December 14, 2018

Contact Information

Junior Analyst: Dina Antonios

dina.antonios@blominvestbank.com

Head of Research: Marwan Mikhael

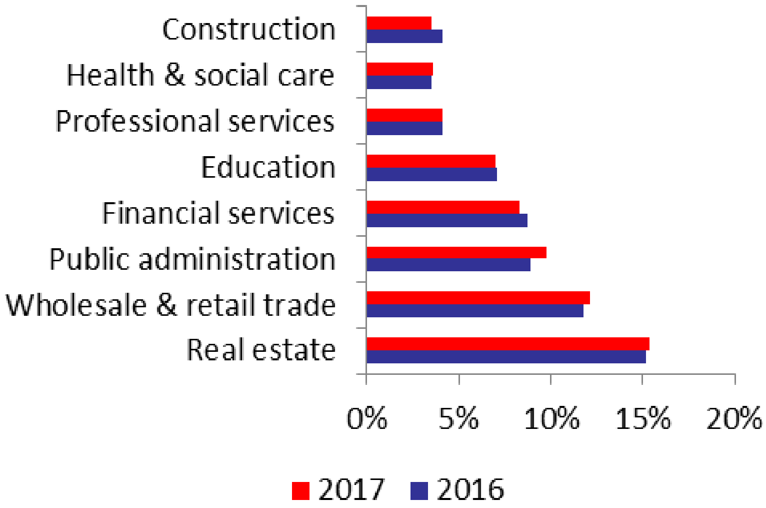
marwan.mikhael@blominvestbank.com

Nominal GDP and Real GDP Growth

According to the Central Administration of Statistics (CAS), Lebanon's real Gross Domestic Product (GDP) growth witnessed a slowdown in 2017. Lebanon's real GDP growth decelerated to 0.6% in 2017 to $53.39B, compared to a 1.6% growth in the previous year. The subdued performance in the economy can be mainly attributed to the contraction financial services sector, which witnessed an exceptional boost in 2016.

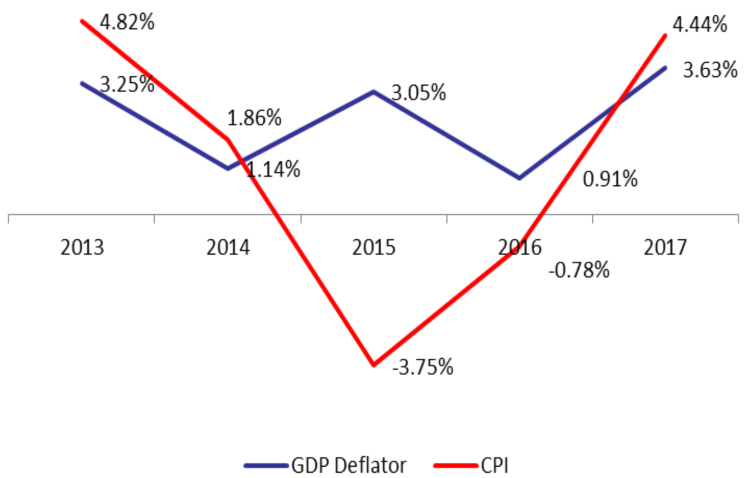
Noting that the financial engineering scheme conducted by the Central Bank (BDL) mid-2016 boosted economic growth in 2016, it had the counter effect in 2017. In fact, the financial services sector contributed to a 0.5% contraction in the real GDP growth during this year. Banks were not able to keep up with the outstanding performance and profit they generated in the previous year, hence registered a 6% yearly decline.

Shares of Top Activities in GDP



The prices of both domestic goods and imported products rose this year, as the Consumer Price Index (CPI) and the GDP Deflator followed the same upward trend. The GDP deflator, which measures the level of prices of all new, domestically produced, final goods and services in an economy, registered a 3.63% yearly increase during the year, while the CPI recorded a 4.44% annual rise. The discrepancy in the numbers can be attributed to three main differences between the two indicators. Firstly, since CPI covers imported final products, which constitute 47% of 2017’s GDP, and given that the Lebanese economy is highly dependent on imports, any global increase in the value of major currencies against the dollar will definitely lead to a rise in prices. Secondly, the GDP deflator covers products purchased by the customers, firms and the government, while the CPI measures the increase in prices of products bought by consumers solely. Thirdly, in the calculation of the GDP deflator and the CPI, different weights are being used. The CPI increased during the year as average oil prices increased during the year; moreover, education costs rose due to the salary scale increase.

CPI and GDP Deflator



As for the gross national disposable income (GNDI), it grew by an annual 3.21% to $54.57B in 2017. In fact, the GNDI picked up in 2017 as it recorded a marginal 0.03% rise in 2016. The faster growth can be attributed to the fact that the net income deficit from abroad reached its lowest level in 5 years at $40M.

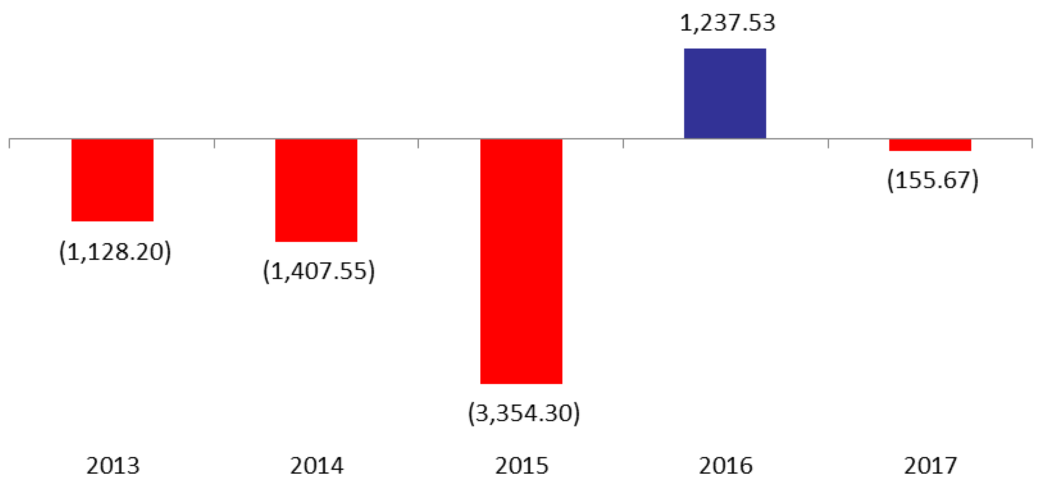
Looking through Lebanon's GDP in terms of expenditures, the Lebanese economy highly relies on consumption. In fact, households' consumption represented 92% of 2017's GDP, while the government spending grasped only 12% of the year's GDP. However, both expenditures by household and government grew by 4% and 6%, respectively.

The gross fixed capital formation slightly slipped during the year due to the decline in your government capital spending. Gross Fixed Capital Formation, defined as the net increase in physical assets, of both the private and public sector marginally fell by 0.15%. Nonetheless, the gap between the capital formation of the private and the public sector has widened in 2017, where the public sector's share of the total fell from 10.1% in 2016 to 7.9% in 2017. The private sector gross capital formation grew by 3%, which comes in line with the PMI that slightly improved from an average of 45.7 in 2016 to 46.6 in 2017. However, the public gross capital formation plunged by 21%.

As for Lebanon's external sector, it has been weakening the Lebanese economy throughout the years. The trade balance deficit broadened in 2017 to reach -25% of the GDP. According to CAS, Lebanon's imports reached $22.8B, while exports reached $4.19B. However, CAS's numbers contradict the official, where Lebanon's exports fell by a yearly 4.29% to $2.83B, while imports increased by an annual 4.67% to reach $19.58B.

As such, the weaker external position accompanied with a slowdown in the financial services sector led to a plunge in the balance of payments. The balance of payments registered a deficit of $155.7M in 2017, compared to a $1.23B surplus in the previous year. Moreover, in the first 10 months of 2018, the Balance of payments registered a $5.62B deficit. The accelerating current account deficit reflects Lebanon’s need of structural reforms in order to attract foreign investments.

Balance of Payments



A marginal growth in a small economy might as well be equivalent to a stagnating phase. As such, the 0.6% growth will not be enough to reduce unemployment and increase the living standards. Hence, in order to witness a boom in the economy as well as in people’s purchasing power, Lebanon should implement the reforms required by the CEDRE conference as soon as possible.

For your Queries:

BLOMINVEST BANK s.a.l.

Research Department Bab Idriss, Weygand Str. POBOX 11-1540 Riad El Soloh Beirut 1107 2080 Lebanon

Dina Antonios, Junior Analyst

dina.antonios@blominvestbank.com

+961 1 991 784

Marwan Mikhael, Head of Research

marwan.mikhael@blominvestbank.com

+961 1 991 782

research@blominvestbank.com