

## Lebanon's GDP declines to \$44 billion from \$55 billion

**Osama Habib**

BEIRUT: Lebanon's has entered a recessionary mode as most economic indicators deteriorated rapidly over the past seven months while businesses in general have either closed or scaled down their size.

There are no new official figures on the real Gross Domestic Product although most economists believe that the GDP has dropped from \$55 billion to \$44 billion and maybe less.

This also means that Lebanon's debt to GDP is now 170 percent instead of 155 percent.

The drop in GDP is attributed to several factors such as a decline in investments, decline in government revenues and decline in consumer spending.

The Lebanese government of Prime Minister Hassan Diab is now hammering out a rescue plan that addresses the fiscal deficit and the economy.

But there is serious doubt the government will be able to bail out the economy in the short and medium term due to the fact that the state does not have access to billions dollars of cash to inject them into infrastructure projects.

Furthermore, the government needs more than actual reforms to kick start the economy.

The decision by the government to default in the payment of the \$1.2 billion Eurobond and the rest of the bonds this year has also added pressure on the government.

Tuesday, Moody's Investors Service warned that private creditors faced significant losses as a result of the government's decision to defer payment of the March 2020 Eurobond.

"A sovereign default would have a significant negative impact on banks' financial health, and further undermine the economy and the sustainability of the peg," said Elisa Parisi-Capone, a Moody's vice president-senior analyst and the report's author.

Fitch Ratings Monday downgraded Lebanon's long-term foreign currency issuer default rating to "C" from "CC." Fitch said a failure by Lebanon to make the principal payment during the seven-day grace period will put the sovereign into 'restricted default' and the bond into "default."

Marwan Barakat, the head of the economic research at Bank Audi, said real GDP growth is likely to be negative this year. "As a matter of fact, Lebanon's economy has moved into a recessionary mode with net contractions across a number of sectors of economic activity. The so-called defensive sectors of Lebanon's economy now start to lose steam, while the vulnerable sectors went further in the red," he explained.

He added that what is weighing most on growth is the weakness in private investment, with delay or cancellation of most private investment decisions. "Growth enhancement requires a supportive political environment and the launch of structural reforms that would stimulate demand for goods and services, reinforce the competitive edges of the Lebanese economy along with strengthening the overall confidence factor. The key here is to stimulate private demand because government demand is apt to be contractionary within the context of the fiscal adjustment requirement," Barakat said. He stressed that the corollary subchallenge is to stimulate private investments, noting that investment has the largest impact on growth through the investment multiplier effect.

"Lebanon needs to raise significantly the private investment from its 20-year record low of below 20 percent today. The investment growth would reinforce the job component of growth that calls for the creation of job opportunities to absorb more than 30,000 Lebanese who join the labor force every year. The stimulation of private investment requires the improvement in the business environment through the reduction of operating costs, the improvement of the ease of doing business in Lebanon, along with the cut interest rates that generated significant crowding out effects on private investment over the past few years," he added.

Consumer confidence also deteriorated sharply in the 4th quarter of 2019, according to Byblos Bank.

The results show the Index averaged 47.8 in the fourth quarter of 2019, constituting a decrease of 30.7 percent from 69 in the third quarter of 2019 and a drop of 36.7 percent from 75.5 in the fourth quarter of 2018.

Further, the Byblos Bank/AUB Present Situation Index averaged 40.3 in the fourth quarter of 2019 and decreased by 35.4 percent from the preceding quarter, while the Byblos Bank/AUB Expectations Index averaged 52.8 and regressed by 28.1 percent from the third quarter of 2019. In addition, the average monthly score of the Index in the fourth quarter of 2019 was 54.8 percent lower than the quarterly peak score of 105.8 registered in the fourth quarter of 2008, and remained 50.5 percent below the annual peak of 96.7 reached in full year 2009.

The fourth-quarter results constitute the 21st lowest level in 50 quarters.

Commenting on the results, Nassib Ghobril, chief economist and head of Economic Research and Analysis at the Byblos Bank Group stated, "household sentiment plunged to its lowest level since the fourth quarter of 2016, as the mounting frustrations of Lebanese citizens at the deteriorating socio-economic conditions led to the eruption of nationwide protests on Oct. 17."

He added "the accumulation of grievances over worsening economic conditions, as well as the increased dissatisfaction at the failure of the political class to address the long-standing socio-economic challenges in the country, triggered the national protests."