BLOMINVEST BANK SAL

Your Investment Reference

THE LEBANON BRIEF

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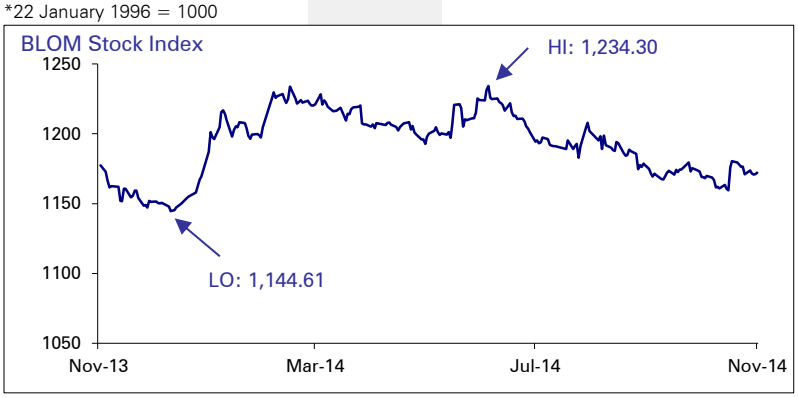
FINANCIAL MARKETS

Equity Market

Stock Market

	14/11/2014	07/11/2014	% Change
BLOM Stock Index*	1,172.13	1,171.04	0.09%
Average Traded Volume	67,761	133,767	-49.34%
Average Traded Value	623,759	1,171,918	-46.77%

*22 January 1996 = 1000



Banking Sector

	Mkt	14/11/2014	07/11/2014	% Change
BLOM (GDR)	BSE	$9.50	$9.35	1.60%
BLOM Listed	BSE	$8.80	$8.75	0.57%
BLOM (GDR)	LSE	$9.50	$9.40	1.06%
Audi (GDR)	BSE	$6.50	$6.40	1.56%
Audi Listed	BSE	$6.20	$6.30	-1.59%
Audi (GDR)	LSE	$6.30	$6.50	-3.08%
Byblos (C)	BSE	$1.62	$1.61	0.62%
Byblos (GDR)	LSE	$80.00	$80.00	0.00%
Bank of Beirut (C)	BSE	$18.39	$18.39	0.00%
BLC (C)	BSE	$1.70	$1.70	0.00%
Fransabank (B)	OTC	$28.00	$28.00	0.00%
BEMO (C)	BSE	$1.73	$1.73	0.00%

	Mkt	14/11/2014	07/11/2014	% Change
Banks' Preferred Shares Index *		105.19	105.06	0.12%
Audi Pref. E	BSE	$101.50	$101.50	0.00%
Audi Pref. F	BSE	$101.00	$101.00	0.00%
Audi Pref. G	BSE	$101.00	$101.00	0.00%
Audi Pref. H	BSE	$101.00	$101.00	0.00%
Byblos Preferred 08	BSE	$100.90	$100.80	0.10%
Byblos Preferred 09	BSE	$101.50	$101.00	0.50%
Bank of Beirut Pref. E	BSE	$26.00	$25.80	0.78%
Bank of Beirut Pref. I	BSE	$25.75	$25.75	0.00%
Bank of Beirut Pref. H	BSE	$25.90	$25.85	0.19%
BLOM Preferred 2011	BSE	$10.20	$10.20	0.00%
BLC Pref A	BSE	$101.40	$101.40	0.00%
BLC Pref B	BSE	$100.00	$100.00	0.00%
BLC Pref C	BSE	$100.00	$100.00	0.00%
Bemo Preferred 2013	BSE	$101.20	$101.20	0.00%

The Beirut Stock Exchange bounced back this week, however on a thin volume. The BLOM Stock Index (BSI) recorded a 0.09% uptick to close at 1,172.13 points.

The average traded volume went down from 133,767 shares worth $1.17M to 67,761 shares worth $623,759. As for the market capitalization, it widened by 9.07M since last week to $9.79B.

The BSI was outperformed by its regional peers, the S&P AFE40 Index, the S&P Pan Arab Composite Large Midcap Index, and the Morgan Stanley Emerging Index (MSCI) which increased by 1.15%, 0.65% and 0.14% to 69.44 points, 149.67 points and 992.72 points, respectively.

Among the Arab world, Dubai's stock exchange was in the lead surging by 5.70% since last week due to positive sentiment boosting real estate and transport stocks, followed by Abu Dhabi's bourse that added 3.40%, and Muscat's financial market that inched up by 1.33%.

On the other hand, Tunisia's stock exchange was the worst performer, dropping 2.19%, Egypt's financial market and Bahrain's bourse followed declining by 1.70% and 0.74%, respectively.

Back to the BSE, the banking sector contributed for around 62.28% of total traded value and was followed by the real estate sector with a share of 37.72%.

In the banking sector, 4 traded shares saw a weekly rise in price as opposed to only 1 stock dropping in price. BLOM listed and GDR shares increased by 0.57% and 1.60% to $8.80 and $9.50, respectively. Likewise, Byblos listed shares and Audi GDR shares improved by 0.62% and 1.56% to $1.62 and $6.50, respectively. Meanwhile, Audi listed shares went down by 1.59% to $6.20.

The BLOM Preferred Stock Index (BPSI) strengthened as well, posting a 0.12% uptick to 105.19 points, as all traded preferred shares increased in price. Byblos preferred 2008 and 2009 shares gained 0.10% and 0.50% to $100.90 and $101.50, respectively. Similarly, Bank of Beirut preferred shares classes "E" and "H" edged up by 0.78% and 0.19% to $26 and $25.90, respectively.

Real Estate

	Mkt	14/11/2014	07/11/2014	% Change
Solidere (A)	BSE	$11.33	$11.38	-0.44%
Solidere (B)	BSE	$11.35	$11.23	1.07%
Solidere (GDR)	LSE	$11.20	$11.10	0.90%

On the London Stock Exchange (LSE), the Global Depository Receipts (GDRs) of BLOM Bank and Solidere increased by 1.06% and 0.90% to close the week at $9.50 and $11.20, respectively, while those of Bank Audi lost a weekly 3.08% to $6.30.

Manufacturing Sector

	Mkt	14/11/2014	07/10/2014	% Change
HOLCIM Liban	BSE	$15.00	$15.00	0.00%
Ciments Blancs (B)	BSE	$3.50	$3.50	0.00%
Ciments Blancs (N)	BSE	$2.75	$2.75	0.00%

In the real estate sector, Solidere shares class "A" remained on their downtrend for the sixth week in a row, declining 0.44%, to close the week at $11.33. In contrast, Solidere "B" shares recovered 1.07%to $11.35.

Funds

	Mkt	13/11/2014	06/11/2014	% Change
BLOM Cedars Balanced Fund Tranche "A"	-----	$7,328.93	$7,306.35	0.31%
BLOM Cedars Balanced Fund Tranche "B"	-----	$5,240.48	$5,223.87	0.32%
BLOM Cedars Balanced Fund Tranche "C"		$5,566.37	$5,549.22	0.31%
BLOM Bond Fund	-----	$9,587.89	$9,608.62	-0.22%

The BSE might remain on its sideway trend, influenced by political and security situations.

Retail Sector

	Mkt	14/11/2014	07/11/2014	% Change
RYMCO	BSE	$3.32	$3.32	0.00%
ABC (New)	OTC	$27.00	$27.00	0.00%

Tourism Sector

	Mkt	14/11/2014	07/11/2014	% Change
Casino Du Liban	OTC	$360.00	$360.00	0.00%
SGHL	OTC	$7.00	$7.00	0.00%

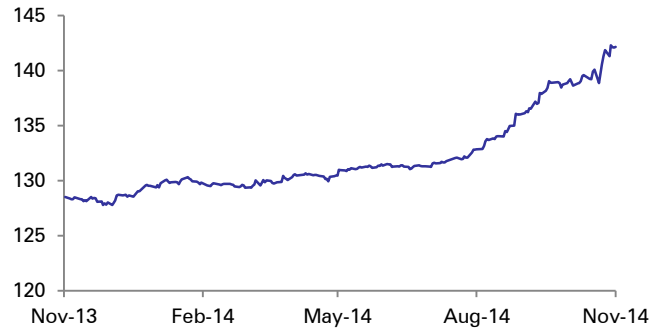
Foreign Exchange Market

Lebanese Forex Market

	14/11/2014	07/11/2014	% Change
Dollar / LP	1,512.00	1,512.00	0.00%
Euro / LP	1,878.80	1,868.40	0.56%
Swiss Franc / LP	1,563.15	1,551.40	0.76%
Yen / LP	12.96	13.08	-0.92%
Sterling / LP	2,362.86	2,383.81	-0.88%
NEER Index**	142.15	141.85	0.21%

*Close of GMT 09:00+2
**Nominal Effective Exchange Rate; Base Year Jan 2006=100
**The unadjusted weighted average value of a country's currency relative to all major currencies being traded within a pool of currencies.

Nominal Effective Exchange Rate (NEER)



Demand for the dollar steadied over the prior week as reflected by the Lebanese pound's peg against the dollar that remained at $/LP 1,510-1,514 with a mid-price of $/LP 1,512, since the 4th of September, 2014. Foreign assets (excluding gold) at the Central Bank rose by a monthly 1.15% from $38.42B at end-September to $38.87B by end-October. Meanwhile, the dollarization rate of private sector deposits stood at 65.87% in September compared to 66.13% in December 2013.

The dollar weakened against the euro on assumptions that declining crude oil prices will alleviate inflationary pressure in the U.S., offering the Federal Reserve more time before raising interest rates and as the US added fewer jobs than expected. Hence the euro recovered 0.56% against the dollar, ending the week at €/$ 1.2463.

Demand of gold revived, as the US added fewer jobs than expected, last month, and as China and India increase their demand for the haven, taking advantage of its lowest price in four years. The price of gold underwent a correction, going up from its lowest level since 2010 at $1,140.90/ounce to $1,161.58/ounce this week.

By Friday November the 14th, 2014, 12:30 pm Beirut time, the dollar-pegged LP depreciated against the euro going from €/LP 1,868.40, the prior week, to €/LP 1,878.80. The Nominal effective exchange Rate (NEER) gained 0.21%, weekly, to 142.15 points, widening its year-to-date gain to 10.14%.

Money & Treasury Bills Market

Money Market Rates

	14/11/2014	07/11/2014	Change bps
Overnight Interbank	2.75	2.75	0
BDL 45-day CD	3.57	3.57	0
BDL 60-day CD	3.85	3.85	0

Treasury Yields

	14/11/2014	07/11/2014	Change bps
3-M TB yield	4.39%	4.39%	0
6-M TB yield	4.87%	4.87%	0
12-M TB yield	5.35%	5.35%	0
24-M TB coupon	5.84%	5.84%	0
36-M TB coupon	6.50%	6.50%	0
60-M TB coupon	6.74%	6.74%	0

During the two weeks ending October 30, 2014, broad Money M3 plunged by LP 273B ($180.79M), to reach LP 174,875B ($116.00B). M3 growth rate reached 6.42% year-on-year and 4.36% since year start. Similarly, M1 declined by LP 3B ($1.83M) due to the decrease in money in circulation by LP 123B ($81.59M) and increase in demand deposits by LP 120B ($79.60M).

Total deposits (excluding demand deposits) plummeted by LP 269.78B ($178.96M), as deposits denominated in foreign currencies narrowed by $225M, while term and saving deposits in domestic currency grew by LP 68B. Over the above mentioned period, the broad money dollarization went down from 58.95% to 58.85%. According to the Central Bank, the overnight interbank rate stood at 2.75% at the end of August 2014.

In the TBs auction held on the 6th of November 2014, the Ministry of Finance raised LP 16.76B ($11.12M), through the issuance of bills maturing in 3M and 6M, and 5Y notes. Demand was channeled to a special auction of 10Y notes, with an average coupon rate of 7.98%, by which the government raised LP978.03B ($648.78B). The 3M and 6M bills yielded 4.39% and 4.87%, respectively, while the average coupon rate for the 5Y notes stood at 6.74%. New subscriptions exceeded maturing T-bills by LP 655.80B ($435.02M).

Eurobond Market

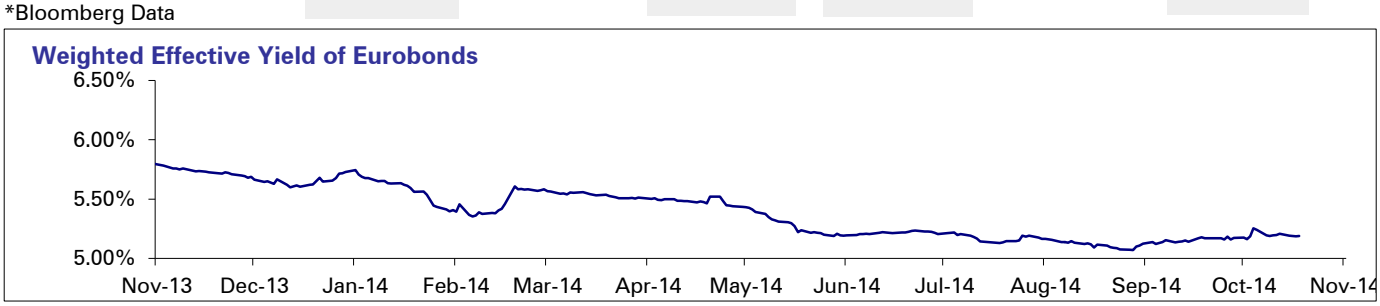
Eurobonds Index and Yield

	13/11/2014	06/11/2014	Change	Year to Date
BLOM Bond Index (BBI)*	108.260	108.218	0.04%	2.48%
Weighted Yield**	5.15%	5.17%	-2	13
Weighted Spread***	362	360	2	-68

Eurobonds Lebanese Government

Maturity - Coupon	13/11/2014 Price*	06/11/2014 Price*	Weekly% Change	13/11/2014 Yield	06/11/2014 Yield	Weekly Change bps
2015, Aug - 8.500%	103.51	103.665	-0.150%	3.59%	3.51%	-8
2016, Jan - 8.500%	105.59	105.658	-0.064%	3.63%	3.65%	2
2016, May - 11.625%	111.289	111.429	-0.126%	3.80%	3.80%	0
2017, Mar - 9.000%	110.781	110.802	-0.019%	4.14%	4.17%	3
2018, Jun - 5.150%	101.45	101.419	0.031%	4.72%	4.73%	1
2020, Mar - 6.375%	104.933	104.738	0.186%	5.30%	5.35%	4
2021, Apr - 8.250%	114.574	114.636	-0.054%	5.52%	5.52%	0
2022, Oct - 6.100%	101.951	101.858	0.091%	5.79%	5.81%	2
2023, Jan - 6.000%	101.014	100.832	0.180%	5.85%	5.88%	3
2024, Dec - 7.000%	106.365	106.215	0.141%	6.19%	6.21%	2
2026, Nov - 6.600%	102.319	102.197	0.119%	6.33%	6.34%	1
2027, Nov - 6.75%	103.371	103.299	0.070%	6.38%	6.39%	1

*Bloomberg Data



Lebanon's Eurobonds showed improvement during the week, with the BLOM Bond Index (BBI) increasing 0.04%, to settle at 108.26 points. The gauge posted a 2.48% year-to-date (y-t-d) increase. The bouncing back of the Eurobonds market can be attributed to higher demand on the 5Y and 10Y yields, which decreased by 2 basis points (bps) and 1 bp to reach a yield of 5.15% and 6.20%, respectively, as the security situation seems to have stabilized.

A weekly rise in the U.S dollar and the continuing decrease in oil prices, in addition to the breakdown in relations between Ukraine and Russia as the latter faced more sanctions led to emerging markets witnessing a declining bond market, with the JP Morgan emerging countries' bond index weekly performance demonstrating a weekly decline of 0.37% to 675.99 bps.

In the U.S, anticipation of Alibaba selling bonds for $8B, in addition to the doubling of military presence in the Iraq, strengthened U.S treasuries. This sent the 5Y and 10Y U.S yields down by 3 bps and 4 bps to 1.64% and 2.35%, respectively. Correspondingly, the 5Y and 10Y spreads between the Lebanese Eurobonds and their U.S benchmark respectively widened by 1 bps and 2 bps to 351 bps and 384 bps.

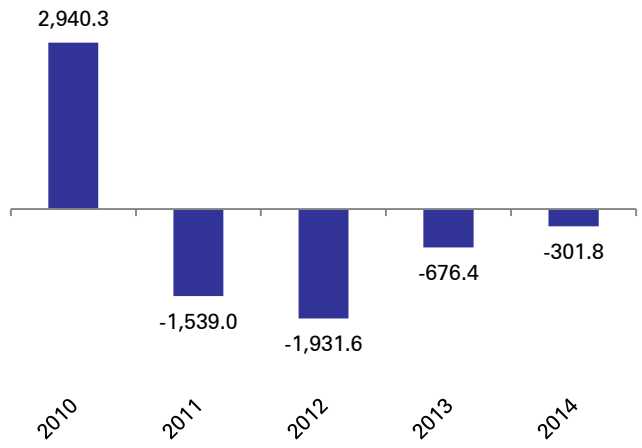
In Lebanon, the 5Y CDS broadened to 350-380 bps from 347-377 bps. In the region, the 5Y CDS of Dubai also broadened, from 167-177 bps to 169-179 bps, while that of Saudi Arabia narrowed from 60-66 bps to 60-65 bps. Internationally, the 5Y CDS of Turkey narrowed from 178-180 bps to 171-174 bps. Contrastingly, that of Brazil broadened from 168-170 bps to 176-178 bps.

ECONOMIC AND FINANCIAL NEWS

Lebanon's Balance of Payments Records a Deficit of $301.8M by September

Balance of Payments by September

(in $M)



Source: BDL

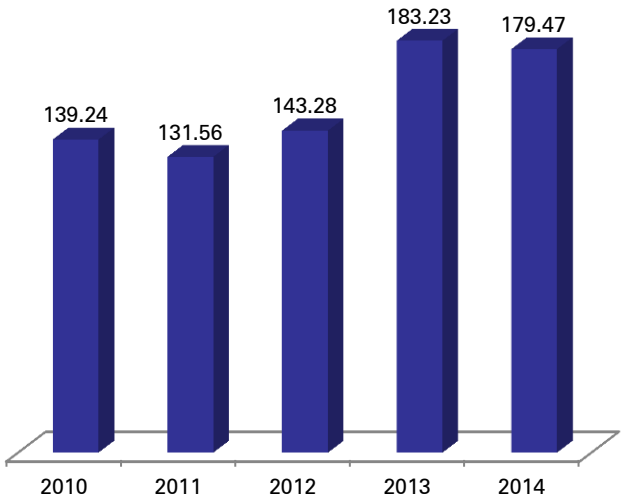
Lebanon's Balance of Payments (BoP) recorded a deficit of $301.8M in the first three quarters of 2014, compared to a deficit of $676.4M in the same period the prior year. This could be partly attributed to the 2.50% yearly narrowing trade deficit up to September 2014. Net Foreign Assets (NFAs) of the Lebanese Central Bank (BdL) swelled by $4.23B by September, while that of commercial banks plummeted by $4.53B.

Taking the month of September alone, Lebanon's BoP revealed a surplus of $131.1M, compared to a deficit of $563.9M in August. NFAs of BdL contracted $44.1M, subsequent to a rise of $544.9M the previous month. During the same month, NFAs of commercial banks broadened by $175.2M, following a plunge of $1.11B in August.

Port of Beirut Revenues Decreased to $179.47M by October 2014

PoB Revenues by October

(in $M)



Source: Port of Beirut

Port of Beirut (PoB) revenues declined by 2.05% year-on-year (y-o-y) to settle at $179.47M by October 2014.

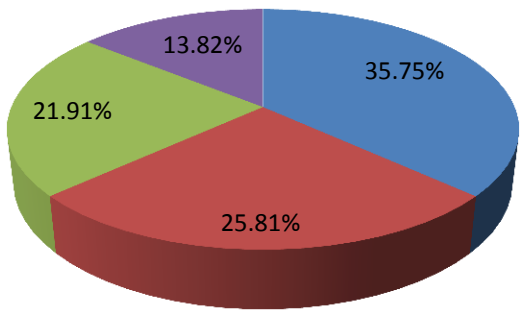
Imported cars barely changed by October 2014, decreasing by 0.33% from the same period in 2013, to 75,035 cars. Likewise, the number of vessels docked at the country's main port dropped by 5.74% y-o-y to 1,658 vessels.

However, total container activity including transshipment maintained its increase, going up 8.81% from last year, to reach 1,020,246 twenty-foot equivalent units (TEU), by September. Container activity excluding transshipment inched up by 0.34% y-o-y to 640,453 TEU. Transshipment alone significantly rose by 26.88% y-o-y to 379,793 TEU. Total volume of merchandise (imports and exports) increased by 1.52% to 6.92M tons.

In addition, CMA CGM's transshipment volume grew by 49.00% y-o-y to 158,426 TEU. Similarly, that of MSC also increased, by 16.97% to 206,796 TEU.

Lebanon's Commercial Banks Assets Rose to $171.34B by September

Percentage Composition of Commercial Banks' Assets by September



- RESERVES
- CLAIMS ON RESIDENT PRIVATE SECTOR
- CLAIMS ON PUBLIC SECTOR
- FOREIGN ASSETS

Source: BdL

The consolidated balance sheet of commercial banks jumped by 3.96% year-to-date (y-t-d) to $171.34 by September, equivalent to a 7.59% year-on-year (y-o-y) growth.

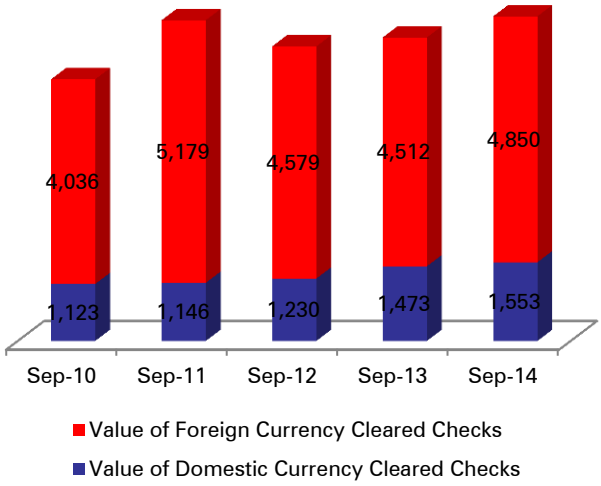
Total reserves showed a 11.90% y-t-d increase to form 35.75% of total assets, with a value of $61.26B. 99.31% of these reserves are held in the form of deposits with the Central Bank. Claims on the resident private sector, with a share of 25.81% of total assets, posted a 6.56% y-t-d increase to $44.23B. The dollarization rate of the private sector demonstrated a slight decrease from 76.54% in December to 75.87% by September. During this period, foreign currency loans advanced by 4.49% y-t-d to $37.90B, and were outpaced by local currency loans which displayed a y-t-d increase of 8.42%.

Meanwhile, claims on the public sector, which mainly take the form of treasury bills and Eurobonds, recorded a 0.33% y-t-d decrease to $37.54B. In details, the stock of T-bills fell by 0.37% to $37.44B, as outstanding Eurobonds posted a 3.98% y-t-d drop that offset the 4.41% y-t-d increase in T-bills denominated in local currencies.

As for liabilities, resident private sector deposits grew by 4.45% to close at $112.52B. The bulk of these deposits are denominated in foreign currencies, which increased by 4.10% y-t-d to $67.62B, while deposits in local currency grew by 4.98% y-t-d to $44.87B. Non-resident private sector deposits, which increased by 3.60% y-t-d to $29.51B, also witnessed deposits in local currency outgrowing deposits in foreign currencies, with respective y-t-d growths of 11.73% and 2.52% to $3.75B and $25.75B. These changes resulted in the decrease of the dollarization rate of private sector deposits from 66.13% to 65.75% by September 2014.

Value of Cleared Checks by September

(in $B)



Source: ABL

Value of Cleared Checks Increased by 4.46% y-o-y by September

By September 2014, the number of cleared checks showed a yearly drop of 1.84% to 9.71M. Despite this decrease, the cumulative value of these checks increased by 4.46% year-on-year (y-o-y) to reach a value of $56.22B.

A breakdown of these numbers revealed a 5.25% y-o-y increase in the value of checks denominated in local currency, reaching $13.56B, while checks denominated in foreign currencies rose by 3.28% compared to the same period last year to $42.66B. As for the dollarization rate by September 2014, it posted a yearly decline of 0.87 percentage points (pp) from 76.74% to 75.87%.

Returned checks, accounting for 2.14% of the total value, declined by 5.01% by September to $1.2B.

Regarding the month of September alone, the total value of cleared checks jumped up by 6.98% to $6.40B. Cleared checks denominated in local currency rose by 5.42% y-o-y to $1.55B, while those denominated in foreign currencies posted a 7.49% leap from September 2013 to $4.85B.

Breakdown of Salaries, Wages, and Related Benefits by March 2014

(in $M)

	Basic Salaries		Total	
	Q1 13	Q1 14	Q1 13	Q1 14
Military Personnel	324.38	342.29	407.28	434.49
Army	208.96	214.26	271.97	263.34
Internal Security Forces	91.54	100.17	107.46	131.34
General Security Forces	18.57	21.89	21.22	31.18
State Security Forces	5.31	5.97	6.63	7.96
Education Personnel	124.71	140.63	139.97	152.57
Civil Personnel , of which	57.71	57.05	78.94	75.62
Employees Cooperative	-	-	13.27	15.92
Customs Salaries	-	-	8.62	5.97
Total	506.80	539.97	647.43	684.58

Source: MoF

"Salaries, Wages and Related Benefits" Reached $685.24M by March

According to the Ministry of Finance (MoF), "salaries, wages and related benefits" accounted for 29% of total primary spending by March 2014, representing the biggest portion of primary spending. This major share of primary spending slightly increased by 5.84%, up from $647.43M in the first quarter of 2013 to $685.24M in 2014. This $37.81M increase is explained by the $33.16M, $8.62M and $3.98M rise in basic salaries, allowances and other expenses, respectively. These jumps in expenses more than offset the respective $5.97M and $1.99M decreases in indemnities and customs personnel salaries.

Basic salaries constituted the majority share of total salary expenditures with 78.80%, followed by 11.52% for allowances, and 5.13% for other expenses. The total payments to military personnel, accounting for 63.41% of the total, grew by 6.68% year-on-year (y-o-y) to $433.82M, due in part to the increase in offshore trainings and increased salaries to the Internal Security Forces. Payments to education personnel and contribution to employees' cooperatives also displayed increases, of 9.00% and 20.00%, to respective values of $152.57M and $15.92M.

CORPORATE DEVELOPMENT

Net Assets of Top Earning Banks in Alpha Banks

(in $B)

	Sep-14	Dec-13	%change
Bank Audi	39.89	36.19	10.22
BLOM Bank	27.50	26.15	5.17
Byblos Bank	18.97	18.49	2.63

Source: BankData

Alpha Banks Posted Improved Results in Q3 2014

Alpha Banks posted a 4.35% year-on-year (y-o-y) increase in net profits to $1.36B by September 2014 as net interest income and net fee and commission income boasted 12.55% and 13.85% y-o-y respective growths to $2.45B and $635.28M to offset the 11.73% increase in net operating income to $1.98B. Domestic net profit accounted for $1.13B of total net profits.

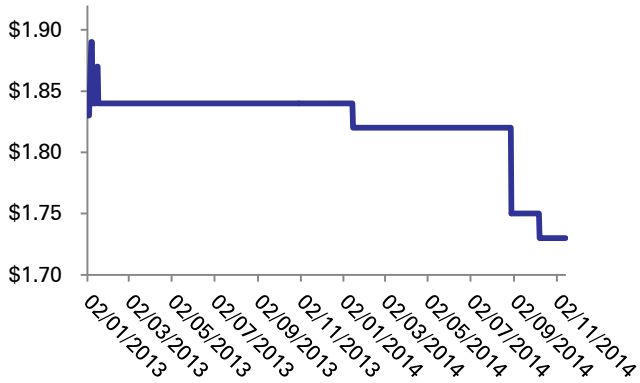
The Alpha Banks' consolidated balance sheet revealed a 6.48% year-to-date (y-t-d) rise to $187.78B by the end of the third quarter of 2014. This increase is attributable to the 8.50% y-t-d uptick in net loans and advances to customers at amortized cost to $57.98. Domestically, loans in L.L to customers totalled $10.29B and increased by 10.87% y-t-d, while domestic loans in foreign currencies rose by 3.82% y-t-d to $30.15B. Of these loans, the value of net doubtful loans declined to $769.61M, a y-t-d decrease of 2.41%.

Also on the assets side, total portfolio securities posted a y-t-d uptick of 2.06% to $63.14B, where the dominant trend is the decreasing value of securities denominated in foreign currencies, with Lebanese sovereign Eurobonds in foreign currencies and BDL Certificates of Deposits in foreign currencies posted y-t-d declines of 3.68% and 10.72%, respectively.

Regarding liabilities, deposits from customers at amortized cost grew by 6.57% y-t-d to reach $153.93B by September 2014. Total shareholder's equity also posted an increase, by 6.56% y-t-d to $16.30B.

Alpha Banks have revealed improved management efficiency to accompany their growth. As the total number of branches increased from 1,131 at end-December 2013 to 1,172 branches by end-September 2014 and total staff employed increased from 27,799 to 29,044 over the same period, the cost per average branch decreased by 21.41% y-t-d to $1.72M, with staff expenses per average staff also declining 20.27% y-t-d to $39,137.

BEMO Listed Shares Performance



Source: BSE News, BLOMINVEST Bank

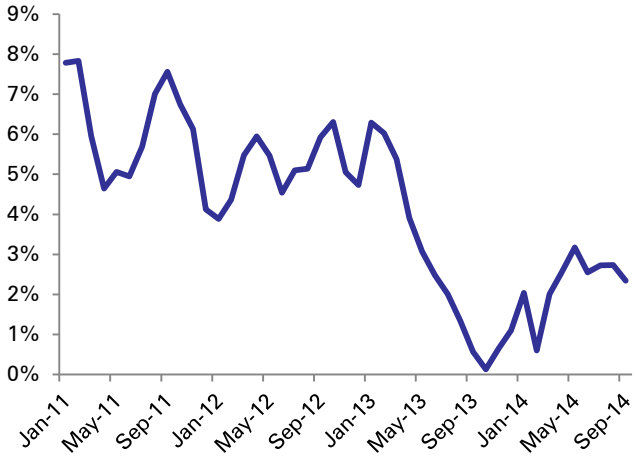
BEMO Bank Ordinary General Assembly Decides to Issue Subordinate Debt Securities

During the ordinary general assembly held on the 24th of October, 2014, the shareholders of Bank BEMO approved the issuance of 2,500 subordinate debt securities worth $25M, with a nominal value per bond $10,000. Direct or indirect subscription is open to individuals and companies, whether local or foreign. The subscription period will be determined by the bank at a later time. The annual interest rate of these securities has been set at 6% and is subject to a 5% deductible tax. Interests are to be disbursed on the 30th of June and the 31st of December of each year.

FOCUS IN BRIEF

What Drove Inflation since 2011?

Year-on-Year Monthly Inflation Rates



Source: CAS

As the country struggles through the economic slowdown, the continuous political deadlocks and the regional upheavals, we hear the term "inflation" getting tossed around. Looking beyond the common definition of "a rise in general prices", inflation is one of the core drivers of investment decisions, consumption trends, unemployment levels etc…

Lebanon, one of the most expensive countries in the region and the world, undergoes international prices transmission for its high reliance on imports and its dollar-pegged currency. Noting that imports almost constituted 47% of its GDP in 2013, any international prices increase will certainly be imported into the local scene. In the same context, and given that the Lebanese economy is highly dollarized[1] and have a fixed exchange rate to the dollar, any global increase in the value of U.S. dollar against major currencies will directly imply a decrease in the prices of the Lebanese products. This was the case in 2014 when the U.S. dollar succeeded to progress amid positive economic indicators, lower unemployment rate decisions and the Federal Reserve's decision to cut its Quantitative Easing.

Still, the subdued demand in Lebanon that resulted from the recurrence of internal security incidents and political deadlocks lessened pressure on prices since 2011. Hence the average yearly inflation rates were seen slower, going from 4% and 5% in 2011 and 2012 to 4% in 2013 and 1% by September 2014.

In this context, the following report will try to discuss the main reasons behind inflation in Lebanon since the emergence of the Arab Spring in 2011 and precisely the war in Syria up until 2013 with a slight glimpse on the first half of 2014.

By means of evolution of the Consumer Price Index (CPI)[2] provided by the Central Administration of Statistics (CAS) since 2011, prices in Lebanon followed an upward trend mainly boosted by hikes in the prices of food, beverages, tobacco, housing, health and education services as well as water, electricity, gas and other fuels.

Though, it is worth noting that, early this year, CAS updated the CPI by switching the reference month from December 2007 to December 2013 and by modifying the weights of the respective sub-indices. The weight for the "food and non-alcoholic beverages" component rose from 19.9% to 20.6% and that of "Transportation" increased from a previous 12.3% to 13.1%. Similarly, the weight for the "Housing, Water, Electricity, Gas and other fuels" went from 25.7% to 28.5% and the weight for the

[1] The Dollarization rate on private sector deposits hovers around 66%
[2] Reference month: December 2007 and Weights of 2012

"Health" component was upped from 6.8% to 7.8%. However, the weight of the "Alcoholic beverages, tobacco" sub-index slid from 2.1% to 1.6%.

Composition of the CPI

	Weight	
Sub-Index	Old	New
Food and non-alcoholic beverages	19.9	20.6
Alcoholic beverages, tobacco	2.1	1.6
Clothing and footwear	6.2	5.4
Housing water, electricity, gas and other fuels	25.7	28.5
Furnishings, household equipment and routine household maintenance	3.9	3.6
Health	6.8	7.0
Transportation	12.3	14.8
Communication	4.8	5.4
Recreation, amusement, and culture	3.7	2.0
Education	7.7	6.5
Restaurant & hotels	2.7	2.5
Miscellaneous goods & services	4.2	3.8

Source: CAS

Food and Beverages Prices Followed a Bullish Trend

Starting with food prices, they were mainly following international trends and were partly influenced by the domestic and regional developments. Food and non-alcoholic beverages showed an overall 13.5% increase between 2011 and September 2014. In details, the Food and Agriculture Organization's (FAO) annual Food Price Index indicated that 2008 and 2011 were 2 years of noticeable worldwide increases in food prices by 25% and 22%, respectively.

In Lebanon, this was translated by respective 18% increase in food prices in 2008 and a 6% uptick in 2011. The slower increase in 2011 could be explained by the Arab spring emergence that heavily influenced Arab demand for the Lebanese agro-industrial products. However, the substantial inflows of Syrian refugees managed to counterbalance the dropping Arab demand increasing pressure on the prices of the Lebanese food products. Alimentation products kept on increasing in prices over 2012 (+4.2%), 2013 (+2.9%) and 2014 (+0.7% by September), yet at slower pace.

As for alcoholic beverages and tobacco, they saw a 35.2% jump in the period 2011-2013 followed by a 5.9% year-to-date (y-t-d) surge by September 2014. This was mainly the result of successive yearly increases of 11.4% in 2011, 8.3% in 2012 and 12.1% in 2013.

High Demand Pressured Up Prices in the Housing Market

Housing also witnessed considerable rises over the same period resulting from the mismatch of demand and supply on the housing market, Banque du Liban (BDL)'s incentives as well as the increasing number of Syrian refugees looking for accommodation.

As a matter of fact, the official figures added a 44.1% adjustment to the housing index to reflect the rise in prices during the years 2009, 2010 and 2011. This increase in houses prices was incorporated in July 2012 leading to a 10.1% hike in the CPI back then. BLOMINVEST's research department spread the entry over the three years period, using the trends strolled by the real estate price transactions as a proxy to reproduce the actual monthly changes in the housing index during the period. As such, the approximated path of inflation between 2011 and 2013 revealed a 5% comprehensible increase.

2008-2011 was a booming period for the Lebanese real estate market characterized by a pent-up demand outpacing supply levels. The Doha agreement has boosted demand for the Lebanese property sector mainly from the Arabs and the Lebanese expatriates. Yet, supply remained low over the mentioned period as projects need time to be constructed and the majority takes more than a year to be done. Consequently, real estate prices went up after being well below the regional market. However, real estate demand was hindered starting late 2011 by pressures from the war in Syria and the fragile domestic situation that continued through 2013. The period 2011-2013 can be described by an improving supply that took time to adapt to the high demand levels.

On a different front, BDL launched in early 2013 an incentive program[3] in hope of expanding lending and revitalizing demand with a special focus on housing loans (56% of total placement). This strategy came as a continuity of BDL's series of stimulation packages that started in 2012 to ease real estate finance for low and medium income households. In this context, banks profited of low-cost funding thus lending at lower interest rates. BDL latest data showed that housing loans reached $8.53B by June 2014, up by a yearly 8.8%.

Despite the drowning foreign demand for Lebanon's properties, the Syrian crisis has cast a multitude of consequences on the Lebanese housing sector, as citizens fleeing their country were looking for purchases or rents thus helping to maintain prices.

In 2014, CAS started conducting housing surveys once per month and detailing the housing sub-component into Actual Rent (comprising Old and New Rent) and Owner Occupied. Y-t-d results revealed that actual rents rose by 0.3% by September. Similarly, the prices of ownerships saw a 0.3% rise since year start.

Besides housing, prices of water, electricity, gas and other fuels as well as furniture and household equipment (3.7% stake of the CPI) went also up almost by 12% and 7% between 2011 and September 2014 mainly boosted by the moderately increasing demand for these vital products.

Health Indicators Followed Mixed Trends Almost Stabilizing Costs

Healthcare costs also followed the upward trend despite the timid rise revealed during 2011-2013. The Lebanese healthcare system showed a 5% acceptable increase in prices between 2011 and 2013 when compared to the considerably high costs of consultations and hospitalization. Imported inflation is another reason behind the amplifying costs as hospitals, laboratories and healthcare centers ought to import new specialized equipment and technologies to catch up the global progress taking place in the health sector.

However, the Health Ministry slashed, by the beginning of 2012, the price of 670 generic drugs by 15% to 22%, which could be partly behind the contained growth in the health sub-component. Yet, healthcare costs remain subject of a big controversy as almost 45% of Lebanon's residents are estimated not to be covered by any public or private agency.

As for the first nine months of 2014, they recorded alone a 1.2% y-t-d rise in the prices of Health. This could be partly related to the critical financial situation of the Lebanese private hospitals that had been pressuring the government to settle the overdue payments from 2000 and 2011. In the same context, the Syndicate of hospitals urged public insurance institutions to enhance their payments to keep up with the rising prices of medicine, fuel, electricity, wages, nutrition as well as the worldwide prices of medical equipment.

Education Fees Mainly Boosted by the Public Employees Rising Wages

However, when it comes to education in Lebanon, households kept tolerating the expensive additional charges of the private educational system. Noting that the education index contributes by 5.9% to the CPI's constitution, the sub-component edged up by 32% between 2011 and 2013, while it posted a marginal 0.1%. y-t-d uptick by September 2014.

[3] BDL placed $1.46B at the disposal of banks at 1% interest so commercial banks can increase loans to institutions and households at reduced interest.

This increase is partly due to the increase in the wages of the education personnel in the public sector. In this context, the total amount of basic salaries for the public educational body reached $572.5M in 2013 compared to $527.40M[4] in 2012. Accordingly, public wages saw an 8.6% yearly increase or $44.44M that is partly explained by the respective rises of $13.93M, $25.20M and $15.08M in the salaries of permanent, primary and secondary trainee teachers and contractual teachers at the Directorate General of Education.

Several reasons may also explain the 8.6% annual increase in 2013 such as the recruitment of new contractual and permanent teachers, the promotion of current workforce, the cost of living adjustment, the increasing number of Syrian students looking for enrolment etc...

Deteriorating Tourism Hit Clothing Industry

The sharp decline in the number of tourists has taken its toll on the apparel industry. Up till September of this year, the country has witnessed a 20.2% decrease in total visitors compared to the first nine months of 2011. Arab tourists, which used to frequent Lebanon and drive retail sales growth, have dropped 24% during the same period. According to the latest data published by Global Blue, the value of VAT refunds on fashion and clothing items within Lebanon slipped 1% year-on-year (y-o-y) by September 2014, while the number of VAT refund transactions on these items fell 5% for the same period. Tourists residing in Kuwait and Syria witnessed the greatest drop in average tourist spending, each having declined by 7% and 3%, respectively.

Consequently, clothing and footwear index, that constitutes 5.4% of the CPI basket, suffered the repercussions of lower demand from tourists and also that of local residents who were undergoing the consequences of the country's economic slowdown, security instabilities and political stalemates. Following a similar 4% growth of prices in 2011 and 2012, the apparel industry failed to maintain the upward trend and finally mirrored the deteriorating activity of the tourism sector posting an 8% y-o-y drop by the end of 2013. This is when retailers used aggressive marketing strategies through sales and promotions even during holiday periods to rejuvenate the sector and liquidate their inventories.

On the brighter side, clothing and footwear prices managed to recover in 2014 and showed a 14.3% y-t-d progress mainly impacted by the Cabinet formation that took place by the mid of February this year. Accordingly, the sector, like many other sectors, is highly dependent from the political, security and regional environment and can easily recover and prosper once positive developments emerge.

Syrian Inflows Mostly Behind the Progress in Restaurant, Hotels and Leisure Prices

Unexpectedly, and despite the narrowing tourism activity, the CPI sub-components "Restaurant and Hotels" and "Recreation, amusement, and culture" managed to grow by more than 17% between 2011 and September 2014.

Yet, when it comes to occupancy rates, Ernst & Young Middle East Hotel Benchmark Survey Report that covers four-and five-stars hotels revealed that Beirut Hotels posted gradual declines in their average occupancy rates from 58% in 2011 and 54% in 2012 to 51% in 2013 and 50% by September 2014. Accordingly, surveyed hotels seem to have slashed their room rates to regain their lost revenues and attract local and foreign customers as revealed by the 26% downfall in their average room rate that went from $219 in 2011 to $162 by the end of September this year.

Hence, the substantial increase in "Restaurant and Hotels" took place as the sub-index encompasses a wider sample of hotels either outside the capital Beirut or having a rating below four-stars. Those hotels could have increased their daily room rates as they were hosting mid-income Syrian migrants fleeing their homeland to escape the war.

Transportation Prices Mirrored the Global Dip, while Communication Prices Tumble on Governmental Measures

Transportation prices over the period 2011-2013 followed the international bearish trend in oil prices, yet into a lesser extent. The sub-index which constitutes 13.1% of the CPI's basket barely slipped 3.2% from 2011 to September 2014 when oil prices decreased by more than 10% worldwide.

[4] Basic salaries excluding retroactive payments

Lebanon's mobile sector is one of the most expensive markets in the Arab World despite the downward trend in the price of mobile calls that started in 2012. In fact, the price of the cheapest mobile basket for 100 calls /month in Lebanon shed by 9% y-o-y in 2012 to $90 and by a considerable 23% in 2013 to $69. As for fixed broadband, prices have been slashed by more than 70% in 2011 with internet usage reaching 38% at the end of 2012 compared to 32% in the previous year.

Even though the facts reveal a bearish trend starting 2011, the communication sub-component which represent 4.6% of the CPI's basket, remained subdued until 2014 when it started showing signs of substantial decreases.

Believing that a reduction in prices would boost subscriptions and raise usage, the government decided to lower tariffs for telecom services again (additional minutes for postpaid mobile subscribers, lower prepaid call tariffs, more efficient internet data plans and HDSL services.

As a result, and after posting no changes in price for 3 years, the CPI of communication revealed a considerable 23.7% y-t-d slump by September 2014.

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