Central Administration of Statistics: Lebanon's National Accounts 2018

BLOMINVEST BANK

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Contact Information

Economist: Rouba Chbeir

rouba.chbeir@blominvestbank.com

Chief Economist: Dr. Ali Bolbol

ali.bolbol@blom.com.lb

Research Department

Tel: +961 1 991 784

Overview

The Central Administration of Statistics (CAS) recently published the national accounts report for 2018, which revealed that Lebanon's real GDP growth fell by 1.9%, marking the first significant drop since 2011 when growth slumped to 0.9% in 2011, from 2010's 8% economic growth. As such, real GDP stood at $55B in 2018.

The sharpest contraction in GDP since 2011 reflects, "*the tough conditions experienced by the Lebanese economy in 2018, driving real growth into negative territory*" as per the CAS 2018 compiled report. Moreover, 2018 marked an eminent drop in Household consumption, which had solidly supported Lebanon's real GDP growth in previous years. As a result, Inflation as measured by the GDP deflator jumped to 5.5% in 2018 up from last year's 2.9%, suggesting "*the economy is close to a stagflation status i.e. a recession along with inflatio*n".

The CAS also estimates the balance of payments' "Net income from abroad" recorded an outflow of LBP 0.5 trillion ($331.7M). In turn, the CAS Gross National Disposable Income (GNDI[1]) reflected an annual growth rate of 3.9% at current prices, to LBP 84.8 trillion ($56.3B). The report highlights that Lebanon's GNDI exceeds the country's GDP, and that's because the GNDI includes net transfers from abroad, i.e. namely remittances from Lebanese expats, noting that the Lebanese economy relies heavily on Diaspora inflows. As such, remittances grew shyly to reach LBP 2.4 trillion, following a sharp contraction from LBP 4.4 trillion in 2016 to LBP 1.8 trillion in 2017.

[1] CAS defines the GNDI equal to the Gross National Income (GNI) less current transfers (remittances and other transfers) payable to non-resident units, plus the corresponding transfers receivable by resident units from the rest of the world. GNDI measures the income available to the total economy for final consumption and gross saving.

A. Expenditure Approach to GDP: Key Highlights

The report uses the expenditure approach to GDP to analyse the notable slump in 2018's GDP, where:

GDP= Household Consumption (C) + Government (C) + Gross fixed capital formation (GFCF) +NX, with NX representing Net exports.

The relation thereby showcases the following key findings per GDP sub-component:

- Lebanon over-relies on GDP's **(C) function**, noting Total consumption (C) = 106% of GDP.
- **Households' (C)** contracted by 1% in 2018 in terms of volume, the first decline in years;
- **Government (C)** added 7% by the same token.
- **"Public" fixed capital formation** (FCF) up by 26%;
- Yet, "**Private" FCF** fell by 4%, slashing GDP growth by 0.8 percentage points (pp).
- "X" of goods and services (G&S) fell by 5% in volume terms, while imports "M" of G&S climbed by 1%.

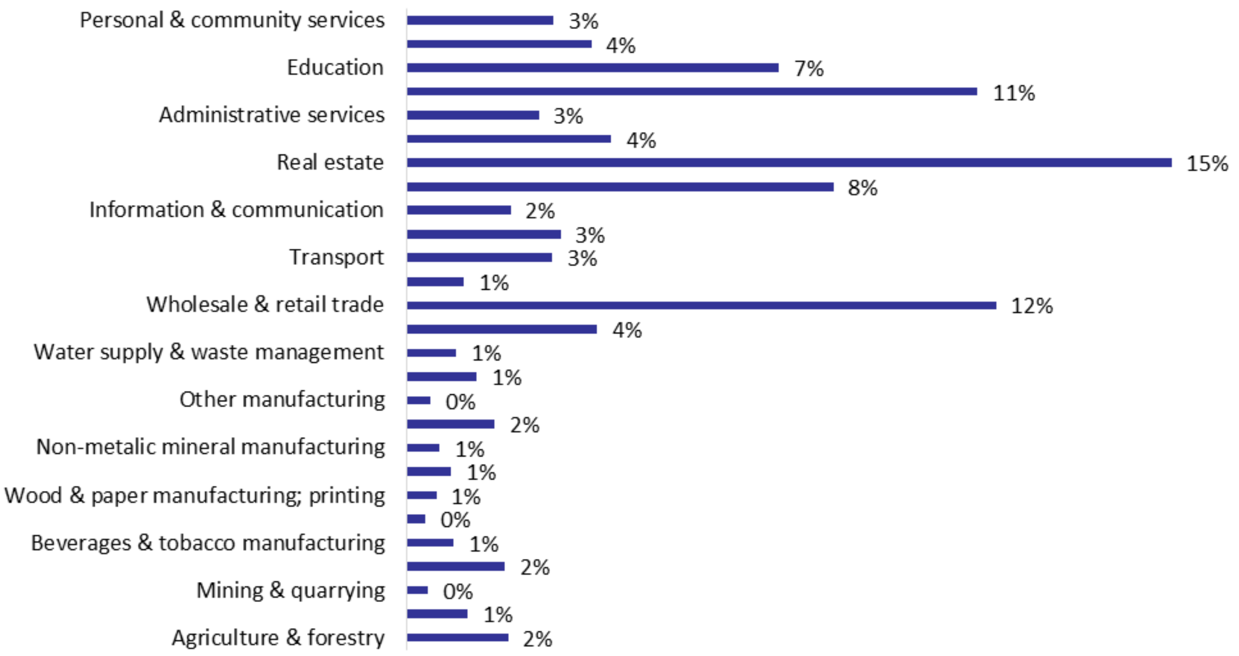
Therefore, CAS estimates Lebanon's **trade deficit** widened to LBP22.1 trillion ($14.7B) in 2018, rising from 2017's LBP19.7 trillion ($13.1B), with the Trade balance grasping 27% of GDP.

In summary, the contribution of each expenditure component to GDP growth reveals that Households' consumption contracted by 1.2pp and was among the leading contributors to the 1.9pp decline in GDP during 2018.

B. Supply Side Analysis: Shares of Economic Activity of GDP

On the supply side, the 2 main sectors that inhibited 2018's GDP thereby explaining the subdued performance the country witnessed over the period, were Construction (4% of GDP) and Commercial trade (12% of GDP). Both contracted significantly by the respective 10% and 7% in volume terms, which contributed by -0.4pp and -0.9pp decreases in GDP growth, respectively.

Shares of Activities in GDP during 2018*



Source: CAS, 2018 national accounts

***The total percentage of GDP in the chart excludes the 6% share composing taxes & subsidies on products.*

It is worthy to note that Financial services (constituting 8% of GDP in 2018) decreased, in real terms, by 6% in 2017 owing to the exceptional 2016 boost driven by BDL's "financial engineering" operations. By 2018, the Financial sector recorded a moderate growth of 3%, alongside Real estate and Public administration's shy growth of 1% and 2%, respectively, over the same period. The CAS report further highlights 2018's 17% increase in the price index of the Public administration sector. It is worthy to note that this was mainly driven by the ratification of the public salary scale law by parliament late in 2017.

However, most of the performance of economic activity constituting Lebanon's GDP recorded downturns across the board. Namely, Education posted "*an unusual decline of 5%",* as per the report. The majority of manufacturing industries (excluding beverages & tobacco-manufacturing) also continued their downtrend since 2014.

For your Queries:

BLOMINVEST BANK s.a.l.

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

Rouba Chbeir, Economist

rouba.chbeir@blominvestbank.com

+961 1 991 784

Dr. Ali Bolbol, Chief Economist
ali.bolbol@blom.com.lb

Research Department

research@blominvestbank.com