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SGBL EcoNews

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GROWTH REMAINS SUBDUED DESPITE SOME GAINS IN EARLY 2016

- **Conflict in Syria costing Lebanon 3% of GDP per year**
- **Remittances to Lebanon down by $240m to $7.2bn in 2015**
- **Government borrowing costs rising on higher risks, lower foreign demand**

Lebanon's economy rebounded in the first two months of the year, benefiting in part from a low base in early 2015. BdL's Coincident Indicator, a composite index of main economic indicators in the country, rose by an average of 3.9% yoy in the first two months, up from just 2% over the same period in 2015.

Cement deliveries, a proxy for construction activity and a component of the Coincident Indicator, surged by 29.3% yoy to 643,924 tons in the first two months, indicating busier activity at construction site across the country.

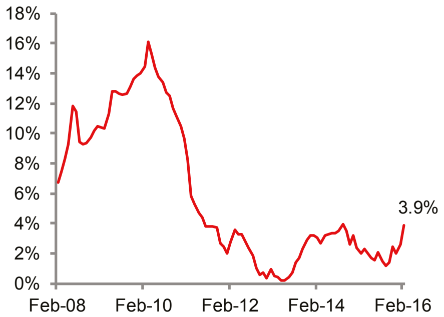
Excluding the occasional bouts of optimism from a possible political breakthrough, the prospects for a broad-based recovery remain low in 2016. Real GDP is projected by the Economist Intelligence Unit to grow by just 0.7% during the year, with deterioration in Gulf-Lebanese relations partly contributing to the slowdown. The money supply (M3) declined by $129m in the first two months, its first decline for the period in five years.

The tourism sector, a traditional key growth driver for Lebanon, is still struggling to reverse its losses in recent years, even as the number of non-Gulf tourists is a little short of a record high. Hotel occupancy rates have been stagnant for over a year, and in March, 4- and 5-star hotels in Beirut said their occupancy rate fell to 51% compared with 56% in March 2015.

Local consumers have stepped in to cover the shortfall in private consumption by foreigners, their purchasing power buoyed by lower fuel prices. New passenger car sales grew by 5.9% yoy to 7,990 in the first quarter of 2016, the highest for the period in at least seven years.

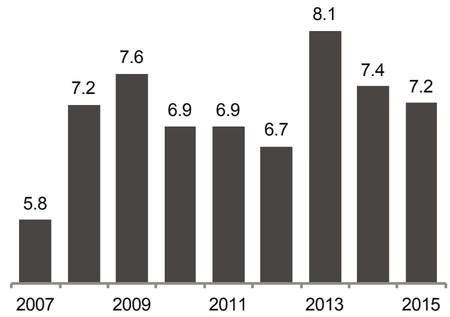
Private consumption is also likely to receive a slight boost from municipal elections across the country in May 2016. Political spending and campaigning by candidates will likely lift retail activity in rural areas and municipalities outside the capital where heated elections are expected to take place.

Coincident Indicator (12month MA, %yoy)



Source: BdL, Economena, SGBL Research

Remittance inflows ($bn)



Source: UNCTAD, Economena, SGBL Research

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However, gains to consumers are offset by spillovers from the Syrian conflict, which have exacerbated the difficulties in the country from the domestic political impasse and lack of structural reforms, stated the IMF. In fact, the conflict in Syria has lowered Lebanon's real GDP growth by almost 3 percentage points every year since it started, according to the World Bank.

The country has failed to elect a President in almost two years. Parliament, which extended its term for the second time in November 2014, has only convened once since then amid disagreement over the elections law. A "national interest" Cabinet has held regular weekly meetings in recent months, but political polarization between its March 8 and March 14 members continues to hinder decision-making.

Remittances to Lebanon fell by $240m to $7.2bn in 2015, and net private capital inflows are estimated to have fallen by 13.6% to $5.5bn.

LOWER OIL PRICES ARE HURTING GROWTH

The country's remittance inflows have also been struck by lower oil revenues in the Gulf, where a large expatriate Lebanese population is employed. Remittances to Lebanon fell by $240m to $7.2bn in 2015, and net private capital inflows are estimated to have fallen by 13.6% to $5.5bn, reflecting a massive $390bn drop in oil revenues at MENA oil-exporting countries during the year, equivalent to 17.5% of their GDP.

Exporters are among the biggest losers from lower disposable income in Gulf markets. Lebanon's exports fell by 14.71% yoy to $634.3m in the first quarter of 2016, largely a result of softer demand in the GCC. In particular, exports to Saudi Arabia and UAE fell by $24.7m to $73.4m and by $18m to $59.9m respectively over the period.

With oil prices rebounding in global markets, the pendulum is swinging back against Lebanon's favor. The country's fuel import bill is back on the rise, pushing total imports up by 10.9% yoy to $4.6bn in the first quarter. As a result, Lebanon's trade deficit widened by $562m yoy to $4bn over the period, and may widen further in coming months as oil prices continue to move north of their 2015 levels.

Meanwhile, insurers found some respite in life insurance amid slow economic growth, but only enough to help push gross written premiums up by 3.1% to $1.52bn in 2015, their slowest pace in at least 14 years, according to data compiled by the Association of Insurance Companies in Lebanon.

Gross public debt grew by 2.84% yoy to $71.2bn at the end of February 2016, and is expected to hit $75.3bn by the end of the year, according to the IMF.

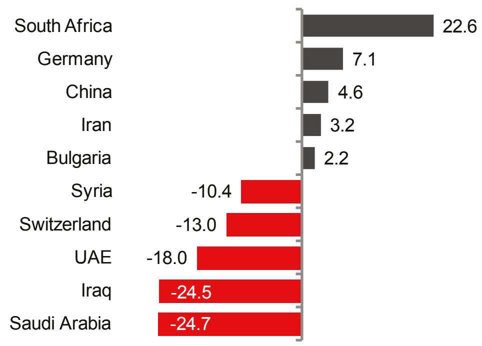
GOVERNMENT BORROWING COSTS RISING

The odds are also stacking up quickly against public finances. Higher oil prices in 2016 will likely increase the deficit at the state-owned electricity company, requiring more support from the government. Gross public debt grew by 2.84% yoy to $71.2bn at the end of February 2016, and is expected to hit $75.3bn by the end of the year, according to the IMF.

But new borrowing is coming at a higher cost than in recent years. The government successfully raised $1bn in April by issuing a 15-year and an 8-year Eurobond to replace maturing foreign currency securities through the end of May. The newly-issued 15-year Eurobond, however, carried a coupon rate of 7%, up from 6.65% almost a year earlier, reflecting higher risks and waning appetite among foreign investors.

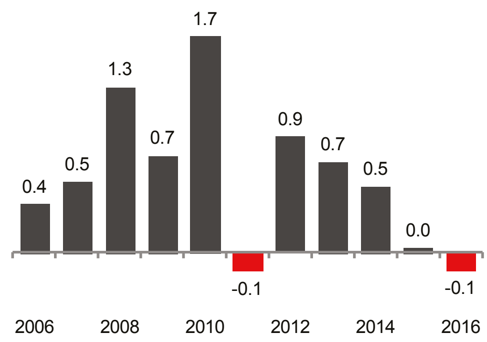
The country's public finances have been stretched thin by the economic slowdown and by pressure from an estimated 1.06 million registered Syrian refugees, but are expected to receive some boost from donor funds to help cope with the influx of refugees. The country has already received $1.3bn in commitments for 2016, some of which will be provided directly to the state and the rest will go to non-governmental aid organizations.

Lebanon exports (Q1 2016, yoy change, $m)



Source: Customs, Economena, SGBL Research

Money supply M3 (ytd through February, $bn)



Source: BdL, Economena, SGBL Research

MORE TOURISTS, LESS MONEY IN EARLY 2016

- **Record passenger traffic at the airport in Q1**
- **Hotel activity stagnates, tourist spending falls**
- **Outlook positive for the remainder of 2016 and through 2026**

Airlines are running record flights to Lebanon's capital as they rush to take advantage of lower fuel prices to capture a larger share of the market. With a record 1.52 million passengers in the first quarter of 2016, Beirut's airport is buzzing with activity.

The mood outside the airport, however, feels different. Hotel occupancy rates have been stagnant for over a year, and in March, 4- and 5-star hotels in Beirut said their occupancy rate fell to 51% compared with 56% in March 2015.

To lure in guests, hotels are marking down their prices, bringing their Revenue Per Available Room (RevPAR) down by 17.6% yoy to $75 in the first quarter, including a drop of 24.4% yoy in March alone.

RevPAR is down by 17.6% yoy to $75 in the first quarter.

It's not that there is a shortage of tourists. In fact, Lebanon welcomed 9.1% yoy more visitors in the first two months of the year, the most for the period in four years, aided by a stable domestic security situation. Record numbers of tourists from Egypt, Iraq, the United States, Canada, France, Germany, and Britain flocked to Lebanon in the first two months.

But higher tourist numbers have not translated into a meaningful rebound for hotels or retailers. De-taxed purchases by tourists, a proxy for their spending in Lebanon, fell by 12% yoy in the first quarter, the second consecutive quarterly decline, according to Global Blue, a tax refund company.

The drop in tourist receipts in Lebanon is likely a result of fewer Gulf visitors who typically have a higher purchasing power than their European or other Arab counterparts. Tourist arrivals from the six GCC countries fell by 12.3% yoy to 13,973 visitors in the first two months of 2016, a quarter of their peak level in 2010. A recent political spat between Saudi Arabia and Lebanon is also likely to deter GCC tourists from visiting the country.

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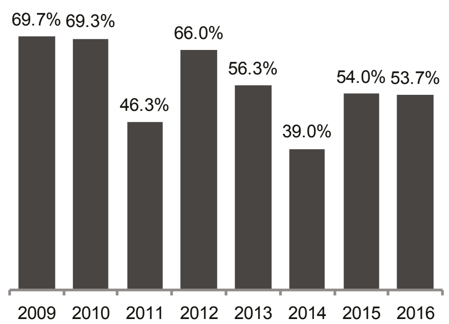
MASSIVE POTENTIAL FOR THE NEXT DECADE

Still, the travel and tourism sector is expected to regain more of its lost ground in 2016 and onwards, particularly following the resolution of an 8-month trash crisis. The direct contribution of travel and tourism to GDP reached $3.6bn in 2015, and is forecast to grow by 4.8% in 2016, according to the World Travel and Tourism Council (WTTC). The sector already directly employs an estimated 121,000 people as of 2015, and may contribute to 4.1% more in 2016, predicted the WTTC.

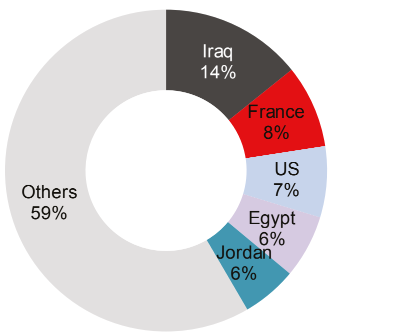
Lebanon's travel and tourism sector also has the world's 10th most promising growth in contribution to GDP in the next decade. The sector is projected to contribute 6.8% more to GDP every year through 2026, ahead of Jordan and Turkey at 5.7% and 3.8% respectively, stated the WTTC.

Beirut hotel occupancy rate (Q1)



Source: EY Economena, SGBL Research

Tourist arrivals (Jan-Feb, 2016)



Source: CAS, Economena, SGBL Research

CAR MARKET SHIFTS INTO HIGH GEAR

- **Record 7,990 new passenger cars sold in Q1**
- **Commercial vehicle sales rebound to 6-year high**
- **Sales to grow by 3.9% in 2016, as per BMI**

Lebanese consumers do not appear to be fazed by the economic slowdown, at least when it comes to buying a new car. New passenger car sales grew by 5.9% yoy to 7,990 in the first quarter of 2016, the highest for the period in at least seven years.

In particular, European cars fired on all cylinders to produce double-digit growth of 11.5% yoy, with star performance by Peugeot and Renault which saw their sales skyrocket by 215.8% yoy to 180 vehicles and by 89.5% yoy to 432 vehicles respectively in the first three months.

Kia, Toyota, and Hyundai remained the undisputed leaders of the new car market in Lebanon with market shares of 20.2%, 15.1%, and 13.2% respectively.

Consumers have defied expectations and remained upbeat despite a protracted political deadlock that is impeding public policymaking. A general sentiment index rose by an average of 2.1% yoy to 99.5 points in the first two months, according to ARA Marketing & Research Consultancy. Consumer confidence in durable goods purchases improved even more, by 10.1% yoy to 114.5 points over the same period, which may continue to convert into resilient sales of high-ticket items such as cars.

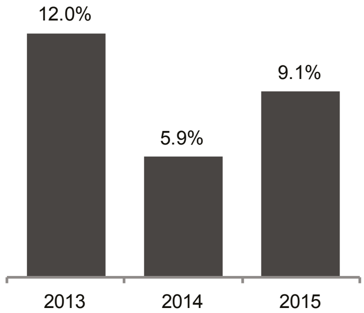
Businesses too are finding room for new cars in their budgets in early 2016 in an effort to take advantage of competitive prices while they last. Commercial car registrations rebounded by 18.6% yoy to a 6-year high of 600 vehicles in the first quarter of the year, led by Toyota and its subsidiary, Hino, with a combined 30% market share.

Higher car sales are a boon for banks which have seen growth in their retail loan portfolios dwindle in recent years. Personal loans rose by just 3.25% to $17.1bn in 2015, while car loans increased by 9.1% to $1.35bn during the year.

Car dealers are still bracing for stronger demand in coming months. The value of imported cars and other motor vehicles is up 12.9% yoy to $1.24bn in the 12-month period through March 2016, as stockpiles appear to have been depleted in recent months.

But weak economic activity and a turbulent political environment present serious downside risks to growth for new car dealers in Lebanon in 2016, even as consumer demand holds up well. New car sales are projected to increase by 3.9% during the year, with the passenger car segment likely to outperform commercial vehicle sales, according to Business Monitor International, a London-based market research company.

Car loans (% change)



Source: BdL, Economena, SGBL Research

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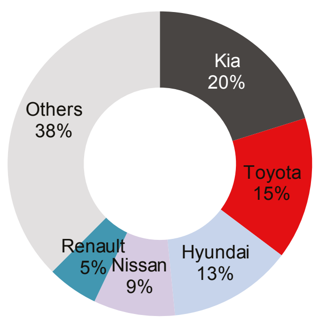
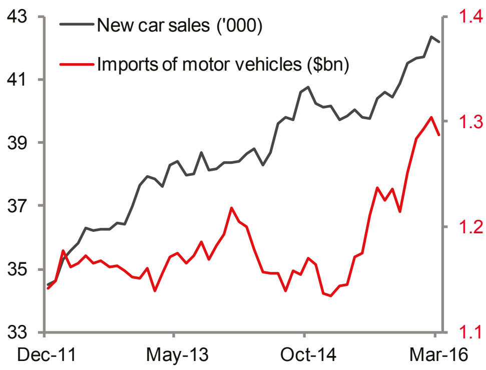
New passenger car sales (Q1, 2016)



Source: AIA, Economena, SGBL Research

Car sales and imports (12m moving sum)



Source: AIA, Customs, Economena, SGBL Research

CAR INSURANCE DROVE INDUSTRY GROWTH IN 2015

- **Gross written premiums rose by just 3.1% to $1.52bn**
- **Non-compulsory motor premiums grew by 5% in 2015**
- **Life insurance defying the odds of a small Lebanese market**

Lebanon's insurance companies wrote just 3.1% more in premiums in 2015, their slowest pace in at least 14 years, according to data compiled by the Association of Insurance Companies in Lebanon. Gross premiums grew by $46m to $1.52bn, but claims grew more, by $69m to $823.4m, denting the industry's profits for the year.

A rebound in motor insurance, which made up 23% of the market, helped the industry save face amidst a protracted economic slowdown and heightened regional risks. Motor premiums rose by 5% to $351m, after having stagnated in recent years, with similar growth in the compulsory and non-compulsory parts. The number of insured vehicles increased by 4% to 1.29 million motor vehicles, in line with a 3.8% growth in new car sales in the local market during the year.

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Positive performance in the motor segment is particularly encouraging given the lack of income from the orange card which offers coverage to foreign-registered vehicles traversing into Lebanon. Visitors to Lebanon from Jordan and the Gulf have been unable to travel by land since the conflict in Syria erupted in 2011, dealing a blow to motor insurance products like the orange card.

A strong showing by the life insurance segment is also bringing much-needed relief to the industry. Life premiums, the largest insurance segment with a 30% market share, rose by 7% to $462.8m in 2015, even as the number of subject matters fell by 27%.

On the other hand, medical premiums reached $441.3m during the year, with growth slowing to 3% from 7.8% in 2014, possibly reflecting a decline in the cost of medical care in the country. Healthcare costs in Lebanon fell by an average of 6% in 2015 on the back of a depreciating Euro against the US Dollar, to which the Lebanese Pound is fixed, and lower fuel costs.

The insurance industry is expected to maintain positive growth in the next five years, according to Business Monitor International (BMI), a London-based market research company. The ageing demographic of Lebanon should underpin double-digit growth in demand for health insurance, with both higher volumes and stable, or increasing, prices.

Growth in life premiums will be largely the result of life insurers developing and distributing additional products to existing users, given an already-established nature of life insurance as a conduit for organized savings, stated BMI.

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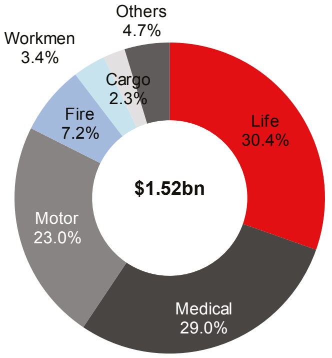
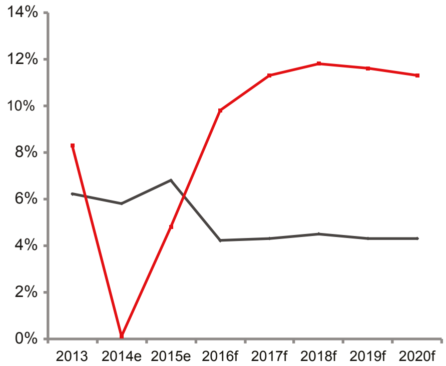
On the other hand, price competition in the motor vehicle and property insurance sub-sectors are likely to limit the expansion in premiums, particularly given the fragmented nature of the industry and the relatively small population, according to BMI.

Insurance premiums in 2015 (% of total)



Source: ACAL, Economena, SGBL Research

Gross written premiums (% change)



Source: BMI, Economena, SGBL Research

IMF LOWERS GLOBAL, LEBANESE GROWTH OUTLOOK FOR 2016

- **IMF projects modest global growth of 3.2% in 2016**
- **Lebanon's growth to lag behind the region's**
- **Oil prices may average $35 in 2016**

Global growth is projected to remain modest at 3.2% in 2016, compared with 3.1% in 2015, on the back of a slowdown in China's economic activity and fiscal consolidation at oil-exporting countries, stated the International Monetary Fund (IMF) in its April 2016 World Economic Outlook report.

The IMF highlighted four major macroeconomic realignments which are weighing on the prospects for global output growth, particularly the slowdown of China's economy, which is expected to place downward pressure on commodity prices as investment in the country retreats. As a result, prices of manufactured products in China will likely fall, adding to pressure on the competitiveness of foreign producers.

Oil prices are projected to average about $35 a barrel in 2016 and to increase to $41 a barrel by 2017. Disposable incomes in oil-importing economies should in principle reap the benefits of the oil drop windfall, but part of the impact is offset by a cut back in energy subsidies or higher taxes on retail prices.

Global output is also facing headwinds from slower trade and investment and from declining capital flows to emerging markets, which have the highest contribution to global economic growth.

Growth in the US and Europe is seen picking up on the back of an improving housing market at the first, and lower energy prices at the latter. Short-term interest rates in the United States may rise smoothly throughout 2016, while those in Europe will likely remain in negative territory.

IMF forecasts for 2016 (April, 2016 WEO)

	Real GDP growth	Inflation
Iraq	7.2%	2.0%
Djibouti	6.5%	3.5%
Iran	4.0%	8.9%
Sudan	3.7%	13.0%
Algeria	3.4%	4.3%
Qatar	3.4%	2.4%
Egypt	3.3%	9.6%
Jordan	3.2%	0.2%
Kuwait	2.4%	3.4%
United Arab Emirates	2.4%	3.2%
Morocco	2.3%	1.5%
Bahrain	2.2%	3.2%
Tunisia	2.0%	4.0%
Oman	1.8%	0.3%
Saudi Arabia	1.2%	3.8%
Lebanon	**1.0%**	**-0.7%**
Libya	-2.0%	9.2%

Source: IMF, Economena, SGBL Research

MIDDLE EAST ECONOMIES SLOWING

Middle Eastern economies will pose a drag on global growth in 2016 as oil-exporting countries in the Gulf see their oil revenues dwindle, according to the IMF. Exports of oil-exporting countries in the MENA region fell by $390bn in 2015, equivalent to 17.5% of GDP, leading to considerable deterioration in fiscal balances.

The region's growth is expected to rebound to 3% during the year, but the bulk of the improvement emanates from recovery in Iraq and Iran to 7.2% and 4% respectively.

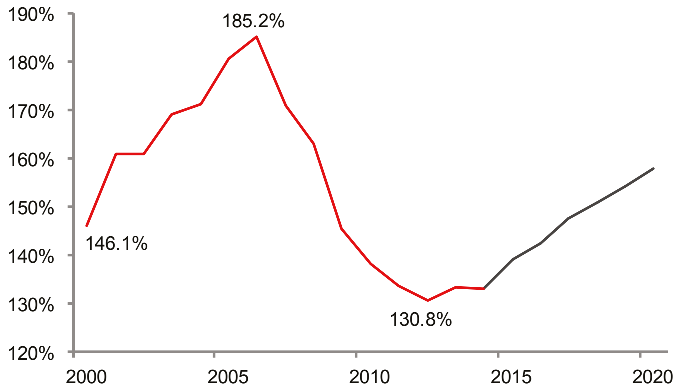
In contrast, economic activity in the GCC may slow to just 1.8% in 2016 compared with 3.3% in 2015 and 3.5% in 2014. Ambitious fiscal consolidation measures are being implemented across the region, but budget balances will deteriorate nonetheless, and substantial deficit-reduction effort is required over the medium term to restore fiscal sustainability, and to support the exchange rate pegs, predicted the IMF.

Meanwhile, Lebanon is slated to post the region's second poorest showing in 2016 after Libya, despite gains from lower oil prices and international aid for Syrian refugees. Growth in the country is projected by the IMF to slow to 1% during the year, slower than at least 15 other countries in the Middle East and North Africa region.

With growth slowing and government financing needs rising, Lebanon's debt to GDP ratio is rising again after years of improvement. The IMF expects the country's public debt to hit 142.6% of GDP by the end of 2016, and 147.6% in 2017, after having successfully brought down the ratio to 130.8% in 2012.

By contrast, the economy of Jordan, which also shares a border with Syria and hosts an estimated 643,000 Syrian refugees, is seen expanding by 3.2% in 2016. Egypt, itself recovering after years of instability, may see its economy expand by 3.3% in 2016, according to the IMF.

Lebanon: Debt to GDP



Source: IMF. Economena, SGBL Research

LATEST DATA

Key indicators	Unit	2015	Jan-16	Feb-16	Mar-16	%Y/Y	YTD	PYTD
Cleared cheques	$bn	69.44	5.78	5.53	n.a.	5.59	1.31	11.05
Real estate transactions	$bn	8.01	0.53	0.89	n.a.	85.15	1.41	1.00
Construction permits	Sqm, m	12.34	0.81	1.24	n.a.	0.27	2.05	1.83
Cement deliveries	Tons, m	5.04	0.25	0.39	n.a.	67.48	0.64	0.50
Tourist arrivals	m	1.52	0.09	0.10	n.a.	14.37	0.19	0.18
Airport traffic	m	7.24	0.55	0.44	0.53	0.06	1.52	1.37
Balance of payments	$bn	-3.36	-0.72	0.36	n.a.	-	-0.36	-0.43
Money supply: M3	$bn	123.62	123.26	123.49	n.a.	4.91	-0.13	0.04
BSE volumes	m	74.64	4.48	4.96	24.42	143.79	33.86	34.82
Passenger car sales		39,361	2,411	2,793	2,786	-6.07	7,990	7,543
Hotel occupancy (average)	%	56	53	57	51	-5	54	54

Indices	Unit	2015	Jan-16	Feb-16	Mar-16	%Y/Y	%YTD
Consumer Confidence Index - ARA		95.08	115.00	84.00	n.a.	-24.32	-22.22
Consumer Price Index		97.03	94.07	94.35	94.81	-3.57	-1.15
Purchasing Managers' Index		48.38	49.10	47.40	45.00	-7.98	-6.05
BdL Coincident Indicator		278.61	279.40	n.a.	n.a.	3.52	-7.58

Trade	Unit	2015	Jan-16	Feb-16	Mar-16	%Y/Y	YTD	PYTD
Imports	$bn	18.07	1.49	1.38	1.75	15.98	4.62	4.17
Exports	$bn	2.95	0.19	0.23	0.22	-14.37	0.63	0.74
Trade balance	$bn	-15.12	-1.31	-1.15	-1.53	22.22	-3.99	-3.43
Port of Beirut volumes	TEUs, m	1.13	0.09	0.08	0.10	6.17	0.27	0.25

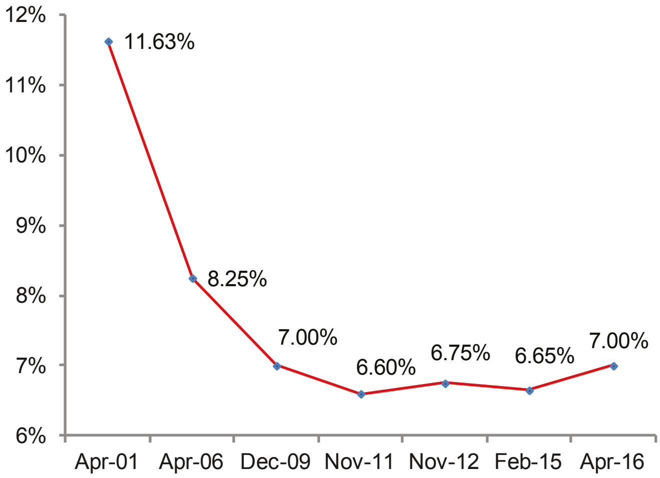
Financial and monetary	Unit	2015	Dec-15	Jan-16	Feb-16	%Y/Y	YTD	%YTD
Commercial bank assets	$bn	185.99	185.99	186.20	186.59	5.68	0.60	0.32
Claims on the resident private sector	$bn	48.04	48.04	48.17	48.20	6.23	0.16	0.33
Claims on the non-resident private sector	$bn	6.18	6.18	6.22	6.36	21.66	0.18	2.87
Claims on the public sector	$bn	37.80	37.80	37.87	38.28	-1.05	0.48	1.27
Resident private sector deposits	$bn	119.73	119.73	119.51	119.71	4.71	-0.01	-0.01
Dollarization rate (average)	%	59.32	59.23	58.96	59.02	-0.62	58.99	0.99
Non-resident private sector deposits	$bn	31.86	31.86	31.98	31.70	4.28	-0.16	-0.49
Dollarization rate (average)	%	86.44	86.09	86.01	86.11	-0.94	86.06	0.99
Private sector deposits with commercial banks	$bn	151.59	151.59	151.50	151.42	4.62	-0.17	-0.11
Private loans / deposits	%	39.74	40.13	40.31	40.26	0.58	40.29	1.01
Public sector deposits	$bn	8.77	8.77	8.87	9.08	-19.05	0.31	3.51
BdL foreign assets	$bn	40.49	40.49	41.91	42.76	-5.45	2.27	5.62
BSE market capitalization	$bn	11.22	11.22	11.09	11.09	-5.79	-0.13	-1.13
Gross public debt	$bn	70.31	70.31	70.62	71.21	2.83	0.90	1.28

Public finance	Unit	2015	Oct-15	Nov-15	Dec-15	%Y/Y	YTD	PYTD
Revenues	$bn	9.58	1.04	0.61	0.70	-52.51	9.58	10.88
Value Added Tax	$bn	2.10	0.32	0.11	0.10	-10.13	2.10	2.19
Telecommunications	$bn	1.23	0.21	0.10	0.07	-92.07	1.23	2.01
Income taxes	$bn	1.92	0.16	0.07	0.07	11.17	1.92	1.85
Customs	$m	473.20	42.82	38.26	38.87	-6.05	473.20	508.04
Expenditures	$bn	13.53	1.03	1.25	1.41	-7.28	13.53	13.95
Transfers to EdL	$bn	1.14	0.08	0.09	0.08	-65.21	1.14	2.13
Debt service	$bn	4.46	0.46	0.50	0.36	14.55	4.46	4.19
Primary balance	$bn	0.72	0.49	-0.10	-0.34	-	0.72	1.31
Fiscal balance	$bn	-3.95	0.01	-0.64	-0.71	1,357.67	-3.95	-3.07

YTD: year-to-date, PYTD: previous year-to-date. Source: MoF, BdL, BSE, ARA, Customs, Markit, EY, RHIA, CAS, Economena, SGBL Research

Primary rates on 15-year Eurobonds by issue date

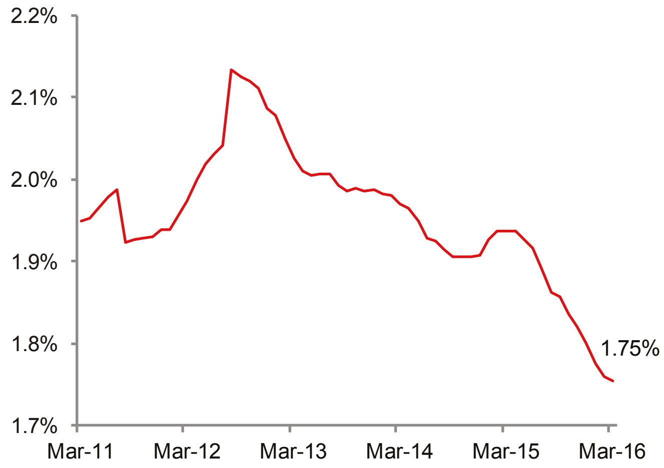
The Lebanese government is offering higher interest rates to attract more foreign currency debt investors in 2016. The latest 15-year Eurobond carried a coupon rate of 7%, up from 6.65% almost a year earlier, reflecting higher risks and waning appetite among foreign investors.



Source: MoF, Economena, SGBL Research

Returned cheques (% of total, 12-month moving average)

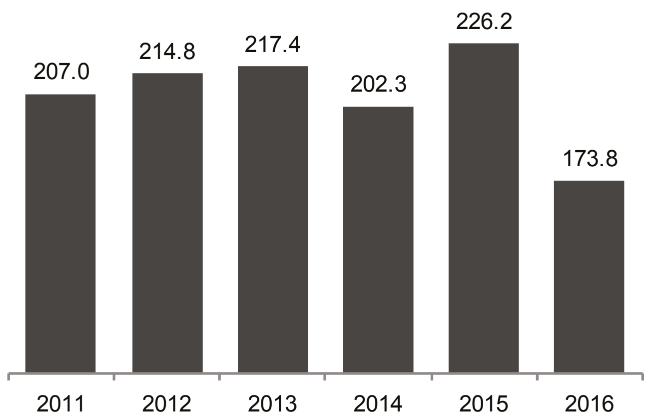
The worst may have passed for business receivables as the number of returned cheques fell to 1.75% of the total in the 12 months period through March 2016. Returned cheques had peaked at 2.13% of the total in 2012 in the early months of the economic slowdown.



Source: BdL, Economena, SGBL Research

Lebanese exports to GCC countries ($m, Q1)

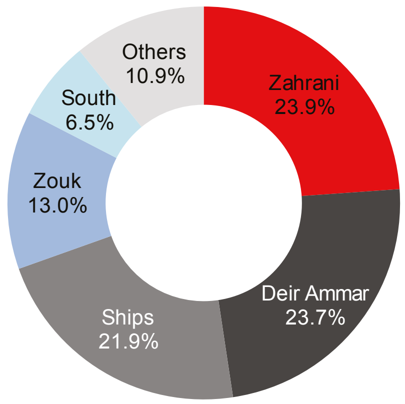
Lebanese exports to the six Gulf Cooperation Council countries sank to a six-year low of $173.8m in the first three months of 2016, an estimated loss of $52.4m in revenues for exporters when compared to the same period in 2015.



Source: Customs, Economena, SGBL Research

Power supply (12 months through January 2016)

Lebanon has become increasingly dependent on electricity supply from the two leased power ships in recent years. Energy supply by the two ships reached 21.9% of the total in the 12 months through January 2016, the country's third largest power source.



Source: CAS, Economena, SGBL Research