



بنك الإمارات دبي الوطني
Emirates NBD

Lebanon Update

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Lebanon Update

Speculation around Lebanese debt restructuring, or even the demise of its long-maintained currency peg, have once again appeared to have been premature, as a couple of positive developments over the past week have seen a marked improvement in the country's risk profile. While there remain significant challenges in the Lebanese economy, the risk of a crisis appears to have been averted for now, especially with reserves still equivalent to around 11 months of import cover. Reforms are still essential, but Lebanon has been given a stay of execution for now.

News of new government received favourably

Some nine months after elections were held in May last year, it was announced on Friday that Lebanon has formed a government, in a potential inflection point for the country after the past several months of escalating concerns over its financial stability. This followed earlier positive developments the previous week when both Qatar and Saudi Arabia affirmed their commitment to Lebanon's stability, with Qatar stating it would buy USD 500mn of government bonds. On the back of these developments, Lebanon's five-year CDS has retrenched to 709 at the time of writing on February 2, levels last seen in November. Yields on its 2028 eurobond have also declined, from a recent peak of 11.5% in January to 9.4%, the lowest level since July.

Lebanon Eurobond 2028, % yield



Source: Bloomberg, Emirates NBD Research

The delay in government formation, coupled with GCC states being seemingly less committed to Lebanon than they had been in the past, was among the primary concerns around the economy, but with both of these dangers seemingly passed, the outlook is brighter. The formation of a new government paves the way for the release of USD 11bn in funding pledged at the CEDRE conference in Paris last April, and for the implementation of essential reforms more generally. Prime minister Saad Hariri is expected to announce the new government's policies on Monday, and while there is not expected to be anything contentious contained within this that might alienate one or other of the factions in the new administration, he has signaled that it will move ahead with fiscal consolidation. While easier said than done, especially in light of the disparate stakeholders represented within the government, the vocal commitment to it is encouraging, and will help stem the growth in Lebanon's debt levels, among the highest in the world.

Depending on how quickly the CEDRE funds are allocated, the government formation provides potential upside risk to our growth forecast for Lebanon this year, currently just 0.9%. Nevertheless, it will still likely remain quite slow as the private sector comes under pressure. Investment appears to have been weak in recent months, with both cement deliveries and building permits seeing substantial falls over the year in a negative signal for the real estate sector, while the PMI remains stubbornly in sub-50 contractionary territory. Potential growth spots include the tourism sector, which saw visitor growth of 13.0% y/y over January to November last year, and improving security in neighbouring Syria. This could boost trade and transit activity, and potentially see some Syrian refugees resident in Lebanon turn home, reducing the burden on the government.

Tail risks

One risk that should not be discounted is that the US could look to impose sanctions on elements of the Lebanese economy, and pressure other countries and bilateral agencies to do the same, over the more prominent role of Hezbollah in the new government. One of the factors which held up the government formation was the party pushing for power more equivalent to its share of the vote, and the appointment of Jamil Jabak as health minister is seen as a sop to this. While not a member of Hezbollah, he has previously served as physician to Hassan Nasrallah. Several US officials have highlighted their concern over this development in the past several days.

Key Economic Forecasts: Lebanon

National Income	2016	2017	2018e	2019f	2020f
Nominal GDP (LBP bn)	76065	81706	87315	92833	99242
Nominal GDP (USD bn)	51.1	57.3	62.4	66.3	70.9
GDP per capita (USD)	11614	12912	13963	14762	15697
Real GDP Growth (% y/y)	1.0	0.6	0.8	0.9	1.7
Monetary Indicators (% y/y)					
M2	5.3	5.0	10.0	10.0	10.0
CPI (average)	-0.8	4.5	6.3	5.4	4.8
External Accounts (USD bn)					
Exports	3.9	4.0	4.2	4.9	5.1
Imports	17.9	18.4	18.8	20.3	21.9
Trade Balance	-14.0	-14.4	-14.6	-15.4	-16.8
<i>% of GDP</i>	-27.4	-25.1	-23.5	-23.3	-23.7
Current Account Balance	-10.5	-12.1	-12.2	-12.9	-14.1
<i>% of GDP</i>	-20.5	-21.2	-19.6	-19.4	-19.9
Reserves	39.6	42.0	40.3	39.5	39.1
Public Finances					
Revenue (LBP bn)	14959	17524	13840	13916	13955
Expenditure (LBP bn)	22412	23186	20912	21192	21580
Balance	-7453	-5662	-7072	-7276	-7625
<i>% of GDP</i>	-9.8	-6.9	-9.6	-9.9	-7.9
Central Government Debt (LBP bn)	112911	119998	138014	150565	155843
<i>% of GDP</i>	148.4	146.9	158.1	162.2	157.0

Source: Haver Analytics, Emirates NBD Research

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Emirates NBD Research & Treasury Contact List

Emirates NBD Head Office
12th Floor
Baniyas Road, Deira
P.O.Box 777
Dubai

Jonathan Morris
General Manager Wholesale Banking
JonathanM@emiratesnbd.com

Aazar Ali Khwaja
Senior Executive Vice President
Global Markets & Treasury
+971 4 609 3000
aazark@emiratesnbd.com

Tim Fox
Head of Research &
Chief Economist
+9714 230 7800
timothyf@emiratesnbd.com

Research

Khatija Haque
Head of MENA Research
+9714 230 7803
khatijah@emiratesnbd.com

Anita Yadav
Head of Fixed Income Research
+9714 230 7630
anitay@emiratesnbd.com

Shady Shafer Elborno
Head of Macro Strategy
+9714 2012300
shadyb@emiratesnbd.com

Athanasios Tsetsonis
Sector Economist
+9714 230 7629
athanasiost@emiratesnbd.com

Edward Bell
Commodity Analyst
+9714 230 7701
edwardpb@emiratesnbd.com

Daniel Richards
MENA Economist
+9714 609 3032
danielricha@emiratesnbd.com

Aditya Pugalia
Financial Markets Research
+9714 609 3027
adityap@emiratesnbd.com

Mohammed Altajir
FX Analytics and Product Development
+9714 609 3005
mohammedtaj@emiratesnbd.com

Sales & Structuring

Group Head – Treasury Sales
Tariq Chaudhary
+971 4 230 7777
tariqmc@emiratesnbd.com

Saudi Arabia Sales
Numair Attiyah
+966 11 282 5656
numaira@emiratesnbd.com

Singapore Sales
Supriyakumar Sakhalkar
+65 65785 627
supriyakumars@emiratesnbd.com

London Sales
+44 (0) 20 7838 2241
vallancel@emiratesnbd.com

Egypt
Gary Boon
+20 22 726 5040
garyboon@emiratesnbd.com

Emirates NBD Capital

Ahmed Al Qassim
CEO- Emirates NBD Capital
AhmedAQ@emiratesnbd.com

Hitesh Asarpota
Head of Debt Capital Markets.
+971 50 4529515
asarpotah@EmiratesNBD.com

Investor Relations

Patrick Clerkin
+9714 230 7805
patricke@emiratesnbd.com

Group Corporate Affairs

Ibrahim Sowaidan
+9714 609 4113
ibrahims@emiratesnbd.com

Claire Andrea
+9714 609 4143
clairea@emiratesnbd.com