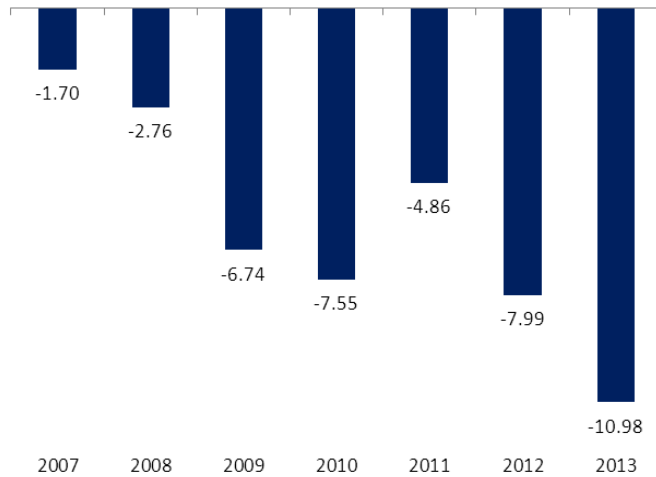




Current Account Deficit (In \$B)



February 02, 2015

Contact Information

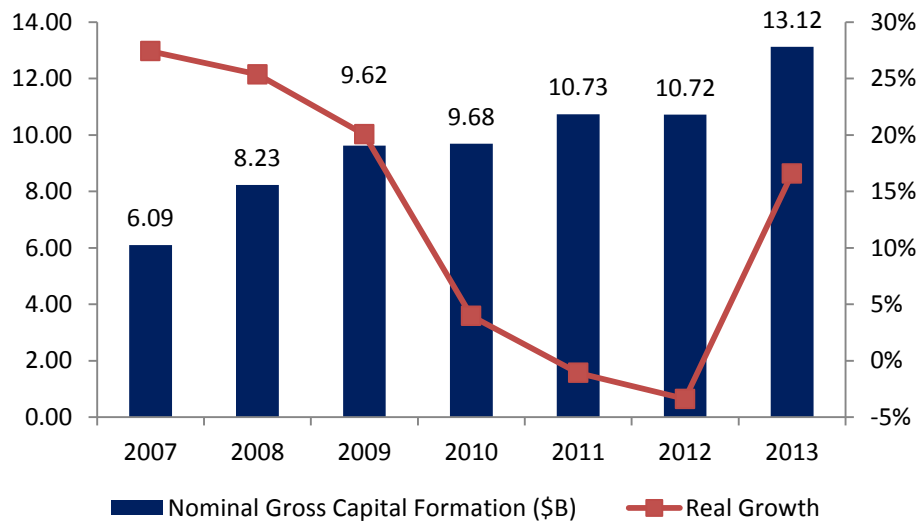
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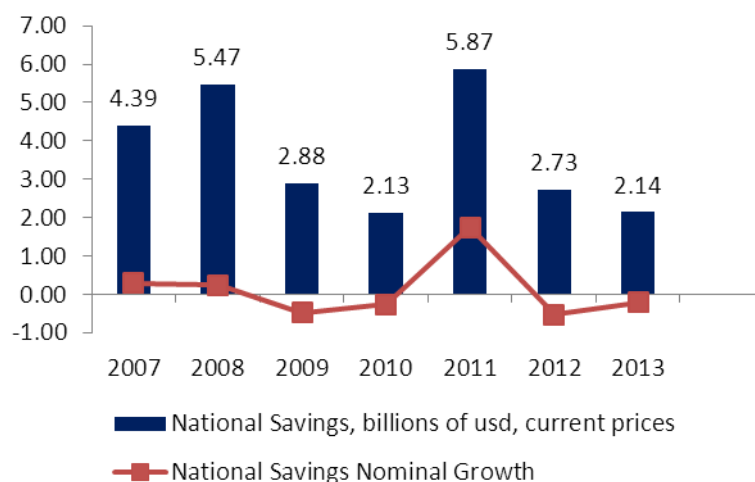
Source: International Monetary Fund

Evolution of Gross Capital Formation (In \$B)



Source: Central Administration of Statistics

Evolution of National Savings (In \$B)



Source: Central Administration of Statistics and Blominvest Research Department

There is no consensus over the role of savings in the economy. Some consider it as necessary for investment and economic growth while others perceive it as a substitute for consumption and therefore as having a negative impact on the economy.

However, many factors determine saving decisions. Elements such as the culture of the people and the structure of a country's economy make the question "to save or not to save" quite more complex.

In the US, it's consumerism not saving that takes center stage but shifts in the economic backdrops can reverse this trend. After the financial crisis of 2008, the personal saving rate in the US more than doubled from 3.0% in December 2007 to 6.5% in December 2008.

Likewise, the savings trend in Lebanon and the general economic context are intertwined. We have calculated the gross national savings by summing up the current account balance and the gross capital formation, which is computed by the Central Administration of Statistics (CAS).

2007-2010: Investment, Current Account Balance and Savings in a period of High Growth

Lebanon's economic growth in the period 2007-2010 is reminiscent of the French "Glorious Thirty". 2007, 2008, 2009 and 2010 were four years of full-grown economic expansion in Lebanon. Real GDP growth hovered within the range of 8% to 10% on account of booms in the sectors of tourism and real estate.

The robust economic growth widened the current account balance. Since the drivers of growth were sectors that do not provide consumers with substitutes for imports, Lebanese consumers upped their demand for imported goods and services. This reliance explains why the current account balance is in deficit over the entire period we are analyzing. The current account balance went from a deficit of \$1.70B in 2007 to a deficit of \$7.55B in 2010.

As for investment or gross capital formation, it also flourished during the period 2007-2010. The real growth of capital formation posted double digit growths of 27% in 2007, 25% in 2008, and 20% in 2009.

The evolution of national savings depended on the evolution of the current account balance and the capital formation. Given the widening of the current account balance and the growth in capital formation, national savings grew from \$4.39B in 2007 to \$5.47B in 2008. However, savings fell back to \$2.88B in 2009 and \$2.13B in 2010. This drop came about as the widening of the current account deficit was taking place at a faster rate than the formation of capital.

2011-2013: Investment, Current Account Balance and Savings in a period of Subdued Growth

The year 2011 marked a rupture for the Lebanese economy, ending four consecutive years of exceptional economic performance and tightening the current account deficit. With the eruption of the Arab Spring and the ensuing influx of Syrian refugees, demand took a hard hit. The current account deficit was resorbed falling by an annual 36% to \$4.86B in 2011. This came about as Lebanon's exports to war-torn Syria increased and as Lebanon's demand for imports deteriorated.

In 2011 and 2012, the dynamics of the current account balance and the capital formation continued to shape national savings. The amelioration of the current account balance allowed for savings to rebound from \$2.13B in 2010 to \$5.87B in 2011. However, in 2012 savings took yet another plunge as the growth in the current account deficit went back to exceeding the growth in capital formation. The widening of the current account deficit is not the result of higher local demand but this time around is a result of the demand coming from Syrian refugees.

For the year 2013, CAS figures relating to GDP and gross capital formation are overestimated in our view and therefore distort the value of savings. We believe that growth in 2013 was lower than growth in 2012 as the economy fell under the strains of the prolonged Syrian spillovers. This is why it seems unrealistic for investment to have posted a 17% real annual growth in 2013.

Which comes first, savings or consumption?

Do our savings represent whatever is left of our disposable income after consumption?

Or are savings pre-determined in function of our investment strategy and our arbitrage between present and future consumption?

In Lebanon, we mostly answer to the first causality. We cannot say that Lebanese savings are pre-determined in function of future plans or some sort of investment strategy since the idea of planning ahead is not widespread.

This claim is substantiated by the findings of a study carried out by the "Institut des Finances Basil Fuleihan" entitled "Les Libanais et l'argent" (How Lebanese deal with money).

- Almost 47% of Lebanese do not plan their expenses
- 47% of Lebanese don't even attempt to actively save
- 50.5% of the surveyed population are not aware of how much they spent over the past week

The survey also reveals information about planning ahead for your old days.

- Among elderly people (those aged below 60 years old and are still not retired), a third haven't set in motion or even contemplated a retirement plan.
- 69% of Lebanese are not aware that the National Social Security Fund (NSSF) does not offer a retirement plan.
- 41% confuse end of service indemnity with the retirement plan

The lack of planning for the old days seems to stem from mis-information about the options available and from mis-understanding of whatever services are provided.

On a different note, the concept of saving may also not be widespread in Lebanon because a large chunk of the Lebanese population has a low annual income. According to the survey, 58% of disadvantaged households confirm that they are short on money needed to cover their basic needs. True, the World Bank estimates that Lebanon's GDP per capita is \$10,000 per year, but that figure is not fully reflective of the total population. In reality, 70% of the Lebanese population earns less than \$10,000 per year, making it much harder for them to cover their basic needs, let alone engage in saving strategies.

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