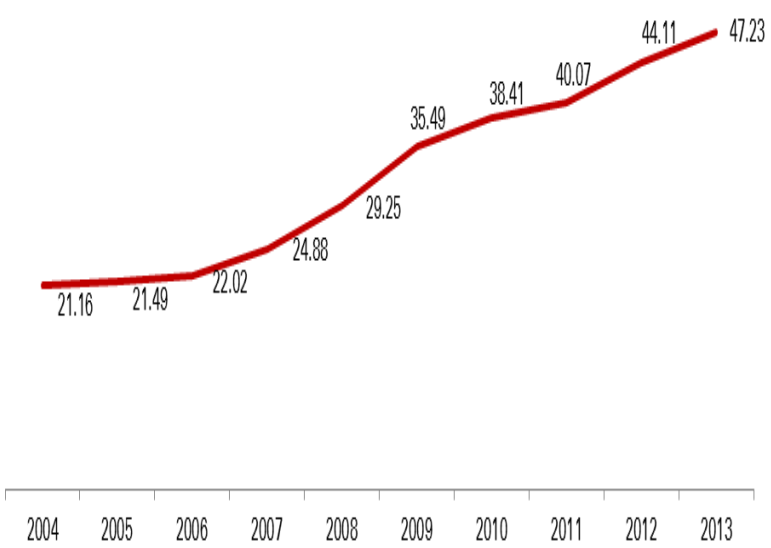
2013 National Accounts Show Minor Economic Growth

BLOMINVEST BANK

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



Source: CAS

December 19, 2014

Contact Information

Research Analyst: Mirna Chami

mirna.chami@blominvestbank.com

Head of Research: Marwan Mikhael

marwan.mikhael@blominvestbank.com

Research Department

Tel: +961 1 991 784

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 office[1] 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 government[2].

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.

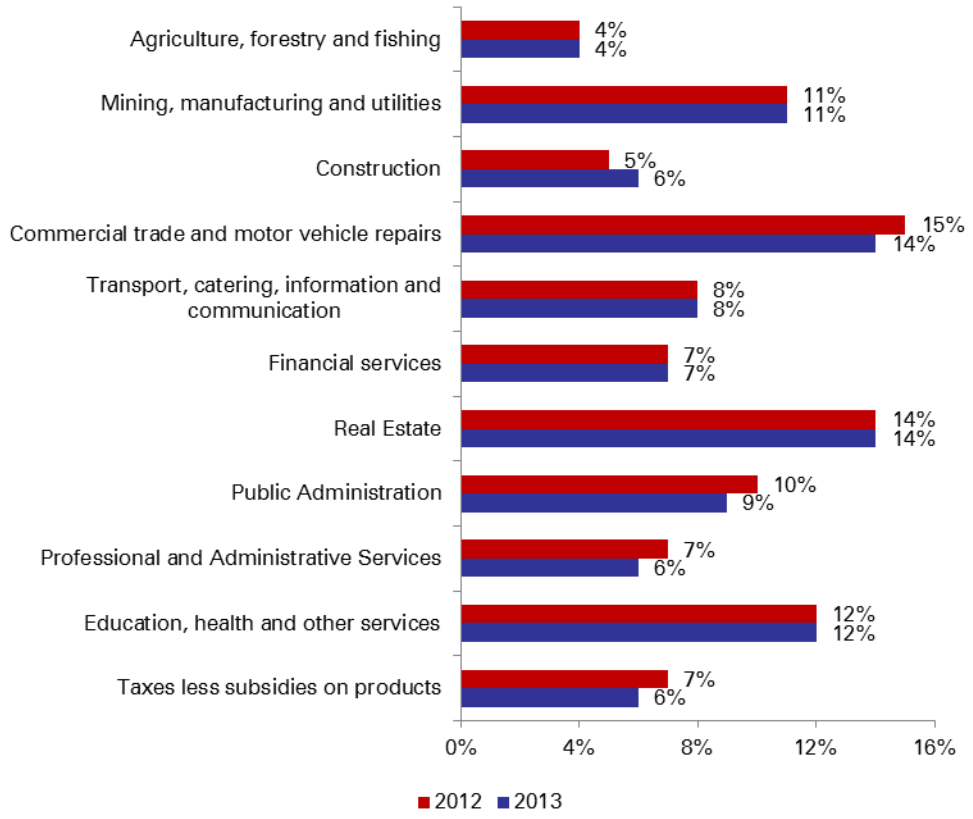
What about performance in the different economic activities during 2013?

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%

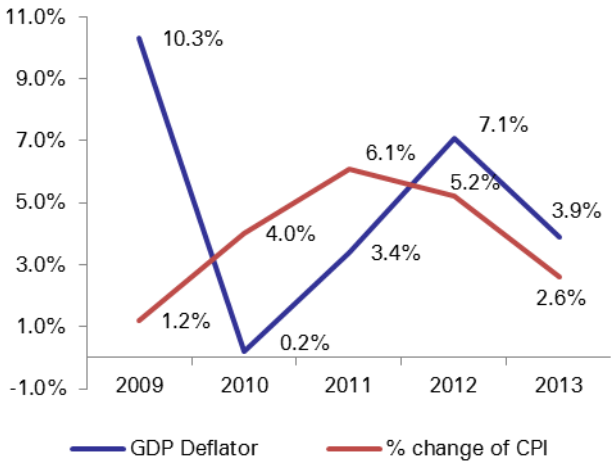
decrease was registered. 2012 and 2013 were not better as they posted respective declines of 5% and 3%.

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 inflation[3] 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 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

[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.*

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 dollarized[4] 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.

For your Queries:

BLOMINVEST BANK s.a.l.

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

Research Department
Tel: +961 1 991 784
research@blominvestbank.com

Mirna Chami
Tel: +961 1 991 784
mirna.chami@blominvestbank.com

Marwan Mikhael, Head of Research
marwan.mikhael@blominvestbank.com
+961 1 991 782

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