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Contact Information

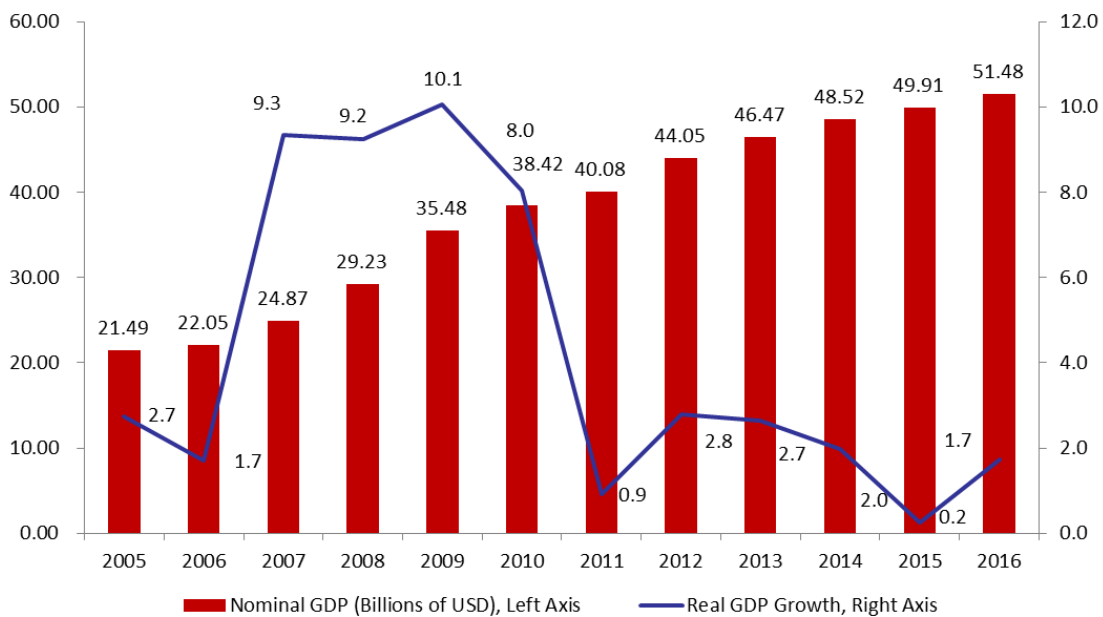
Research Analyst: Riwa Daou
 riwa.daou@blominvestbank.com

Head of Research: Marwan Mikhael
 marwan.mikhael@blominvestbank.com

Exceptional Factors Boosted Real GDP Growth in 2016

According to the Central Administration of Statistics (CAS), Lebanon's real GDP growth slightly picked up in 2016. Lebanon's Real GDP growth rose to 1.7% in 2016 with the nominal GDP standing at \$51.48 billion after it had reached 0.2% in 2015, its lowest in a decade. The GDP deflator, which measures the prices of all domestic goods and services, registered a 1.4% growth in 2016, down from 2.6% in 2015.

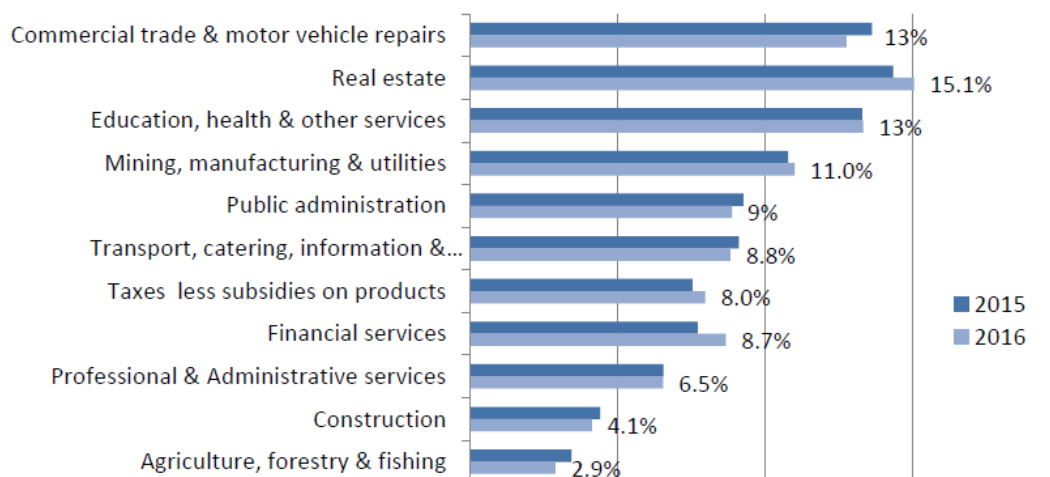
Real GDP Growth and Nominal GDP



Source: Central Administration of Statistics

The financial engineering led by the Central Bank of Lebanon exceptionally boosted economic growth in 2016. According to CAS's figures, the Gross Value Added of "Financial Services" registered a yearly growth of 18% in 2016. Out of the 1.7% real growth in GDP, financial services contributed 1.4%. In fact, the surge in the value added of financial services can be explained by the financial engineering led by the Central Bank of Lebanon and commercial banks after which banks made exceptional profits.

Percentage shares of activities in the GDP



Source: Central Administration of Statistics

The prices of domestic goods and services increased in 2016 while the prices of imported goods declined. The GDP deflator registered a positive 1.4% growth in 2016, the average inflation rate measured by the Consumer Price Index (CPI) slid by a yearly 0.78% in 2016. This discrepancy indicates that the prices of imported goods which are included in the CPI but not in the GDP deflator declined in 2016; in fact, the average prices of "Water, electricity, gas and other fuels" declined by 8.35% in 2016 while the average prices of transportation slid by 3.62% in 2016 since average oil prices dropped by 17.8% to \$40.68 per barrel in 2016.

The Gross National Disposable Income (GNDI) grew at the slowest rate since 2013. The GNDI, which indicates income available to the total economy for final consumption and gross savings, grew by 1.62% only in 2016 compared to faster growth rates of 4.73% and 5.43% in 2015 and 2014, respectively. The slowdown in the growth of the GNDI is mainly due to the fact that 2016 marked the first year where Net Transfers from Abroad declined by \$439 million to \$2.95 billion.

At current prices, In USD Billions	2013	2014	2015	2016
Gross domestic product (GDP)	46.47	48.52	49.91	51.48
Net income from abroad	-0.29	-0.52	-0.54	-0.81
Gross national income (GNI)	46.18	48.01	49.37	50.67
Net transfers from abroad	1.60	2.37	3.39	2.95
Gross national disposable income (GNDI)	47.78	50.38	52.76	53.62

The growth in the final consumption expenditure of households accelerated in 2016. According to the national accounts' figures, in real terms, the consumption of households grew by 6.3% in 2016 compared to a slower rate of 2.4% in 2015. In fact, the year 2015 was politically unstable with the seat of the Presidency remaining vacant since May 2014 while the end of 2016 witnessed some relief on the political front with the long-awaited election of a President and the formation of a government.

As for the Gross Fixed Capital Formation, it witnessed a rebound in real terms after two years of large declines. The Gross Fixed Capital Formation of both the private and public sectors grew by 6.95% in real terms in 2016 after it had fallen by 6% and 5% in 2015 and 2014, respectively.

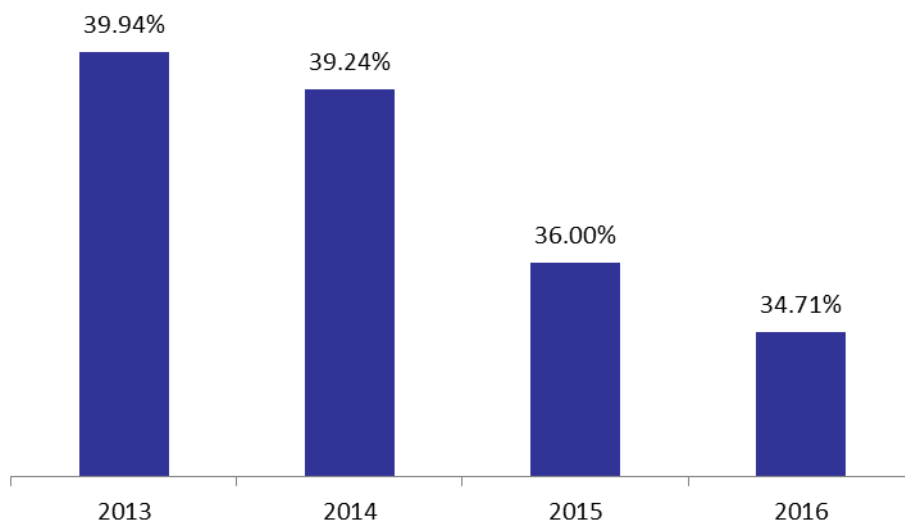
There still exists a gap between the capital formation of the private sector and that of the public sector. In line with the results of national accounts for previous years, the gross public capital formation remained represented only 7.8% of the total gross fixed capital formation in 2016 while the remaining 89.2% were accounted for by the private sector.

Significant External Vulnerabilities Continue to Weigh on Lebanon

Lebanon's net exports have been chronically negative. In 2016, the country's trade balance reached \$15.65 billion, up by 3.56% from the previous year. Clearly, the net exports position in CAS's national accounts is in line with this as it showed that the negative net exports of goods and services grew by 15.62%. The negative trend is likely to be perceived in 2017's national accounts since the trade balance registered a deficit of \$16.21 billion in 2017 as imports rose by 1.72% to \$19.03 billion while the value of exports fell by 4.94% to reach \$2.82 billion.

Lebanon is an exporter of services and an importer of goods. According to CAS's figures, exports of services accounted for 68% of total exports of goods and services while imports of goods accounted for 76% of total imports of goods and services. The current account deficit declined from 36% of GDP in 2015 to 34.71% in 2016; although the trade deficit widened in 2016, the decline in the net income from abroad and the net transfers from abroad are the elements that brought the current account deficit down.

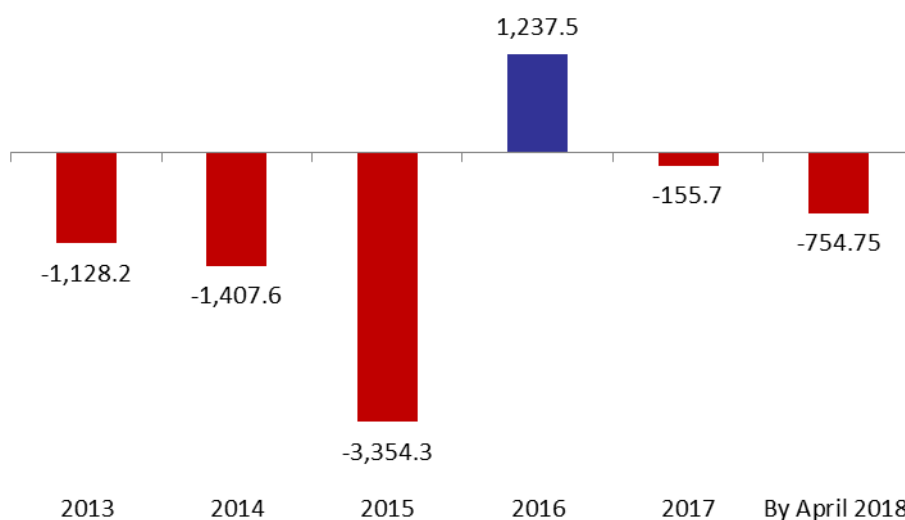
Current Account Deficit in % of GDP



Source: Lebanese Customs

The same way the swap operation exceptionally boosted financial services in 2016, they also exceptionally boosted the balance of payments. Although the balance of payments turned positive after the Central Bank's swap, registering a \$1.24 billion surplus in 2016, it ended 2017 with a deficit of \$155.7 million and has so far been in the red with a cumulative deficit of \$754.8 million by April 2018. This comes to show that the Lebanese economy is in need of true structural reforms in order to attract more foreign direct investments and strengthen its external position.

Lebanon's Balance of Payments, In Millions of USD



Source: Central Bank of Lebanon

Looking ahead, maintaining the status-quo means Lebanon's economic growth will remain **anemic**. Lebanon recently secured \$11 billion in soft loans and grants from the international community at the CEDRE conference in order to forward a proposed Capital Investment Program (CIP). However, there is no escaping the need for fiscal reform and ensuring that Lebanon's debt to GDP ratio of 148%, one of the highest in the world is put on a sustainable path.

For your Queries:

BLOMINVEST BANK s.a.l.

Research Department
Bab Idriss, Downtown Beirut

Riwa Daou, Research Analyst

Tel: +961 1 991 784

riwa.daou@blominvestbank.com

Marwan Mikhael, Head of Research

marwan.mikhael@blominvestbank.com

+961 1 991 782

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