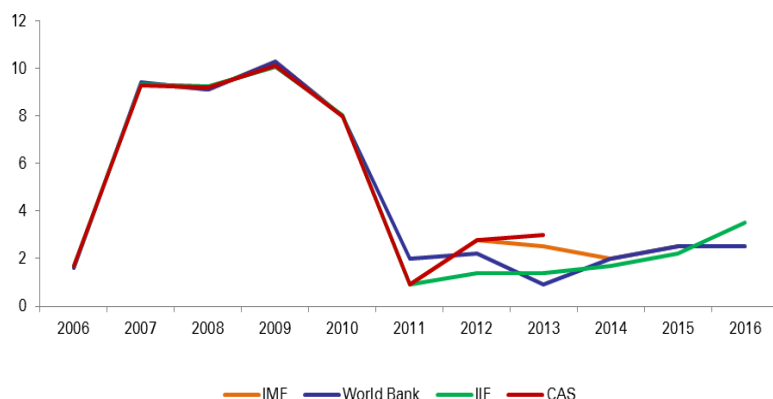


Evolution of Lebanon's Real GDP Growth Rates (In %)



May 02, 2015

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Source: IMF, World Bank, IIF, CAS

As in previous years, the top economic institutions in the world maintained their rituals and kept on providing and updating their forecasts regarding the Lebanese economic growth. Those assessments are of a primordial importance for analysts, policy makers, investors and many other players on the economic scene. However, evaluating the economic performance of Lebanon remains a big challenge, given the discrepancies that exist between the outcomes of the different forecasters and the lack of data provided by the official authorities.

Several reasons stand behind those divergences in forecasting and estimation from one institution to another. One of the major factors is the weighing scheme adopted by the international entities when trying to ponder the main drivers and hurdles of economic growth. In addition, political and security developments in Lebanon are also barometers of economic forecasts: for instance, deterioration in the economic outlook drives several international economic institutions to periodically reconsider their assessments taking into account the recent events.

Hence, the recent release and update of these well-known international institutions for their reports revealed several findings, some of which were confusing. In details, and after the Central Administration of Statistics (CAS) published the national accounts for 2012-2013 by the end of 2014, the Institute of International Finance (IIF) lately issued a report entitled "Lebanon: Stabilization and Reforms Becoming More Urgent" on the 16th of March, 2015. Likewise, the International Monetary Fund (IMF) recently published its World Economic Outlook (WEO) in April and was trailed by the World Bank's latest Lebanon Economic Monitor entitled "The Economy of New Drivers and Old Drags".

Cumulative discrepancies in Nominal GDP could also lead to diverging forecasts regarding the Lebanese economy's outlook. The IMF, the World Bank and the IIF revealed in their latest reports figures that are coherent with the CAS accounts of Lebanon's nominal GDP up until 2011. However, discrepancies started to emerge in 2012 where only the IMF had its figures converging with those of CAS. Both the World Bank and the IIF had completely different figures. This divergence extended to the following years and eventually to the forecasts with sometimes drastic differences. This could be partly associated with the different perceptions of each institution regarding the deflator¹. For instance, estimates of nominal GDP for 2013 fell in the

¹ a measure of the level of prices of all new, domestically produced, final goods and services in an economy

range of \$44.35B - \$47.60B, whereas the official level was at \$47.22B. Similarly, the estimates of real GDP growth also diverged from an institution to another. The World Bank remained conservative in 2013, as it estimated real GDP growth at 0.9% below the respective levels of 1.4% and 2.5% provided by the Institute of International Finance (IIF) and the International Monetary Fund (IMF). In fact, the latter showed the closest figure to the official estimate released by CAS (3.0%) for 2013.

Economic Indicators for 2014, 2015 and 2016

	IMF			World Bank			IIF		
	2014e	2015f	2016f	2014e	2015f	2016f	2014e	2015f	2016f
Nominal GDP (billions of dollars)	49.9	54.7	57.1	45.7	48.1	51.5	48.2	50.3	52.7
Real GDP (% change)	2.0	2.5	2.5	2.0	2.5	2.5	1.7	2.2	3.5
Consumer prices (% change, average)	1.9	1.1	2.8	1.9	2.2	3.0	1.9	-0.5	3.9
Overall Fiscal Deficit (% GDP)	-7.1	-9.1	-8.6	-7.2	-7.5	-10.3	-6.4	-8.4	-8.2
Gross Public debt (% GDP)	134.4	131.8	134.8	145.7	151.8	152.9	138.1	140.1	140.8
Current Account Balance (% GDP)	-24.9	-22.2	-21.7	-22.2	-16.7	-16.1	-21.6	-14.8	-15.2
Total Primary Deficit / Surplus (% GDP)	1.3	-0.4	0.9	1.8	1.5	-0.8	2.7	1.2	3.7

Source: IMF, World Bank, IIF

In 2014, even though real GDP growth estimates were almost identical, a substantial dissimilarity existed in terms of nominal value. In details, the IMF and the World Bank agreed that real GDP growth rate stood at 2% in 2014 hand in hand with the IIF that remained more conservative with its 1.7% estimate. However, private sector activity was contractionary when looking at the BLOM Purchasing Managers' Index (PMI). The index revealed a slighter economic contraction as the index went from an average of 47.6 in H2 2013 to 48.2 in H2 2014, yet remaining below the 50-mark. This mainly indicates that the private sector's activity kept on deteriorating, yet at a slower pace.

The real interrogation for 2014 appears in absolute number in terms of the nominal GDP levels. In reality, and despite the identical 2% real GDP growth rate, a 9% difference was noticed between the nominal GDP estimated by the IMF (\$49.92B) and that assessed by the World Bank (\$45.73B). As for the IIF estimate, it hovered in the mid-range at \$48.2B. The challenge remains the absence of official estimates for 2014 that allow an efficient comparison with the results of the mentioned institutions.

When it comes to forecasts, the three institutions expected real growth rates to hover between 2.2% and 3.5% in each of 2015 and 2016. Since the IMF was the institution to follow up the most with Lebanon's official data, it revealed that the Nominal GDP of the country is expected to register \$54.67B by the end 2015 and \$57.11B in 2016, increasing by nominal annual rates of 9.5% and 4.5%, respectively,

However, comparing results in terms of real GDP growth remains the best way for investors and regulators to monitor economic trends and facilitate their assessments. Accordingly, any variance regarding GDP can distort the forecasts of the upcoming years and mislead foreign investors' decisions as they heavily rely on the results of a specific establishment.

Consumer price index constitutes another important indicator followed by investors, economic agents and policy makers for its implications on the purchasing power of households, on exchange rates and on other economic variables. Actually, inflation estimates of the three international institutions for 2014 were perfectly aligned with the official CAS figure of 1.86%.

Accordingly, inflation forecasts were divergent when it comes to 2015 and 2016. In reality, Lebanon undergoes international prices transmission for its high reliance on imports that almost constituted 43.5% of its GDP in 2014. Hence, any international price increase will certainly be imported into the local scene. In this context, the IMF perceived that inflation will reach 1.1% by the end of 2015 despite the latest monthly publication of CAS revealing that the consumer price index (CPI) has been prone to deflationary pressures in Q1 2015 compared to Q1 2014, registering a 3.38% y-o-y downtick. Similarly, the World Bank was more aggressive and posted a yearly average of 2.2% rise in consumer prices in 2015. However, and given that the Lebanese economy is highly dollarized and have a dollar-pegged currency, 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 that are imported at more than 40% from Europe. This could mainly explain the IIF's approach as it went to the other extreme and forecasted a 0.5% deflation by the end of the year, also influenced by the output gap and the drop in oil prices.

Aside from inflation levels, other economic variables are measured as ratios over GDP for comparative purposes and are important indicators for policymakers and investors alike. In details, the main economic ratios are the overall fiscal deficit (% of GDP), primary balance (% of GDP), debt-to-GDP ratio and the current account balance (% of GDP). These ratios are impacted by two factors, namely the absolute number in the numerator and the nominal GDP that appears in the denominator.

When it comes to public finances, the overall fiscal deficit ratio posted slight dissimilarities in 2013 and 2014, yet the gap in absolute terms widened in 2015 and 2016's forecasts. This could be partly explained by the institutions' assumptions of a possible recovery of the global oil prices starting 2015. In fact, the ratio hovered between 8.7% and 9.3% in 2013 while 2014's estimates relatively showed a lower range of 6.4% - 7.2%. This reveals that the three institutions perceived that Lebanon managed to improve its public finances in 2014 partly due to the bearish trend in oil prices that started in June 2014 and the one off transfers from the Ministry of Telecom.

However, discrepancies in the ratio's denominator, or nominal GDP, took their toll on the overall ratio. For instance, the IIF estimated the overall fiscal deficit at 9.3% of GDP in 2013 or \$4.22B in absolute terms while the World Bank's ratio settled at a higher 9.5% which constitutes \$4.21B. This resulted from the former entity estimating 2013's nominal GDP at \$44.35B while the latter estimating the nominal GDP at \$45.43B over the same period.

Even though estimated debt levels were relatively close in absolute terms during 2012 and 2013, forecasts for 2014 and 2015 diverged; further broadening the debt-to-GDP ratios. Noting that the Debt-to-GDP is one of the highly tracked economic indicators by international investors and can considerably affect their investment decisions, the ratio's level remains high but the country is still able to pay back its debt thanks to the influx of deposits. In this context, the Debt-to-GDP ratio was estimated in 2013 at 133.4% of GDP according to the IMF, while it constituted 139.7% of the GDP according to the IIF and 143.1% of Lebanon's GDP according to the World Bank data. In 2014, the Debt-to-GDP range went considerably higher to 134.4% - 140.3% which could be the result of interest payments and debt service between 2013 and 2014 that offset the positive economic impact of falling oil prices.

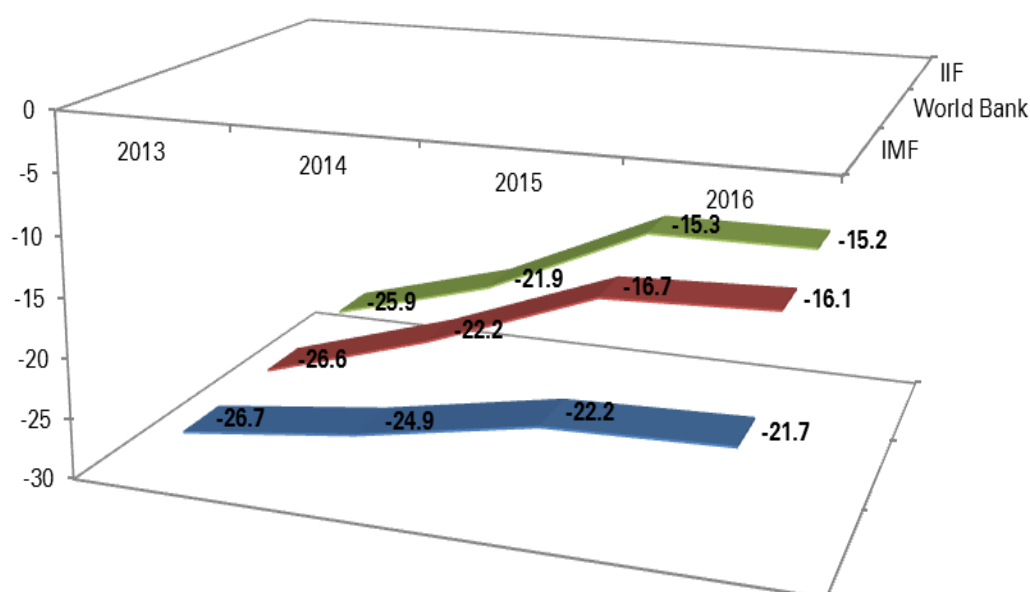
As for the primary balance, and after recording in 2013 a deficit for the first time since 2006, the IMF forecasted that the primary balance will again end 2015 in the red zone at 0.4% of GDP. In contrast, the World Bank and the IIF both projected that 2015 will close on a primary surplus of 1.5% of GDP and 1.2% of GDP, respectively. This means that the IMF is foreseeing a possible deficit in the Lebanese primary balance excluding interest payments on its debt, unlike the other 2 institutions that were mainly attributing the fiscal deficit to the debt service.

However, despite the primary surplus, both the World Bank and the IIF were expecting the rising trend of the Debt-to-GDP ratio to continue in 2015 and 2016. Notably, the absolute levels of public debt and their increases, specifically in 2015 seem to entail some mistake as the debt is expected to increase by more than 9.5% in 2015 while the fiscal balance recorded a primary surplus of 1.5% of GDP. There is a contrast with 2016 where the debt increased less by 7.8% for a primary deficit of 0.8% of GDP.

It was noticeable that the IMF's data disclosed an expected slip in the ratio of debt-to-GDP by 2015 to 131.8%, down from a previous 134.4%. In fact, the figure was revised and downgraded in the latest WEO published by the institution in April 2015 following its assumptions of oil prices steadying at low levels in 2015. Worth mentioning that the fiscal deficit ratio expected by the IMF was 9.1% of GDP in 2015 which was the highest forecasted level amongst the three institutions. Theoretically, this should have bolstered the share of public debt estimated by the IMF. In contrast, the mentioned institution showed the lowest level of gross public debt at 131.8% (almost \$72.06B) compared to the forecasts of the World Bank (151.8% of GDP or \$73.03B) and the IIF (140.1% of GDP or \$70.47B). This is also due to the IMF expecting the highest nominal GDP level at \$54.67B.

On the external front, the current account deficit was expected to see its share of GDP tightening by the coming 2 years mainly on narrowing trade deficit and slightly improving receipts from tourism. In fact, and starting from a similar current account deficit to GDP ratio (26% of GDP) in 2013 estimates by the three institutions, they all forecasted a decline of that the current account share of GDP that will reach, by the end of 2016, 15.2% of GDP for the IIF, 16.1% of GDP for the World Bank and 21.7% of GDP for the IMF.

Current Account Balance (% of GDP)



Source: IMF, World Bank, IIF

Finally, the dissimilarity existing between the estimates and forecasts of different economic indicators by the three international institutions that cover Lebanon's economic outlook can be misleading and confusing. Any investment decision or capital inflow can be highly impacted by those entities forecasts. In addition, the existing variation has a direct influence on policymaking decisions as each of the different scenarios provided by each institution presents diverging trends for the economic indicators which can heavily modify policies underwent by authorities. This is where the need for harmonization especially between the World Bank and the IMF gains in importance to primarily avoid the accumulation of inaccurate data over time and also to avoid different policy recommendations. Another measure is the need from the Lebanese Authorities to provide those global entities with the latest data and economic statistics to facilitate the valuation and forecasting of Lebanon's core gauges.

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