

THE LEBANON BRIEF

ISSUE 899

Week of 15 – 20 December, 2014



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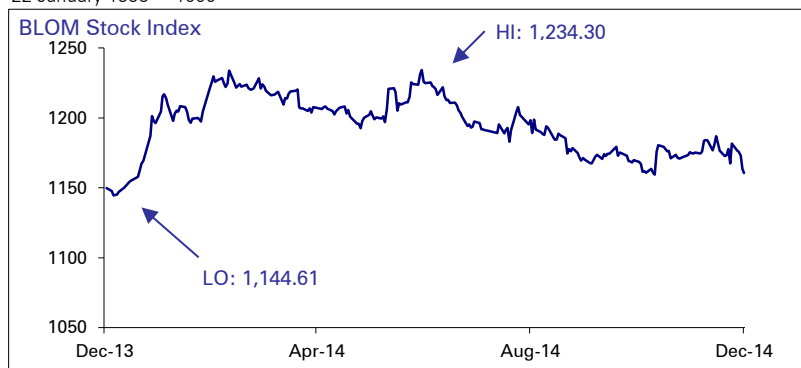
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FINANCIAL MARKETS

Equity Market Stock Market

	19/12/2014	12/12/2014	% Change
BLOM Stock Index*	1,160.67	1,181.69	-1.78%
Average Traded Volume	150,864	573,565	-73.70%
Average Traded Value	1,208,097	4,085,481	-70.43%

*22 January 1996 = 1000



Banking Sector

	Mkt	19/12/2014	12/12/2014	% Change
BLOM (GDR)	BSE	\$9.64	\$9.65	-0.10%
BLOM Listed	BSE	\$8.75	\$8.80	-0.57%
BLOM (GDR)	LSE	\$10.00	\$9.55	4.71%
Audi (GDR)	BSE	\$6.21	\$6.54	-5.05%
Audi Listed	BSE	\$6.05	\$6.18	-2.10%
Audi (GDR)	LSE	\$6.35	\$6.35	0.00%
Byblos (C)	BSE	\$1.60	\$1.65	-3.03%
Byblos (GDR)	LSE	\$76.50	\$76.50	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	\$22.00	\$22.00	0.00%
BEMO (C)	BSE	\$1.75	\$1.75	0.00%

	Mkt	19/12/2014	12/12/2014	% Change
Banks' Preferred Shares Index *		105.81	105.55	0.25%
Audi Pref. E	BSE	\$102.20	\$102.20	0.00%
Audi Pref. F	BSE	\$102.20	\$102.20	0.00%
Audi Pref. G	BSE	\$101.50	\$101.50	0.00%
Audi Pref. H	BSE	\$102.30	\$101.00	1.29%
Byblos Preferred 08	BSE	\$102.00	\$101.30	0.69%
Byblos Preferred 09	BSE	\$102.10	\$101.60	0.49%
Bank of Beirut Pref. E	BSE	\$26.00	\$26.00	0.00%
Bank of Beirut Pref. I	BSE	\$25.90	\$25.75	0.58%
Bank of Beirut Pref. H	BSE	\$26.00	\$26.00	0.00%
BLOM Preferred 2011	BSE	\$10.20	\$10.20	0.00%
BLC Pref A	BSE	\$103.00	\$103.00	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	\$100.00	\$100.90	-0.89%

The Beirut Stock Exchange continued last week's decline, as the BLOM Stock Index (BSI) recorded a weekly 1.78% loss to close at 1,160.67 points on Friday, after investors tended to close their long-term positions on the back of no reassuring news on the political front.

Trader activity was very low, with the average traded volume going down from 573,565 shares worth \$4,085,481 to 150,864 shares worth \$1,208,097. As for the market capitalization, it shrunk by \$175.63M since last week to \$9.70B.

As a result of the decrease, the BSI managed to outperform only one of its regional peers, the S&P AFE 40 Index, which declined by 1.86%. The Morgan Stanley Emerging Markets Index (MSCI) and the S&P Pan Arab Composite Large Midcap Index performed better than the BSI, but still recorded weekly losses of 1.15% and 1.59%, respectively.

In the Arab World, the Tunisian bourse was the only market to post an increase, with a weekly rise of 3.00%, while all other markets were in the red.

Arab bourses continued to face the consequences of falling oil prices on the back of oil news. The worst performer among them was the Egyptian stock market, which suffered a loss of 8.67%. Qatar and Dubai also recorded respective downturns of 5.28% and 4.68%.

Back to the BSE, the banking sector contributed around 67.31% of total traded value and was followed by the real estate sector with a share of 32.69%.

In the banking sector, Byblos listed shares dropped 3.03% to \$1.60. Also, Audi GDR and listed shares declined by 5.05% and 2.10% to close at \$6.21 and \$6.05, respectively, and BLOM GDR and listed shares edged down by 0.10% and 0.57% to respectively close at \$9.64 and \$8.75.

Real Estate

	Mkt	19/12/2014	12/12/2014	% Change
Solidere (A)	BSE	\$11.07	\$11.48	-3.57%
Solidere (B)	BSE	\$10.99	\$11.41	-3.68%
Solidere (GDR)	LSE	\$11.00	\$11.25	-2.22%

Manufacturing Sector

	Mkt	19/12/2014	12/12/2014	% Change
HOLCIM Liban	BSE	\$16.21	\$16.21	0.00%
Ciments Blancs (B)	BSE	\$3.75	\$3.75	0.00%
Ciments Blancs (N)	BSE	\$2.75	\$2.75	0.00%

Funds

	Mkt	18/12/2014	11/12/2014	% Change
BLOM Cedars Balanced Fund Tranche "A"	-----	\$7,322.51	\$7,367.97	-0.62%
BLOM Cedars Balanced Fund Tranche "B"	-----	\$5,236.12	\$5,266.66	-0.58%
BLOM Cedars Balanced Fund Tranche "C"		\$5,561.50	\$5,592.99	-0.56%
BLOM Bond Fund	-----	\$9,587.89	\$9,587.89	0.00%

Retail Sector

	Mkt	19/12/2014	12/12/2014	% Change
RYMCO	BSE	\$3.19	\$3.19	0.00%
ABC (New)	OTC	\$27.00	\$27.00	0.00%

Tourism Sector

	Mkt	19/12/2014	12/12/2014	% Change
Casino Du Liban	OTC	\$330.00	\$330.00	0.00%
SGHL	OTC	\$7.00	\$7.00	0.00%

On the other hand, the BLOM Preferred Stock Index (BPSI) posted an uptick of 0.25% to 105.81 points, as Audi preferred shares class "H", Bank of Beirut preferred shares "I" and Byblos preferred shares 2008 and 2009 gained 1.29%, 0.58% 0.69% and 0.49% to \$102.30, \$25.90, \$102.00 and \$102.10, respectively.

On the London Stock Exchange (LSE), the Global Depository Receipts (GDRs) of BLOM Bank increased by 4.71% to \$10.00. In contrast, the GDRs of Solidere lost 2.22% to \$11.00.

In the real estate sector, Solidere shares classes "A" and "B" declined, and revealed weekly losses of 3.57% and 3.68% to \$11.07 and \$10.99, respectively. The closing prices are the lowest posted since the 2nd of January 2014 and the 24th of September 2013 for Solidere "A" and "B" shares, respectively.

Looking forward, activity on the Lebanese stock market is expected to remain flat given the current circumstances as investor confidence appears low.

Foreign Exchange Market

Lebanese Forex Market

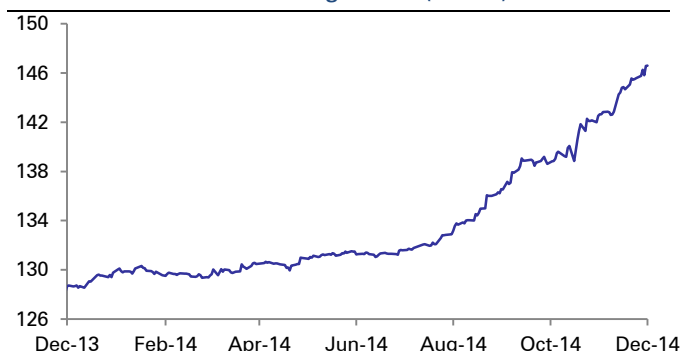
	19/12/2014	12/12/2014	% Change
Dollar / LP	1,512.00	1,512.00	0.00%
Euro / LP	1,850.46	1,873.52	-1.23%
Swiss Franc / LP	1,537.32	1,560.00	-1.45%
Yen / LP	12.63	12.74	-0.86%
Sterling / LP	2,359.84	2,368.13	-0.35%
NEER Index**	146.61	145.49	0.77%

*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)



Money & Treasury Bills Market

Money Market Rates

	19/12/2014	12/12/2014	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

	19/12/2014	12/12/2014	Change bps
3-M TB yield	4.39%	4.39%	0
6-M TB yield	4.87%	4.87%	0
12-M TB yield	5.08%	5.08%	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

Demand for the dollar steadied over the prior week as reflected by the Lebanese pound's peg against the dollar that stood at \$/LP 1,510-1,514 with a mid-price of \$/LP 1,512. Foreign assets (excluding gold) at the Central Bank dropped a monthly 0.37% from \$38.87B at end-October to \$38.73B by end-November. Meanwhile, the dollarization rate of private sector deposits stood at 65.72% in October compared to 66.13% in December 2013.

The greenback strengthened after the Fed signaled, in its policy meeting, that it was on course to raise interest rates next year. The euro weakened against the dollar by 1.23%, ending the week at €/ \$ 1.2275.

Higher equities and a stronger dollar curbed demand for gold. The price of gold went down from \$1,227.55/ounce last Thursday to \$1,197.65/ounce this week.

By Friday December 19th, 2014, 12:30 pm Beirut time, the dollar-pegged LP appreciated against the euro going from €/LP1,873.52, the prior week, to €/LP 1,850.46. The Nominal effective exchange Rate (NEER) gained 0.77%, weekly, to 146.61 points, where its year-to-date gain reached 13.60%.

During the two weeks ending December 4, 2014, broad Money M3 increased by LP 245B (\$162.73M), to reach LP 175,594B (\$116.48B). M3 growth rate reached 6.30% year-on-year and 4.79% since year start. Similarly, M1 gained LP 467B (\$309.68M) due to the rise in money in circulation by LP 259B (\$171.81M) and demand deposits by LP 208B (\$137.98M), respectively.

Total deposits (excluding demand deposits) decreased by LP 221.53B (\$146.95M), given the rise in deposits denominated in foreign currencies and term and saving deposits in domestic currency by \$143M and LP 8B, respectively. Over the above mentioned period, the broad money dollarization rate edged down from 58.90% to 58.70%. According to the Central Bank, the overnight interbank rate stood at 2.75% at the end of October 2014.

In the TBs auction held on the 11th of December 2014, the Ministry of Finance raised LP 552.07B (\$346.31M), through the issuance of bills maturing in 1Y, and 2Y and 3Y notes. The highest demand was achieved on the 3Y notes that took a share of 83.33%, while the 1Y bills and 2Y notes accounted for 1.90% and 14.77%, respectively. The 1Y bills yielded 5.08%, while the average coupon rate for 2Y and 3Y notes stood at 5.84% and 6.50%, respectively. New subscriptions exceeded Maturing T-bills by LP 124.57B (\$82.63M).

Eurobond Market

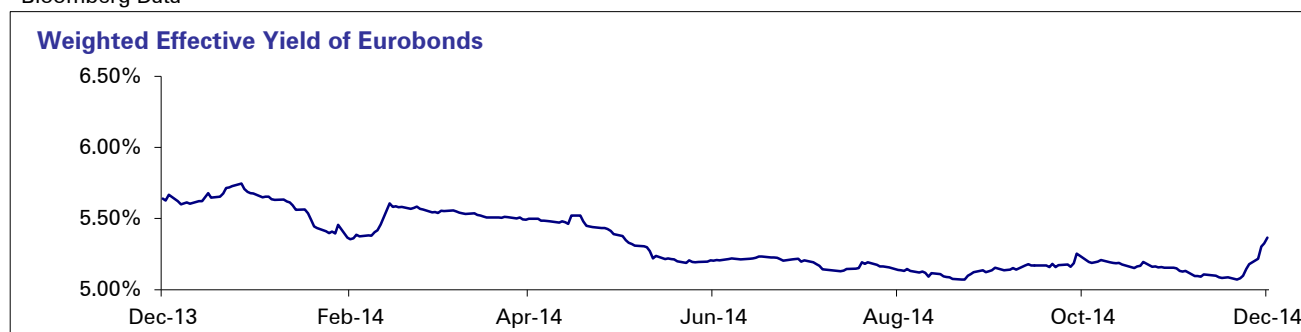
Eurobonds Index and Yield

	18/12/2014	11/12/2014	Change	Year to Date
BLOM Bond Index (BBI)*	107.342	108.253	-0.84%	1.61%
Weighted Yield**	5.37%	5.15%	22	35
Weighted Spread***	379	362	17	-51

Eurobonds Lebanese Government

Maturity - Coupon	18/12/2014 Price*	11/12/2014 Price*	Weekly% Change	18/12/2014 Yield	11/12/2014 Yield	Weekly Change bps
2015, Aug - 8.500%	102.821	103.298	-0.462%	3.35%	3.45%	-10
2016, Jan - 8.500%	104.878	105.187	-0.294%	3.67%	3.65%	3
2016, May - 11.625%	110.237	110.761	-0.473%	3.77%	3.77%	0
2017, Mar - 9.000%	109.45	110.23	-0.708%	4.24%	4.11%	12
2018, Jun - 5.150%	100.619	101.579	-0.945%	4.67%	4.65%	2
2020, Mar - 6.375%	103.775	104.736	-0.918%	5.33%	5.27%	6
2021, Apr - 8.250%	113.154	114.472	-1.151%	5.52%	5.47%	5
2022, Oct - 6.100%	101.291	101.997	-0.692%	5.78%	5.73%	6
2023, Jan - 6.000%	100.096	101.147	-1.039%	5.83%	5.78%	5
2024, Dec - 7.000%	105.803	106.542	-0.694%	6.16%	6.13%	3
2026, Nov - 6.600%	101.478	102.873	-1.356%	6.26%	6.23%	4
2027, Nov - 6.75%	102.827	103.801	-0.938%	6.33%	6.29%	4

*Bloomberg Data



Demand for the Lebanese Eurobonds tumbled during the week, after the rating agency Moody's downgraded Lebanon's government bond ratings from B1 to B2, on the 16th of December, 2014. The BLOM Bond Index (BBI) dropped 0.84%, to settle at 107.34 points, recording a 6-month low, but still with a 1.61% gain since year start. Low demand on medium and long-term maturities pushed 5Y and 10Y yields on the Lebanese Eurobonds up by 22 basis points (bps) and 12 bps to 5.39% and 6.30%, respectively.

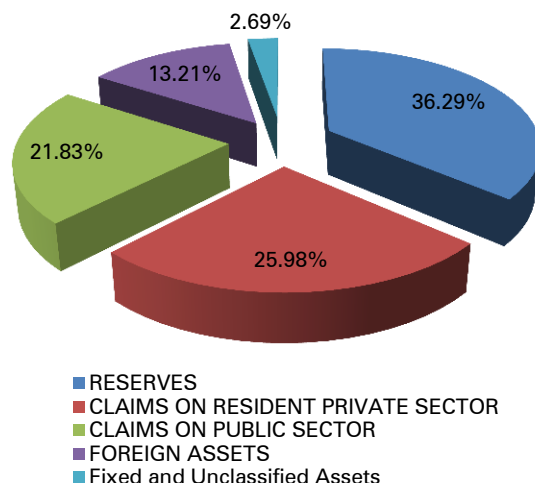
Demand on emerging market bonds suffer as global growth abates and investors prepare for higher U.S. interest rates. This led the JP Morgan Emerging Countries' bond index to drop by 0.57% to 654.43 points.

In the U.S, the Federal Reserve Chair Janet Yellen suggested that interest rates increase might occur by the middle of next year. This triggered demand for US treasuries to slow down, where the 5Y and 10Y yields added 6 bps and 3bps to 1.68% and 2.22%, respectively. Correspondingly, the 5Y and 10Y spreads between the Lebanese Eurobonds and their U.S benchmark broadened by 16 bps and 6 bps to 371 bps and 408 bps, respectively.

In Lebanon, the 5Y CDS went up from 377-407 bps to 386-416 bps, this week. Likewise the 5Y CDS of Dubai broadened from 198-212 bps to 210-230 bps, and that of Saudi Arabia from 65-75 bps to 70-80 bps. Internationally, the 5Y CDS of Turkey and of Brazil increased from 175-178 bps and 191-193 bps to 181-185 bps and 210-215 bps, respectively.

ECONOMIC AND FINANCIAL NEWS

Percentage Composition of Commercial Banks' Assets by October



Source: BdL

Lebanon's Commercial Banks Assets Rose to \$171.27B by October

The consolidated balance sheet of commercial banks jumped by 3.91% year-to-date (y-t-d) to \$171.27 by October, equivalent to a 6.62% year-on-year (y-o-y) growth.

Total reserves showed a 13.53% y-t-d increase to form 36.21% of total assets, with a value of \$62.15B. Claims on resident private sector, with a share of 25.98% of total assets, posted a 7.20% y-t-d increase to \$44.49B. The dollarization rate of the private sector demonstrated a slight decrease from 76.54% in December to 76.19% by October. During this period, foreign currency loans advanced by 4.54% y-t-d to \$37.91B, and were outpaced by local currency loans which displayed a y-t-d increase of 9.61%. The Lebanese commercial banks' assets in non-resident financial sector decreased by 25.93% to \$10.34B mainly due the increase in deposits with the Central Bank by 17.50% since the end of 2013, to \$61.71B.

In contrast, claims on the public sector recorded a 0.76% y-t-d decrease to \$37.38B. In details, the stock of T-bills fell by 0.81% to \$37.28B, as outstanding Eurobonds posted a 5.49% y-t-d drop that offset the 3.31% y-t-d increase in T-bills denominated in local currencies.

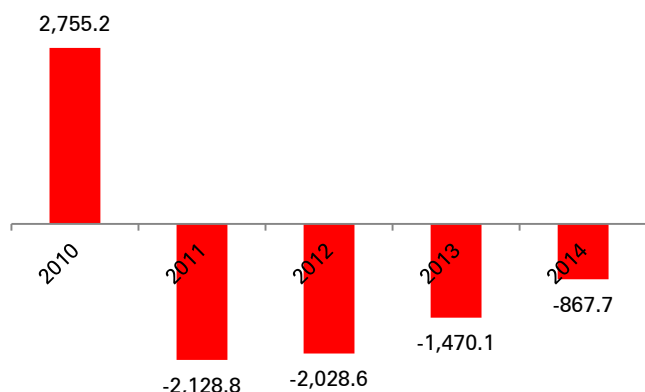
As for liabilities, resident private sector deposits grew by 4.52% to close at \$112.60B. The bulk of these deposits are denominated in foreign currencies, which increased by 4.16%, since year start, to \$67.66B, while deposits in local currency grew by 5.07% y-t-d to \$44.94B. Non-resident private sector deposits, which increased by 3.36% y-t-d to \$29.44B, also witnessed deposits in local currency outgrowing deposits in foreign currencies, with respective y-t-d growths of 11.79% and 2.23% to \$3.75B and \$25.68B. These changes resulted in the decrease of the dollarization rate of private sector deposits from 66.13% to 65.72% by October 2014.

Worth mentioning that loans-to-deposit ratio of the private sector increased from 34.79% end of 2013 to 35.27% by October.

Lebanon's Balance of Payments Records a Deficit of \$867.7M by October

Balance of Payments by October

(in \$M)



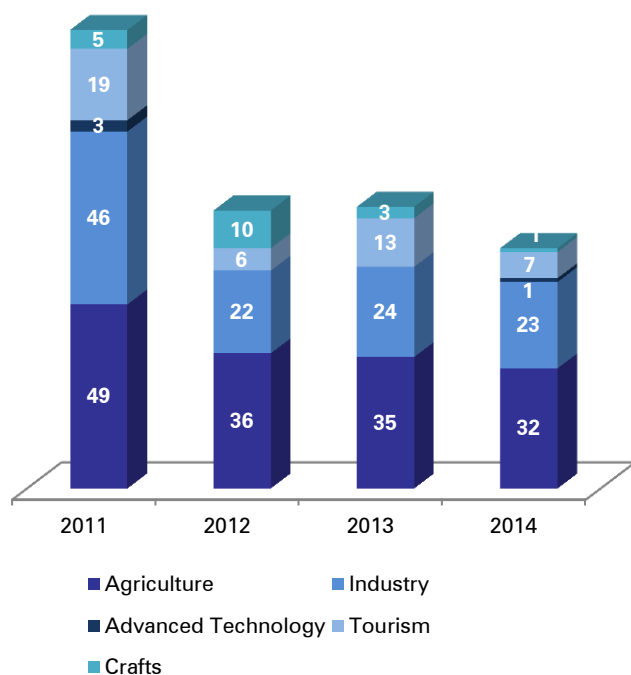
Source: BdL

Lebanon's Balance of Payments (BoP) recorded a deficit of \$867.7M in the first 10 months of 2014, compared to a deficit of \$1.47B in the same period last year.

Net Foreign Assets (NFAs) of the Lebanese Central Bank (BdL) swelled by \$4.68B by October, while that of commercial banks plunged by \$5.54B.

Taking the month of October alone, Lebanon's BoP revealed a deficit of \$565.9M, compared to a surplus of \$131.1M in September. NFAs of BdL broadened by \$449.2M, subsequent to a fall of \$44.1M the previous month. During the same month, NFAs of commercial banks narrowed by \$1.02B, following a rise of \$175.2 in September.

Breakdown of Kafalat Guarantees by Sector in November



Source: Kafalat

Value of Kafalat Guarantees Dipped to \$93.70M by November

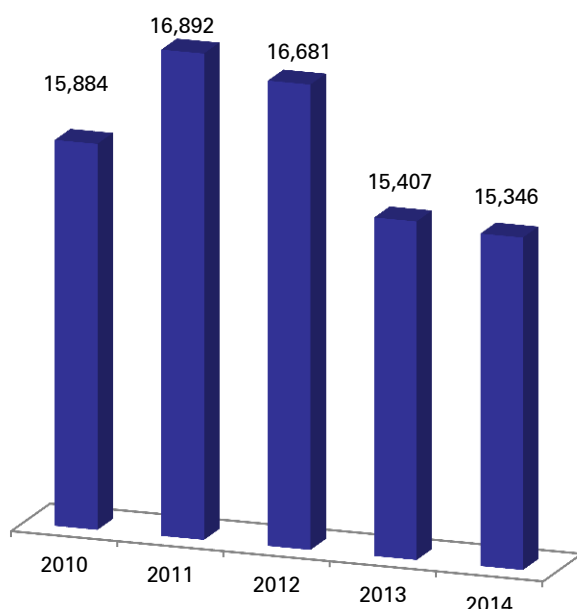
Kafalat issued 796 guarantees in the first 11 months of 2014, with a total value of 103.28M, compared to 806 guarantees worth \$108.57M for the same period in 2013. Correspondingly, the average value per loan edged up from \$134,703 by November 2013 to \$141,095 this year.

The agriculture sector was the main sector to benefit from Kafalat guarantees with a share of 48.24%, followed by industry and tourism, with respective shares of 35.18% and 11.18% for the first 11 months of 2014. The guarantees of the agriculture and industry sectors increased by 42 and 5 to 384 and 280, respectively. Meanwhile guarantees in the tourism sector actually declined by 46 to reach 89, caused by the poor political and economic environment.

As for the regional breakdown, Mount Lebanon continued to grasp the majority of guarantees, with a 42.34% share, followed by respective shares of 19.72% and 12.19% for the Bekaa and South regions. The guarantees issued in Mount Lebanon jumped up to 337 guarantees, from a previous 322, while the Bekaa and the South witnessed declines from 178 and 106 guarantees to 157 and 97 guarantees, respectively, by November 2014.

In November alone, Kafalat issued 64 guarantees, representing a 14.67% drop from 75 guarantees in the same month last year. The value of loans guaranteed by Kafalat totaled \$9.58M in November 2014, up from \$9.57M November 2013. Accordingly, the average value per loan stood at \$149,673 up from \$127,621 per loan in November 2013.

Construction Permits by November



Source: Order of Engineers in Beirut and the North

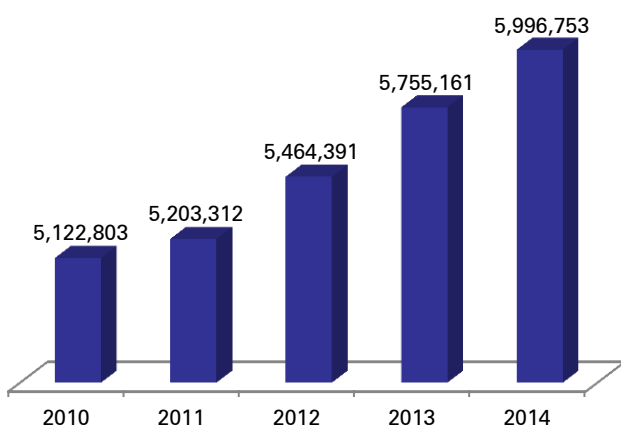
Construction Area Authorized by Permits Gained 9.47% y-o-y by November

The number of construction permits during the year remained almost stable, at 15,346 permits by November 2014, a 0.4% y-o-y decrease. On the other hand, construction area authorized by permits (CAP) displayed a 9.47% y-o-y increase to 12,701,510 sqm by the end of November.

These respective decreases and increases in the number of constructions and in CAP signal a tendency among investors to pursue bigger construction projects as the average area of authorized construction per permit rose by 9.91% y-o-y by November. It seems that during a period of slowdown in the construction sector, only big players remain in the market or constitute the biggest market share.

The number of construction permits witnessed a 5.87% year-on-year (y-o-y) decline to 1,122 permits in November 2014. Noting that permits are usually issued at least six months after applications are filed, this decrease can be related to increased pressure resulting from the lack of agreement on a presidential candidate before the end of Michel Sleiman's tenure. In addition, the construction area authorized by permits showed almost no increase from the same period in 2013, and only edged up 0.06% from November 2013. Regionally, Mount Lebanon and the South continued to capture the largest shares of total construction in Lebanon, with respective shares of 49.21% and 17.47%.

Airport Passengers Up to November



Source: RHIA

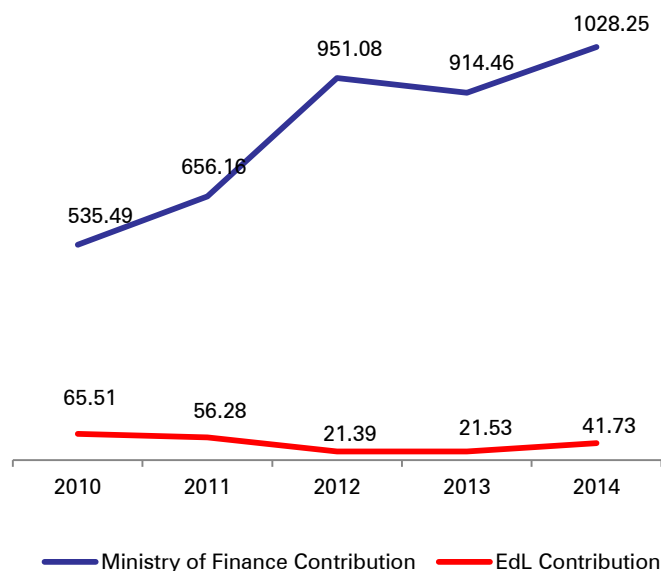
Airport Passengers enhanced by 4.15% y-o-y by November

Rafic Hariri International Airport (RHIA) activity improved during the first 11 months of 2014, where the total number of passengers increased by 4.20% year-on-year (y-o-y) to 6M. The number of arrivals inched up by 2.69% to 2.92M. During the same period, departures rose by 5.73% y-o-y to 2.92M. In contrast, transit travelers dropped by 6.30% to 13,067.

Taking the month of November alone, the total number of airport passengers grew by 4.79% y-o-y to reach 427,403. Arrivals increased by 4.92% to 203,482, and departures added 4.49% reaching 222,574. Transit travelers surged from 938 to 1,347 in November 2014.

Contribution of EDL and Ministry of Finance MoF in the Total Oil Bill by June

(in \$M)



Source: Ministry of Finance

Transfers to EdL Increased to \$1.04B by June 2014

Transfers to EdL for the first half of 2014 revealed a 10.23% year-on-year (y-o-y) increase to \$1.04B. This climb was due to the 12.41% y-o-y increase in payments to fuel oil and gas oil suppliers KPC and Sonatrach to \$1.03B.

In detail, the imported quantity of gas oil covering consumption for the period between May 2013 and January 2014 and paid for between January and June 2014 inched up by 7%, while payments for fuel oil in the same period covering consumption between August 2013 and January 2014 rose by 47% as the output of electricity for the mentioned period jumped by 23.49% y-o-y.

In addition, the average price per barrel of crude oil displayed a 0.28% downtick in price to \$109.44 for payments made in the period between January and June 2014.

By June 2014, EdL contributed 3.90% of the total oil bill of \$1.07B compared to a lower contribution of 2.3 in the total oil bill of \$935.97M for the same period in 2013.

In the same period, transfers to EdL represented 22.3% of the government's primary expenditures, in comparison to a lower share of 19.5% for the same period in 2013.

Moody's Ratings for Lebanon

Outlook	Negative
Issuer Rating	B2
Senior Unsecured	B2

Source: Moody's

Lebanon's Government Bond Ratings Downgraded to B2

Credit rating agency Moody's downgraded Lebanon's government bond rating from B1 to B2 with a negative outlook, due to the country's high debt burden, external deficits, and challenging political environment. The negative outlook mirrors the impact of the current civil war in Syria on Lebanon's economy, which has led to lower growth, larger fiscal deficits, and a reversal in public sector deleveraging. Moreover, Moody's expects growth to reach 1.8% for 2014 and 2.5% for 2015.

According to the report published on the 16th of December, Moody's states that an upgrade of Lebanon's sovereign rating is unlikely over the medium term. Nevertheless, the rating outlook would be returned to stable in case the country's debt metrics stop rising and risk of political spill-over from the Syrian conflict fades.

CORPORATE DEVELOPMENTS

BLC Finance Profile

Year Established	1998
Chairman	Shadi Karam
Main Activities	fund management, proprietary trading, floor brokerage and margin lending

Source: BSE, Company Website

BLC Finance Ends its Trading Activity as a Broker

The Beirut Stock Exchange (BSE) announces it de-listed BLC Finance S.A.L from its list of authorized brokers. BLC Finance would end its trading activity as a broker on the BSE starting the 23rd of December, 2014.

Credit Bank Preferred Shares Series 4

Issued Shares	Preferred Shares Series 4
Number of Issued Shares	200,000
Issue Price	\$100
Nominal Value	\$17.25
Characteristics	Perpetual, Non-cumulative, Redeemable
Annual Dividend	\$7.25
Withholding tax rate	10%

Source: Midclear

Credit Bank Increases Capital to \$48,905,922

Credit Bank increased its capital from \$45,456,502 to \$48,905,922 through the issuance of 200,000 new preferred shares, not listed on the Beirut Stock Exchange (BSE). These shares are non-cumulative redeemable preferred shares of series "4", with a nominal value of \$17.25 (LBP 26,000) per share, at an issue price of \$100 per share.

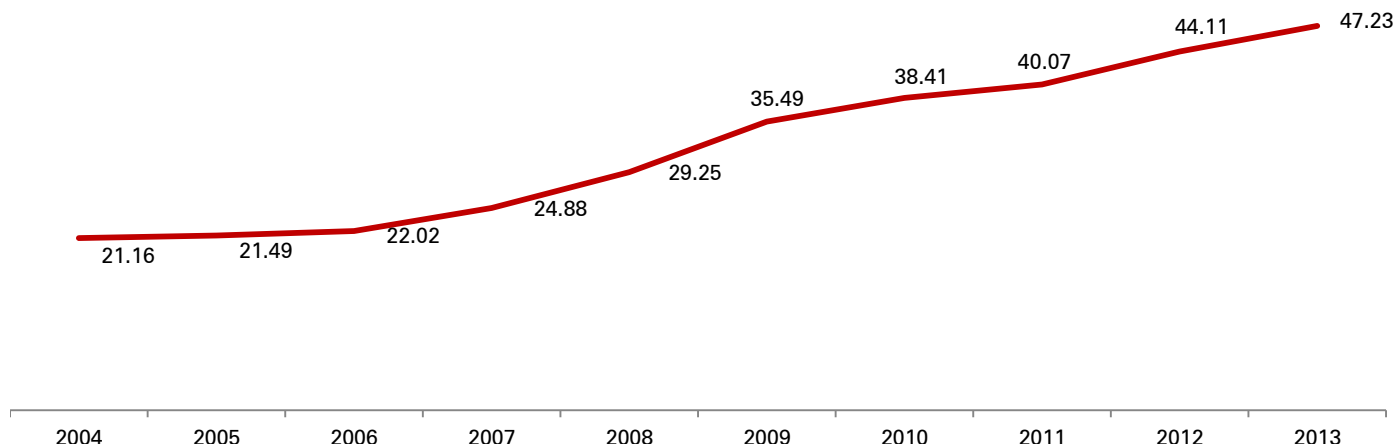
Annual dividend is equal to 7.25% of the issue price, subject to a 10% withholding tax, unless listed on the BSE. This came as a result of the decisions of the general assembly on the 11th of July 2014.

Moreover, the Board decided to redeem the 270,000 preferred series "1" shares and replace its nominal value through the issuance of 270,000 new common shares distributed to the current common shareholders on a pro-rata basis.

FOCUS IN BRIEF

2013 National Accounts Show Minor Economic Growth

Lebanon's GDP at Current Prices Since 2004 (In \$B)



Source: CAS

Besides international entities regular estimates of Lebanon's economic aggregates, the country started, since 1997, creating its national accounts, a key measurement instrument of a country's economic performance. The national accounts provide a comprehensive and coherent view of the economy, relevant for macroeconomic analysis, intertemporal and international comparisons.

For the second year in a row, the Central Administration of Statistics (CAS) is compiling national accounts and subsequently releasing and revising estimates of Gross Domestic Product (GDP). After being entrusted to a unit in the Prime minister's office¹ since 1997, the mission was transferred back to CAS, where more adequate resources are available. The latter has revised the used methodology to be in conformity with international standards, along with using a broader set of data and introducing the VAT returns as part of the accounting. The released accounts last week provided estimates for 2013 and 2012's GDP, and revised previous real GDP growth of 2011. Tables and comments presenting the GDP main aggregates were also provided along with the GDP's breakdown by activity, its expenditure components and sector accounts for the banks and for the general government².

On a preliminary basis, GDP at current market prices is estimated to have increased in 2013 by 3.0% to LBP 71.19 trillion or USD 47.22 billion, compared to a real growth of 2.8% in 2012 and 0.9% in 2011 that was the first year to witness the consequences of the regional upheavals.

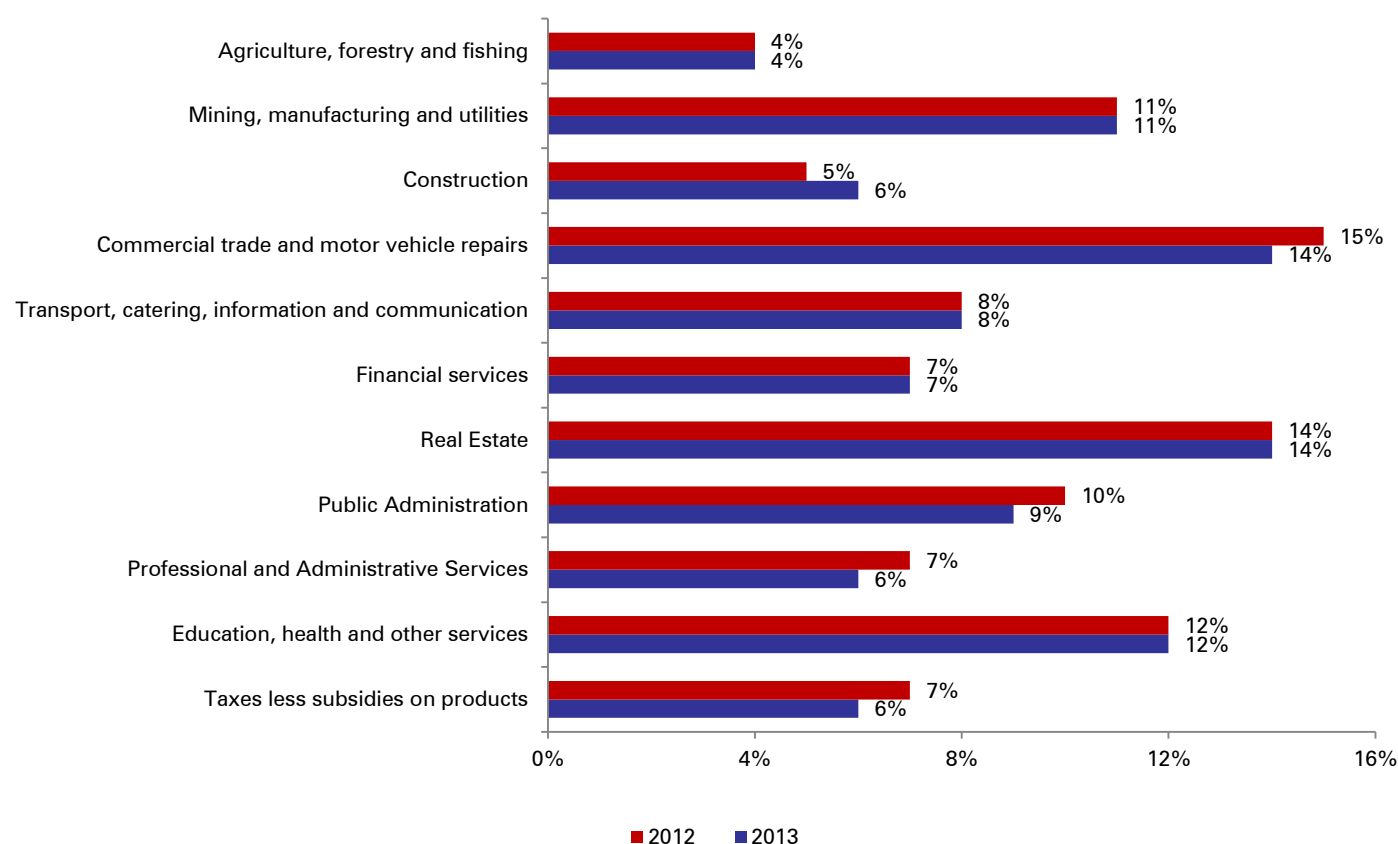
What about performance in the different economic activities during 2013?

The breakdown of GDP by contributing activities slightly changed between 2013 and 2012. A number of economic activities saw a reduction in their percentage shares in GDP of which, commercial trade and motor vehicle repairs. The latter preserved their status as one of the major contributors to Lebanon's GDP, with their share of GDP only retreating by 1 percentage point (p.p) to 14%. Professional and administrative services as well as taxes less subsidies retreated as a share of GDP to reach 6% each in 2013, while public administration slightly backed to a share of 9% of GDP. In contrast, construction saw its share in GDP widening by a marginal 1 p.p. to 6%. Agriculture (4%), mining and manufacturing (11%), transport (8%), real estate (14%), financial services (7%) and education and health (12%) continued to hold on to their longstanding contributions.

¹ Office of the Presidency of the Council of ministers (OPCM)

² With a limited amount of data, the CAS stated that "it is not possible to produce a full set of sector accounts"

Percentage shares of activities in the GDP



Source: CAS

According to CAS national accounts, economic activity varied among sectors in 2013. Positive performance characterized several sectors that managed to surpass the harsh conditions painting 2013 which was considered as one of the worst years for the Lebanese economy. Yet, several economic activities failed to end 2013 without posting downturns.

One of the major areas to have grown, even if at a slow pace, was wholesale and retail activity that posted a 1% similar growth in 2011 and 2012 and a 3% improvement in 2013 compared to the 13% jump in 2010. The robustness of the Lebanese banking sector prevailed over the same period despite the tough times that the country was undergoing. Correspondingly, financial services added 6% in 2013, up from the 3% of 2012. Unexpectedly, real estate activity improved 6% by the end of 2013, following a 1% downtick in 2011 and subdued activity in 2012. Construction activity also grew 7% in volume, while education posted a slighter rise of 1%. Health and social care volume went up by 13% during 2013 while prices witnessed an 8% growth mainly due to the continuous increases in hospitalization costs. Transport activity was also on the rise recording a 14% growth in 2013 compared to the 3% increase of 2012 and the 3% slump of 2011. The ongoing Syrian exodus towards Lebanon to escape the war that started in 2011 kept on boosting activity in the food manufacturing sector. That was revealed by the respective volume increases of 11%, 6%, 4% and 10% in 2010, 2011, 2012 and 2013. Following subsequent reductions in mobile prices, information and communication activity witnessed a 5% improvement in 2013.

On the down side, public administration activity, that constituted 9.3% of 2013's GDP, fell back by a marginal 1%, after posting a 6% growth in 2012. Similarly, each of professional and administrative services retreated by 4% in 2013, following a positive performance in 2012 when the former rose 8% and the latter edged up 10%. Personal and community services also went down by 7% in 2013, extending the 2% downturn of 2012. For the second year in a row, the endangered Syrian routes severely hit the transit activity of agricultural products. The scarcity of water precipitations that described 2013 was one of the other heavy loads that Lebanese farmers had to carry which was revealed in the respective 2% and 3% drops of 2012 and 2013. The poor

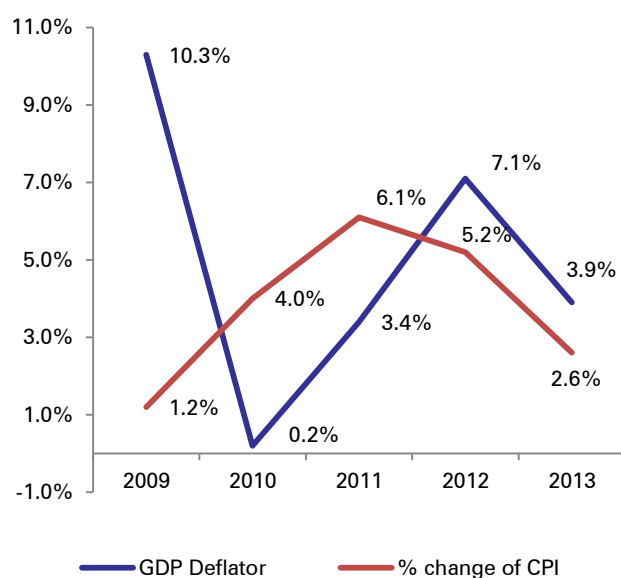
performance of tourism triggered hotels and restaurants activity down since 2011 when a 4% decrease was registered. 2012 and 2013 were not better as they posted respective declines of 5% and 3%.

Lebanon's GDP in terms of Expenditures: what were the main highlights in 2013?

Assessing Lebanon's GDP through the expenditure's perspective unveils the Lebanese economy's substantial reliance on consumption. In fact, households' consumption represented 87.8% of 2013's GDP while the government consumption stood at 12.5% of GDP. Gross capital formation represented 27.8% of GDP while net exports of goods and services contributed to -28.1% of GDP as exports of goods and services represented 28.2% of GDP and imports of goods and services were largely overriding standing at 56.3% of GDP.

According to CAS, and while the government final consumption posted no change, households' consumption in 2013 maintained the upward trend, yet a slower pace. Following the 7% rise in 2012, households' consumption managed to rise 2%. Noticeably, both private and public gross capital formation revealed positive performances sending the gross total capital formation up by 17% in 2013 compared to the 3% slump in 2012. This was remarkably contrasting with the Purchasing Managers' Index (PMI) performance as the latter remained below the 50- mark revealing the economic contraction of the private sector's activity. When it comes to exports, exports of goods and services went up by 4% in 2013 on increasing exports of goods (+17%) partly offsetting the 2% drop witnessed in the exports of services.

CPI Inflation and GDP Deflator between 2009 and 2013



Source: CAS, BLOMINVEST estimates

Measuring Inflation in 2013: Divergence between CPI and the GDP deflator

The recently published national accounts provided a domestic inflation³ estimate for 2013 measured by the GDP deflator and standing at 3.9% in 2013 and 7.1% in 2012. Still, assessing inflation, commonly defined as the "rise in general prices", could sometimes lead to diverging and confusing figures making analysis and valuation harder to accomplish. In fact, two methodologies can be used to measure a country's inflation: either through the Consumer Price Index (CPI) variation or the GDP deflator. This explains the difference recorded between the CPI's inflation rate that stood at 2.6% and that of the GDP deflator that, as previously mentioned, reached 3.9% in 2013.

³ Inflation was measured by the GDP deflator that is known as an implicit deflator and is calculated by comparing GDP at current market prices with GDP in volume terms, rather than being directly measured like consumer prices.

3 main differences between the two perspectives can be identified: the origin of goods, their final users and the weighting system.

First, the CPI encompasses all imported final goods while the GDP deflator only covers local production. In this context, the GDP deflator allows, on the short term, a more comprehensive view of the local inflation that excluded the international prices' transmission. As for the inflation measured by the CPI, and since the latter also covers imported final products, and noting that imports almost constituted 47% of its GDP in 2013, any international prices increase will be certainly embedded in the inflation estimate. In the same context, and given that the Lebanese economy is highly dollarized⁴ 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. Accordingly, and since CPI inflation stood lower than the inflation estimated by the GDP deflator, this could be explained by lower import prices that were more than offset by rising domestic prices.

Second, and as its name implies, the CPI only measures the inflation of goods and services bought by consumers. On a different note, products measured by the GDP deflator could have been bought by customers, firms and even the government.

Third, and while weights used to estimate CPI inflation are fixed and do not change, those measured in the GDP deflator can change over the time. On the CPI side, weights remain unchanged from those of the base year which could decrease their reliability since no yearly adjustments are made. In contrary, the GDP deflator's weights depend on the current year quantities which mean that they could vary each year harmoniously with the socio-economic, political, and security developments of the country.

⁴ The Dollarization rate on private sector deposits hovers around 66%

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