

IIF Issues Report on the Lebanese Economy in cooperation with Byblos Bank

- **Recovery in Lebanon Hinges on Government Effectiveness and Reforms**

Byblos Bank Headquarters, September 13, 2018: The Institute of International Finance (IIF), in cooperation with the Byblos Bank Economic Research and Analysis Department, published today its outlook on the Lebanese economy indicating that it is suffering from protracted economic stagnation, as the lack of reforms and delay in the formation of the new Cabinet have dampened private consumption and investments. The analysis concludes that the domestic political bickering is delaying the urgently needed structural reforms that would lift growth trajectories and reduce unemployment. Also, the delay in forming a new Cabinet is standing in the way of the country's access to the \$11 billion of concessional loans and grants that were pledged in April by the international community.

Dr. Garbis Iradian, Chief Economist for the Middle East & North Africa Department at the IIF, commented: "Real GDP is expected to grow by 1.3% in 2018, following the IIF's estimate of a growth rate of 1.8% in 2017." He noted, "Reaching consensus on effective government, combined with structural reforms, including fiscal reforms and addressing the chronic problems in the electricity sector, would spur growth. This would help move the Lebanese economy to a higher growth path beyond 2018 and help bring the public debt down to more sustainable levels." He added, "Lebanon's banking system remains resilient and enjoys high liquidity levels, supported by loyal depositors and broadly stable remittances from the large Lebanese Diaspora. The Lebanese pound also remains stable and the peg to the dollar will be maintained, supported by large and increasing foreign currency reserves.

Mr. Nassib Ghobril, Chief Economist and Head of the Economic Research & Analysis Department at Byblos Bank, stated, "Lebanon could have avoided the prevailing economic slowdown if political parties and government officials in the country made a concerted effort to prioritize economic and financial issues by focusing on reforms that would improve the economy's competitiveness and attractiveness. Instead, economic activity continues to be hampered by weak public-service delivery, a deteriorating infrastructure, an expanding and bloated public sector, and elevated operating costs."

Dr. Iradian noted, "An exit from the debt overhang will require strong fiscal efforts and structural reforms to reduce the deficit significantly and on a sustainable basis. The magnitude of the required fiscal adjustment calls for both expenditure and revenue measures, including the following: (i) restraining the public wage bill; (ii) reforming the public-sector pension system; (iii) restructuring the electricity sector to reduce budget transfers to EdL; and (iv) increasing tax compliance.

Mr. Ghobril stressed that "despite the ongoing slowdown, vital indicators point to the continued stability of public finances, the exchange rate and the banking sector, which provides an opportunity for stakeholders to implement structural reforms and help the economy benefit from international financial support." He considered that "the economy requires concerted political

and policy efforts for consumer confidence and investor sentiment to rebound. If combined with structural reforms, this would raise economic growth to higher and sustainable levels." He stressed that "policymakers must avoid complacency and need to tackle the challenges ahead in order to reduce public finance imbalances and preserve financial and monetary stability."

Lebanon's Main Macroeconomic and Financial Indicators					
	2015	2016	2017	2018	2019
Nominal GDP, \$ billion	49.9	51.5	53.9	57.2	61.4
Real GDP % change	0.2	1.7	1.8	1.3	2.1
Private consumption	2.4	6.3	1.8	-1.3	1.5
Public consumption	5.8	1.3	0.1	7.5	2.9
Total investment	-4.3	6.9	-2.0	-4.3	4.1
Exports of goods & services	6.7	-3.6	1.5	3.2	4.8
Imports of goods & services	6.5	9.8	-3.2	-2.6	3.0
CPI inflation, average, %	-3.8	-0.8	4.5	5.7	3.8
Current account, % GDP	-17.3	-20.5	-23.0	-21.5	-20.4
Official reserves, \$ billion	38.8	43.3	43.5	44.0	44.2
Fiscal balance, % GDP	-7.9	-9.6	-7.0	-9.7	-9.1
Gov't debt, % of GDP	140.9	145.5	147.7	150.7	151.4
Gov't debt, % of M3	56.9	56.4	57.4	59.8	61.1

Source: Institute of International Finance.

The Washington, D.C. based Institute of International Finance is the leading global association of financial services firms with more than 450 member institutions. Byblos Bank, one of Lebanon's top three banks, is a long-time member of the IIF, and boasts one of the largest and best-spread domestic branch networks in Lebanon. It is listed on both the London Stock Exchange and Beirut Stock Exchange.

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