 12.2 billion at the end of the third quarter of 2016, as compared to USD 10.36 billion in the same period of 2015.

Also deposits of the financial sector rose by 9.89% to reach USD 82.2 billion at the end of the third quarter of 2016, as compared to USD 74.07 billion in the same period of 2015.

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

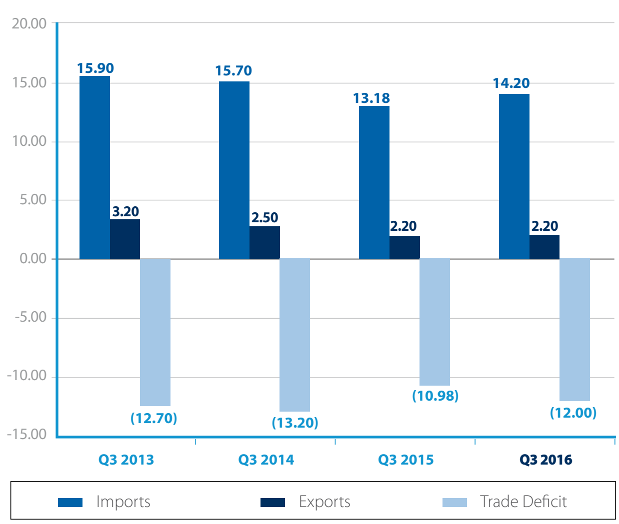


# VI. Foreign Sector

## 1. Foreign Trade

According to figures issued by the Higher Customs Council, imports increased by 7.7% to reach USD 14.2 billion in the third quarter of 2016, as compared to 13.18 billion in the same period of 2015. While exports remained unchanged at USD 2.2 billion in the third quarter of 2016 as compared to the same period of 2015. This has led to an increase of 9.3% in trade deficit to reach USD 12 billion in the third quarter of 2016, as compared to USD 10.98 billion in the same period of 2015.

**- Foreign Sector Indicators** (USD, billion) **-**

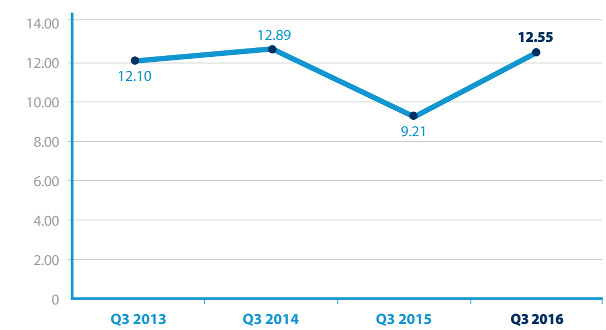



The main sources of imports are China with 11.2% of total imports, followed by Italy (7.4%), the United States (6.5%) Germany (6.1%) and Greece (5.3%). While the main sources of exports are South Africa with 23.2% of total exports, followed by Saudi Arabia (9.3%), UAE (9.1%), and Syria (5.7%).

## 2. Capital Inflows

Capital inflows surged by 36.26% to reach USD 12.55 billion in the third quarter of 2016, as compared to USD 9.21 billion in the same period of 2015, which might reflect higher remittances from Lebanese expatriates and cash inflows incoming to Syrian refugees.

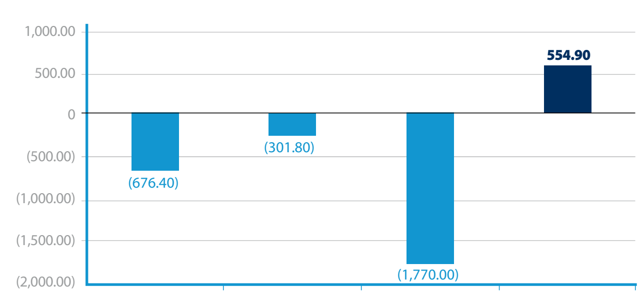
**- Financial Inflows** (USD, billion) **-**




## 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 554.9 million in the third quarter of 2016 compared to a deficit of USD 1.77 billion in the same period last year. This cumulative deficit over the third quarter of 2016 was caused by a surplus of USD 3.9 billion in the Central Bank of Lebanon's net foreign assets and a deficit of USD 3.34 billion in those of banks and financial institutions.

**- Balance of Payments** (USD, million) **-**



# Banking Sector

| Indicators | Q3 2016 | Q3 2015 | Variation |
|---|---|---|---|
| Total assets (USD, billion) | 198.1 | 181.3 | 9.2% |
| Total deposits (USD, billion) | 158.1 | 149.1 | 6.03% |
| Total loans (USD, billion) | 56.7 | 52.6 | 7.7% |
| Ratio of private sector's loans to Deposits (%) | 35.86 | 35.27 | 0.59% |
| Banks' capital base (USD, billion) | 17.47 | 16.3 | 7.17% |

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

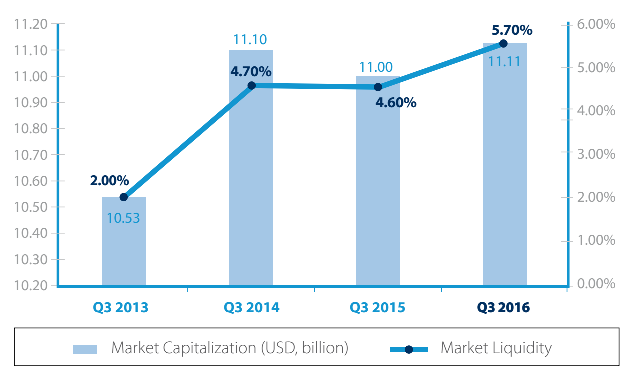
### 2. Capital Market

Figures released by the Beirut Stock Exchange (BSE) indicate that the total trading volume increased by 20.3% to reach 73.3 million shares in the third quarter of 2016, as compared to 61 million shares in the same period of 2015. While aggregate turnover surged by 23.1% to reach USD 628.5 million at the end of the third quarter of 2016, as compared to USD 510.5 million during the same period of 2015.

Market capitalization increased by 0.8% to reach USD 11.11 billion in the third quarter of 2016, as compared to USD 11 billion in the same period of 2015, of which 83% was in banking stocks and 17% in real estate stocks. The market liquidity ratio increased to 5.7% in the third quarter of 2016, as compared to 4.6% for the same period of 2015.

The average daily traded volume for the period increased by 20.3% to reach 402,818 shares in the third quarter of 2016, as compared to 334,844 shares in the same period of 2015. The average daily traded value for the period increased by 23.24% to reach USD 3.5 million in the third quarter of 2016, as compared to USD 2.84 million shares during the same period of 2015.

- Stock Market Activity -




# BSE Indicators

| Indicators | Q3 2016 | Q3 2015 | Variation |
|---|---|---|---|
| Market capitalization (USD, billion) | 11.11 | 11 | 0.8% |
| Total trading volume (shares, million) | 73.3 | 61 | 20.3% |
| Aggregate turnover (USD, million) | 628.5 | 510.5 | 23.1% |
| Average daily value (USD, million) | 3.5 | 2.84 | 23.24% |

Sources: BSE and Central Bank of Lebanon

## Study - Economic Growth Prospects in the Arab Region

### I. Global Challenges

The global economy continued to grow at a modest pace, in part due to unresolved financial and macroeconomic issues and differing impacts of recent declines in oil and commodity prices and geo-political factors, especially in the Arab Region. Trade has grown still more slowly in volume and to a large extent in value. Spillovers from the United Kingdom's decision in June 2016 to leave the European Union weigh heavily on the global economy and add up additional pressure on an already volatile situation. Just as international interest rates started to rise, the "Brexit" came to curb this trend and, thus, capital flows are again becoming volatile.

The International Monetary Fund (IMF) projected global growth a modest 3.2% in 2016, in line with the rate of 2015 that stood at 3.1%. But projections were soon revised downwards by 0.1% due to increased uncertainty following Britain's vote to leave the EU. The recovery is projected to strengthen in the coming years, as conditions in emerging and developing economies gradually normalize. But uncertainty has increased, and risks of weaker growth scenarios are becoming more tangible.

In advanced economies, a modest and uneven recovery is expected to continue. The situation for emerging and developing economies is diverse and challenging. The slowdown in the Chinese economy, lower commodity prices, and strains in many emerging markets will continue to weigh on growth prospects in 2016 and the years beyond. Growth is projected to pick up in the coming years in countries currently in economic distress, notably Brazil, Russia, and some countries in the Middle East. Confronted by contractions in their commodities sectors and falling revenues, stressed countries need to redouble their diversification policies, at the same time as they tighten their macroeconomic belts to prevent currency and balance of payments shocks. In this context, new growth strategies need to be addressed away from a commodity led development path.

### World Economic Projections (Percent change)

| Indicators | 2015 | 2016 | 2017 |
|---|---|---|---|
| World Output | 3.1 | 3.2 | 3.5 |
| Advanced Economies | 1.9 | 1.9 | 2.0 |
| Emerging & Developing Economies | 4.0 | 4.1 | 4.6 |
| Middle East & North Africa | 2.3 | 2.9 | 3.3 |
| Saudi Arabia | 3.4 | 1,2 | 1.9 |
| World Trade Volume in Goods & Services | 2.8 | 3.1 | 3.8 |
| **Commodity Prices (US dollars)** | | | |
| Oil | -47.2 | -31.6 | 17.9 |
| Non fuel | -17.5 | -9.4 | -0.7 |

Source: IMF, World Economic Outlook, April 2016

## Foreign Sector

| Indicators | Q3 2016 | Q3 2015 | Variation |
|---|---|---|---|
| Trade deficit (USD, billion) | 12.0 | 10.98 | 9.3% |
| Exports (USD, billion) | 2.2 | 2.2 | 0.0% |
| Imports (USD, billion) | 14.2 | 13.18 | 7.7% |
| Capital inflows (USD, billion) | 12.55 | 9.21 | 36.26% |
| Balance of payments (USD, billion) | 0.554 | -1.77 | 131.3% |

Sources: Higher Customs Council and Central Bank of Lebanon

## VII. Economic Prospects

The International Monetary Fund (IMF) revised in its latest country report Lebanon's real GDP growth to be at 1% in 2016, down from 1.8% in 2015, and as compared to 2.3% average growth in the MENA region, 3.9% in the region's oil importing countries, and 2.4% for the emerging and developing countries. This would make Lebanon the slowest growing economies among the 17 countries in the MENA region.

However, the Institute of International Finance also added that the current election of a new president along with the current efforts to form a new government would enhance the Lebanese real growth rate to reach 3.3% in 2017, as this political process would resolve the political conflicts and foster external investments and private consumption; especially if the resolution includes the improvement of the relations with the GCC countries.

Arab oil exporting countries should focus on fiscal reforms and increase their efforts to diversify away from oil. The same can be said for the Arab oil importing countries whose economies are also to a large extent not diversified and rely heavily on remittances from the Arab Gulf region. Economic recovery in the oil-importing countries remains fragile and uneven because of adverse implications from slowing growth in oil-exporting countries and escalating regional wars associated with refugee inflows to conflict neighboring countries. Gains from lower oil prices are offset by hard implications from regional turbulences and resulting social and political tensions.

Initiatives to promote economic diversification and liberalize trade will improve growth prospects, as well as efforts to improve the business environment to encourage private investment, create jobs and foster investment in infrastructure and education, health and human skills and wellbeing.

According to the IMF, growth in 2016 is projected in the Arab region at 2.7% down from 2.8% in 2015. For 2017, growth in the region is expected to accelerate to 3.2%. Yet tighter public spending in response to lower oil prices can even bring a slower rate of growth.

The Gulf Cooperation Council (GCC) are expected to register a lower rate of growth from 3.3% in 2015 to 1.8% in 2016, before picking up to 2.3% in 2017. Total Arab current account balance to GDP dropped sharply from 6.4% in 2014 to -4.5% in 2015 and is projected to reach -8.6% and -6.5% in 2016 and 2017 respectively.

With oil prices expected to remain low for a long period, Arab oil-exporting countries have taken significant steps and measures to consolidate their budget positions, focusing mostly on restraining government spending, but also on substantial energy price reforms, largely decreasing other subsidies, and increasing revenues. Nevertheless, fiscal deficits are projected to widen because the price of oil dropped by approximately 70% from its level in mid-2014. Overall Arab fiscal balance to GDP plunged from -3% in 2014 to -11.2% in 2015 and is expected to reach -12.7% in 2016, before a modest improvement to -10.5% in 2017.

However, if truce in Syria and the ongoing peace talks in Yemen and Libya materialize - in turn reducing the spread of insecurity and conflict elsewhere in the region – economic growth in the region could improve significantly in the coming years.

## The Arab World: Selected Economic Indicators, 2000 – 2017 (% of GDP, unless otherwise indicated)

| | Average 2000-12 | 2013 | 2014 | 2015 | Projections 2016 | Projections 2017 |
|---|---|---|---|---|---|---|
| Arab world | | | | | | |
| Real GDP (annual growth) | 5.5 | 3 | 2.2 | 2.8 | 2.7 | 3.2 |
| Current Account Balance | 11.2 | 11.4 | 6.4 | -4.5 | -8.6 | -6.5 |
| Overall Fiscal Balance | 4.2 | 1.3 | -3 | -11.2 | -12.7 | -10.5 |
| Inflation (annual growth) | 4.1 | 4.9 | 4.8 | 4.6 | 4.7 | 4.1 |
| **Of which: GCC** | | | | | | |
| Real GDP Growth (annual growth) | 5.1 | 3.2 | 3.5 | 3.3 | 1.8 | 2.3 |
| Current Account Balance | 17.1 | 21.3 | 14.5 | -1 | -7 | -4.1 |
| Overall Fiscal Balance | 10.8 | 10.2 | 3.3 | -9.9 | -12.3 | -10.8 |
| Inflation (annual growth) | 2.8 | 2.8 | 2.6 | 2.5 | 3.3 | 1.9 |

Source: IMF, Regional Economic Outlook Update for the Middle East and Central Asia, April 2016

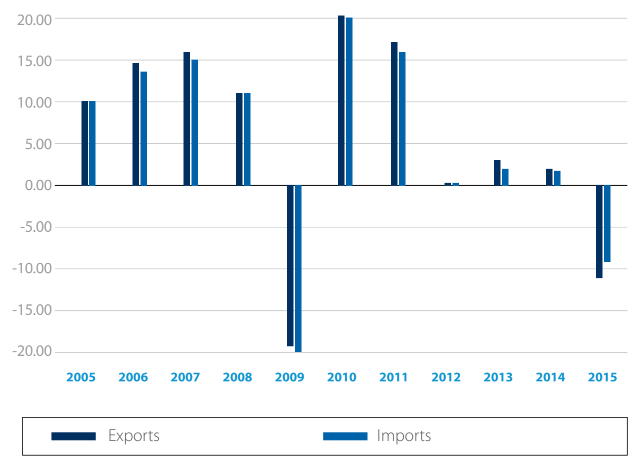
## II. Sluggish Global Trade

According to the World Trade Organization (WTO) statistics, global trade growth has slowed significantly since 2008, from an average of over 7% per annum between 1990 and 2008, to less than 3% between 2009 and 2015. 2015 marked the fourth consecutive year with global trade growth below 3%. It is likely that 2016 will be the same. With the exception of the immediate slump after the international financial crisis, this is the weakest sustained level of trade growth for 30 years.

Growth in the volume of world trade, measured in terms of merchandise commodities that crossed international borders, remained sluggish in 2015 at 2.8%, and it is projected to move at the same pace in 2016. However, the value of world trade decreased drastically by 13.8% in 2015 due to a combination of cyclical and structural factors that negatively impact the performance of global trade. The decline in the value of trade was highly influenced by the deterioration in oil and commodity prices. Yet the slow growth in volume came in response to the impact of the macroeconomic situation post-2008 crisis, notably the weakness in aggregate demand and within that, demand for durables and investment goods, played a major role in the recent trade slowdown and continues to do so.


Source: CBP, World Trade Monitor

- Growth of world merchandise trade, 2005-2015 -




Source: WTO, World Trade Statistical Review 2016

## III. The Developments in the MENA Region

### A - Modest growth

Intense and deepening conflicts, low oil prices, and rising uncertainty continue to weigh heavily on the economies of the Arab world and its future prospects. These challenges mean a new reality in the Arab world where all and each country of the region needs to adjust to, in order to minimize the negative consequences which translate into low business and consumer sentiment, and threatens attempts for economic recovery.

Direct implications from the United Kingdom's decision to leave the European Union are expected to be relatively limited for the Arab region. Nevertheless, "Brexit" has the potential to increase volatility in the global economy and the financial markets, which could affect the region's banking system and countries with high external debt. Moreover, a sizeable deceleration in the Euro area could reduce global demand and have broader impact on the global economy.

## Unemployment Rates in the Arab World (% of total labor force)

| | 2000-07 | 2008-13 | 2014 | 2015 | 2016* | 2017* |
|---|---|---|---|---|---|---|
| GCC | 4.4 | 4.5 | 4.7 | 4.7 | 4.6 | 4.6 |
| Non GCC | 15.5 | 14.4 | 15.1 | 15.2 | 15.4 | 15.3 |

Source: ILO, World Employment and Social Outlook – Trends 2016

*Projected

## IV. Prospects & Policy Implications

Given the current low prices of fuel and primary commodities, there are many rewarding investment opportunities in countless fields, especially manufacturing industries, agriculture and agricultural industries, ITC and other services sectors.

The Arab world has some of the highest wind and solar energy potentials in the world. Exploiting this wind and solar potential would strongly help Arab countries, enabling them to decrease the vulnerability of their existing resource systems against global warming.

The priority is now to ensure that the private sector can create enough jobs for the young and growing population. This is a process that will require deep structural reform to improve growth prospects.

As a result of the declining oil revenues, many Arab states took strict measures to decrease or eliminate subsidies for both consumers and producers. Such measures that acted in favor of fiscal balances, can actually increase the financial and tax burdens for the private enterprises and people in general. Therefore, it is important to step up reforms that target the following:

1. Improvement of public services.
2. Elimination of obstacles that hinder the private sector.
3. Activation of privatization plans.
4. Enhancement of access to finance.
5. Speeding up diversification plans.
6. Promotion of R&D, for example, by providing well-designed subsidies and tax incentives.
7. Fostering innovative entrepreneurship through fiscal policies that target new firms.

The Arab countries need to reduce their dependence on oil and accelerate reforms to manage the new reality of low oil prices. Policymakers are responsible to implement reforms to promote economic diversification and non-oil sector growth. Appropriate measures have to be placed to better align education and skills with the needs of the markets. New regulations and initiatives are needed to step up structural reforms to fight corruption, strengthen the quality of education, improve the functioning of labor and financial markets, and increase trade openness to help boost economic growth, create jobs, and improve inclusiveness of growth.

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## B - Internal conflicts

Violent conflicts, particularly in Syria, Libya, Yemen and Iraq, continue to intensify, resulting in massive numbers of deaths, injured and displaced people, in addition to severe economic and social damages.

The humanitarian cost is immense. The United Nations (UN) estimates that the conflict in Syria alone has killed as many as 250,000 people, with many millions displaced. Between October 2015 and March 2016, more than 600,000 people fled the country, bringing the total number of Syrian refugees to almost 5 million.

The mounting costs of conflicts have put enormous pressure on government budgets and infrastructure, driving up inflation and diverting resources away from much-needed social spending. The conflicts are also having repercussions in neighboring countries, who are hosting large number of refugees, and tackling disruptions in trade and tourism, worsening security, and decreasing levels of investor confidence.

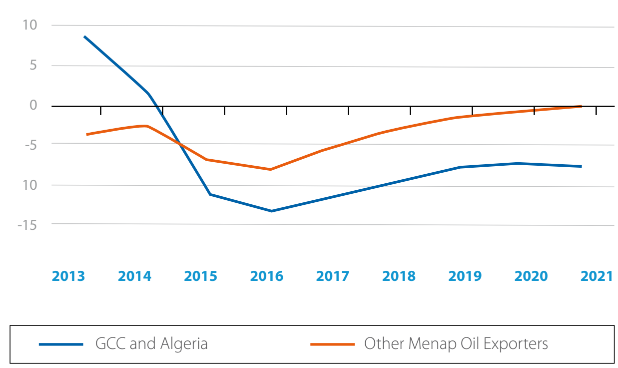
The World Bank estimates that the conflict in Syria has lowered Lebanon's real GDP growth by almost 3 percentage points every year since it started, and that the worsening of the crisis in Syria and Iraq in 2015 had a similar negative impact on economic growth in Jordan.

## C - Lost revenues for oil-exporting countries

Since mid-2014, the persistent decline in oil prices has turned surpluses in Arab oil-exporting countries into deficits, slowing growth and raising concerns about unemployment. Losses in revenues are estimated at USD 390 billion in 2015 and are expected a further USD 140 billion in 2016.

Mirroring the large loss in export receipts, fiscal balances have deteriorated considerably, as shown in the following chart.

- Deteriorating Fiscal Balances (% of GDP) -




Source: IMF, from National authorities and IMF calculations (excluding Libya)

## D - Unemployment gap

Across the Arab world, more than one in four youth is outside the labor market. In Tunisia alone, 42% of the youth are unemployed. For women in the Arab region, the statistics are especially alarming, as less than one in five are currently employed.

Unemployment rates in the region vary considerably between the Gulf Cooperation Countries (GCC) and non-GCC countries. According to the International Labor Organization (ILO), unemployment in the GCC group stood at 4.7% in 2015, compared with 15.2% in the other Arab countries.

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