

SAVING
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LIVES

Lebanon

Market Bulletin – Q2.2018



World Food
Programme

July 2018



Lebanon

Market Bulletin (Q2-2018)

Highlights:

- Lebanon's CPI (Consumer's Price Index) has been increasing since March 2018 to record **106.7, 107, and 107.2** for April, May, and June 2018 respectively;
- The country's general economic climate is expected to witness some relief after the positive impact of the "CEDRE" conference, promising a total of **\$11 billion in loans and grants** mainly targeted to infrastructural projects;
- Lebanon's political climate feels like less tensioned after the latest parliamentary elections last May, and a new government will be formed soon;
- According to the Ministry of Tourism tourists who visited Lebanon in 2017 increased by 10% from 2016 to reach 1.86 million
- Minimum Expenditure Basket (MEB): US\$114 per household of 5
- Survival Minimum Expenditure Basket (SMEB)¹: US\$87 per household of 5

A) Lebanon Macroeconomic Outlook:

The Lebanese economy was expected to grow at 2.5% for the year 2017, however the economic sluggishness and the political crisis of November 2017, coupled with the US\$3 billion conversions from LBP to foreign currencies have affected the recovery process. The parliamentary elections that took place on May 6th, 2018 is likely to revamp the business appetite in the country.

The political crisis between Lebanon and Saudi Arabia in November 2017 was widely believed to have caused a shock in the Lebanese markets triggering fund withdrawals from Lebanese banks during the following few months. However, the positive exist that ended the crisis was believed to have made the economy regain trust in the last month of 2017 and beginning of 2018. Banks' assets have grown by a total of US\$16 billion throughout the year of 2017 (Source: BLOM Bank and Central Bank).

¹ The Minimum Expenditure Basket (MEB) for the second quarter of 2018 is US\$114. It is calculated for a household of 5 persons. It was derived by calculating the minimum cost of living for households living close to the poverty line. The Survival Minimum Expenditure Basket (SMEB) measures the minimum expenditure of surviving. It is set at \$87 for the second quarter of 2018.

Despite of all the uncertainty in the year 2017 the Central Bank has managed to raise its foreign assets by more than US\$1 billion in 2017 to reach around US\$42 billion by the end of 2017. Foreign assets have continued to grow in Q2-2018 to reach US\$45.3 billion by and of May 2018, compared to US\$38 billion in May 2017 (Source: Central Bank). The Coincident Indicator (measures economic activity within a random area; production /employment/ earnings) has recorded a level of 325.7 in April 2018, compared to a level of 317.6 in April 2017 (Source: The Central Bank).

The general inflation rate has recorded +3% during the whole year 2017, and +3% for the first half of 2018. The CPI (Consumer’s Price Index) has been increasing since March 2018 to record 106.7, 107, and 107.2 for April, May, and June 2018 respectively. Highest increase was recorded in the prices of electricity, gas, and other fuels (+8.5%), and lowest increase was observed in prices of education (+0.3%).

According to Beirut International Airport 2 million passengers have entered Lebanon during the first 6 months of 2018, compared to 1.8 million during the same period of 2017. This represents an 11% year-to-year increase. Trade Deficit recorded by Lebanese customs accounted to \$16.5 billion in 2017, compared to a previous \$16.1 billion for the year 2016. All these figures reflect a slightly improved economic outlook in 2018 than in 2017.

The national gross domestic product has recorded US\$50 billion for 2017 (way below expectations). Figure 1 shows the evolution of Lebanese GDP (Source: World Bank and IMF)

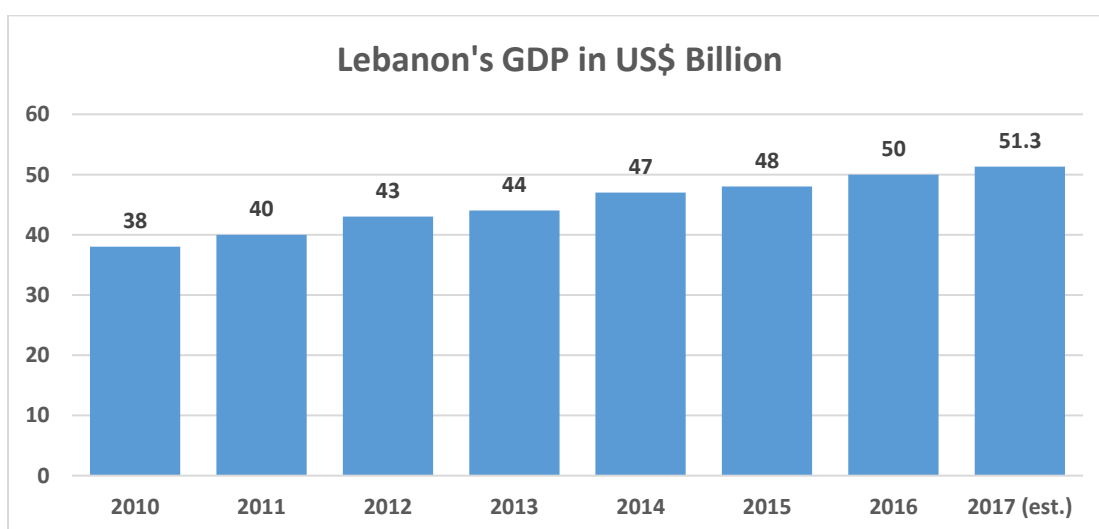


Figure 1: The IMF has estimated a growth of 2.5% in Lebanon’s GDP 2017 despite all the political troubles throughout the year (Source: IMF)

Despite the ambiguity observed at the end of 2017, commercial banks’ deposits continue to grow at a steady rate (Figure 2). In fact, Lebanon has one of the highest banks’ deposits to GDP ratios in the world (Figure 3).

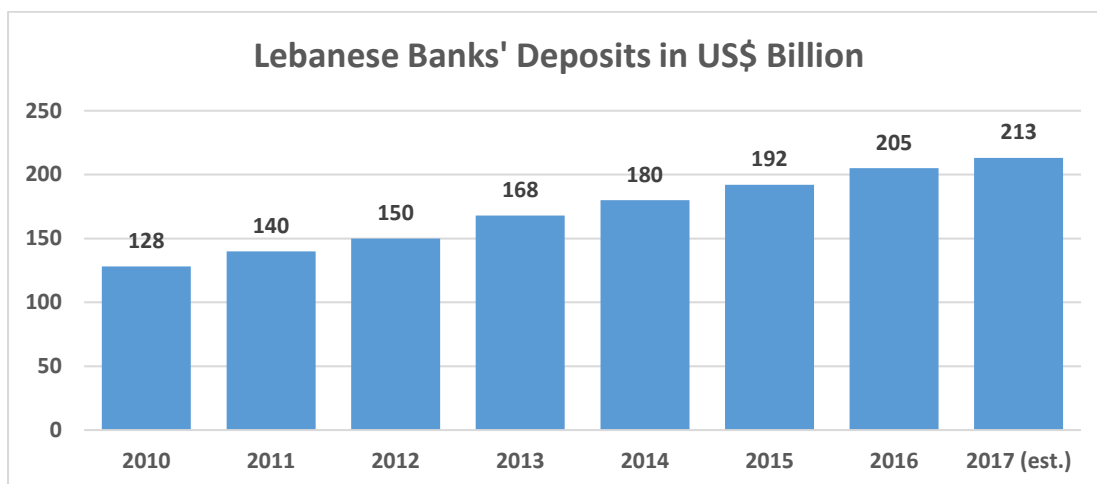


Figure 2: Banks’ deposits continue to grow at a steady rate regardless of the uncertainty (Source: Central Bank of Lebanon)

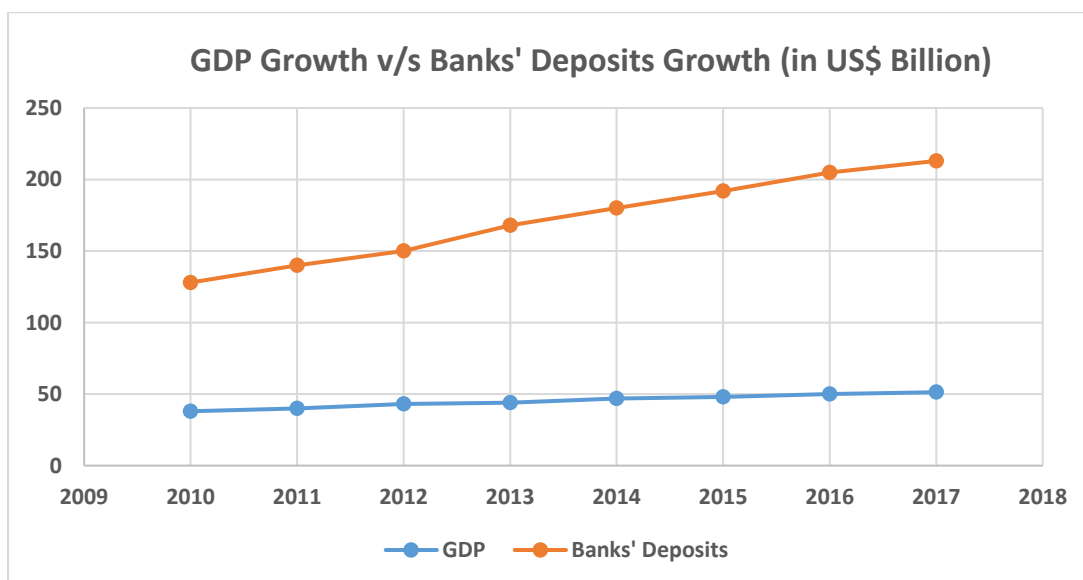


Figure 3: Banks’ deposits are almost 4 times the GDP (one of the highest in the world)

Real Estate Sector:

The real estate sector is still very prudent in Lebanon. Both suppliers/sellers and buyers are in a “wait and see” state, especially after the suspension of residential loans from both the government and the Central Bank. As for the indicators, the number of sale transaction registered on a national level grew from 14,181 transactions in the first quarter of 2018, to 17,767 transactions in the second quarter of the year (15% increase, source: Land Registry Directorate). As for construction permits’ figure published by the Order or Engineers in Beirut, construction permits have decreased (in SQM) from 7.5 million of square meters in 2016, to 6.9 million of square meters in 2017 (-8.7%, source: Order of Engineers in Beirut)



Beirut recorded the highest increase in surface of construction permits, from 353,000 sqm in 2016 to 521,000 sqm in 2017 (+47.5%), which indicated that real estate in the capital city is still growing. The biggest decrease in construction permits was recorded in El Nabatieh, from 925,000 sqm in 2016 to 790,000 sqm in 2017 (-14.6%).

B) Rent Prices:

As per the Central Administration of Statistics (CAS), average rents have increased by +2.2% during the first half of 2018.

In the last 4 years, and as per the same source, the highest inflation rate in rent prices was observed in the North (36.2% increase since 2014), and the lowest increase was observed in Nabatieh (6.6% increase since 2014). To compare this to VASyR 2017 Data (the Vulnerability Assessment of Syrian Refugees in Lebanon), over-all rents for Syrian refugees have increase by +2.5% in 2018 compared to 2017. However, an alarming increase was observed in the informal settlements rents (tents, prefabricated houses) for Syrian refugees: rent of informal settlements has doubled in both Bekaa and North since 2016, this same category rents have doubled in Bekaa in only one year (from 2017 to 2018). Figure 4 reflects the 4-year rents evolution.

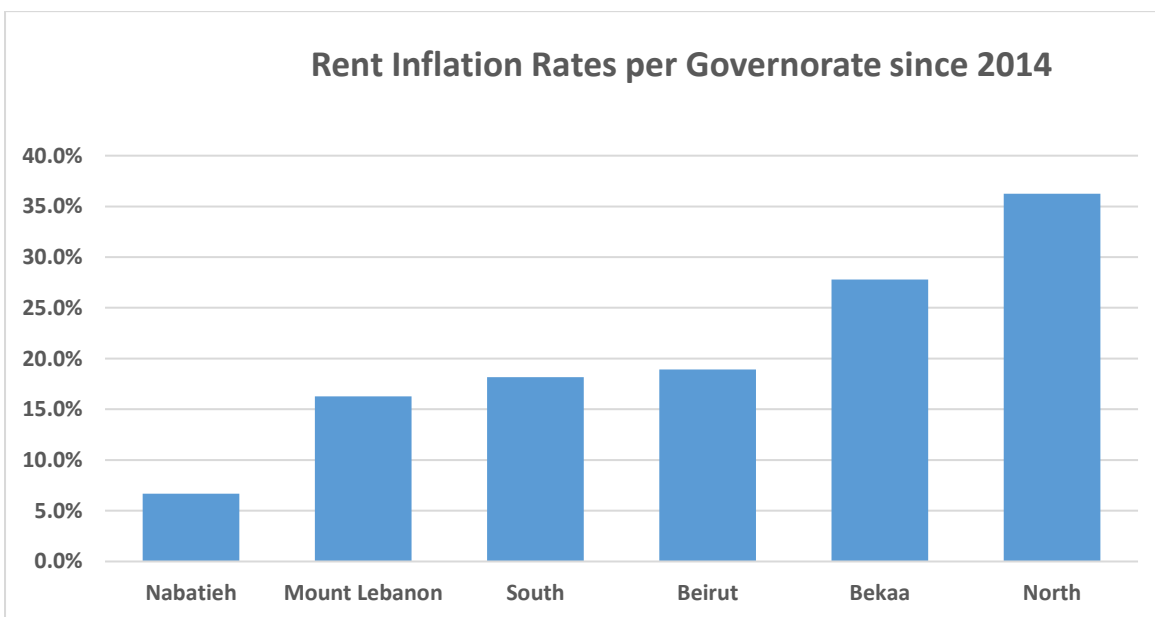


Figure 4: Rent prices inflation by governorate since 2014 (Source: Central Administration of Statistics – CAS)



C) Food Prices

The Central Administration of Statistics (CAS) estimates the increase in food prices for the first half of 2018 to be +2.6% (compared to +0.2% during the first half of 2017). The upsurge in food and non-alcoholic beverages prices varies between governorates; North has recorded the highest rise with +6.6%, followed by Beirut (+3.5%), Nabatieh (+3%), Mount-Lebanon (+0.7%), whereas food prices in Bekaa and South remained unchanged. Figure 5 demonstrates food prices inflation by governorate.

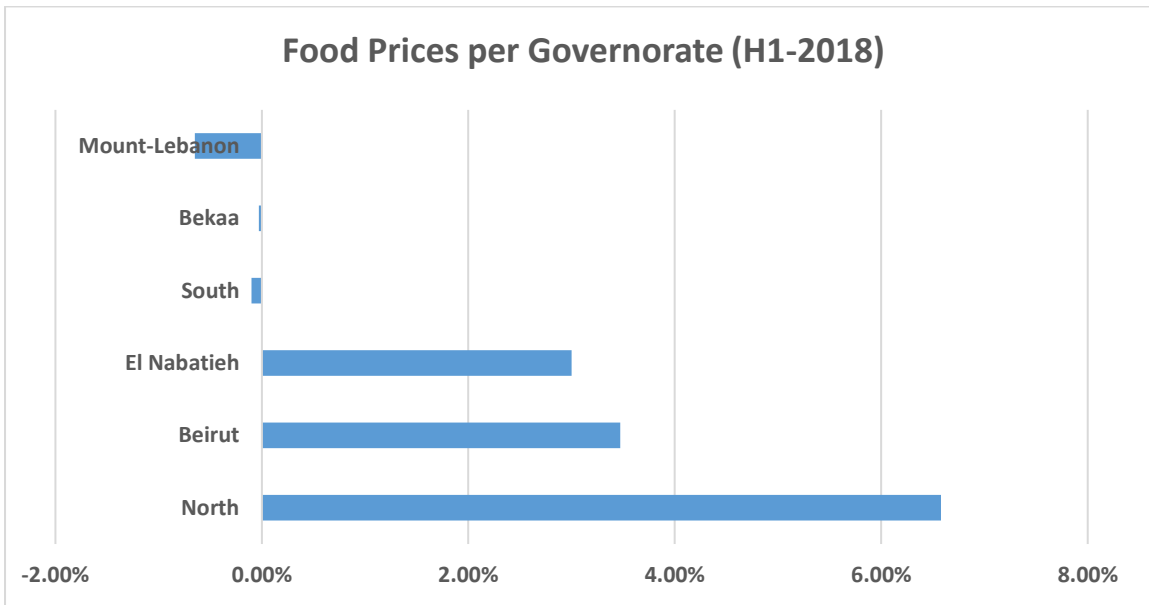


Figure 5: Food prices evolution by governorate



Food Prices Forecasting

Projecting consumers' products prices in Lebanon is difficult in the absence of any clear trends or rules, however by following the trends of the national CPI (Consumer Price Index), raw materials prices, and the economic and political conditions, we can have an estimation of the direction of prices: Prices of food in 2018 are rising at a faster rate than 2017. When analysing the CPI of Lebanon published by the Central Administration of Statistics (CAS), we can forecast the CPI to endure the trend within the range of 104 to 105, as no surprises are expected in the coming quarter. The election of the new parliament is spreading vibes of optimism in the country, in the absence of any severe crises in raw materials.

Inflation rate is also expected to be higher than 2017. Figure 6 shows the CPI during the first 6 months of 2018 compared to 2017. This indicates that inflation in 2018 is going much faster than 2017. In fact, inflation recorded +3% for the full year 2017, and the same +3% for the first half of 2018 alone.

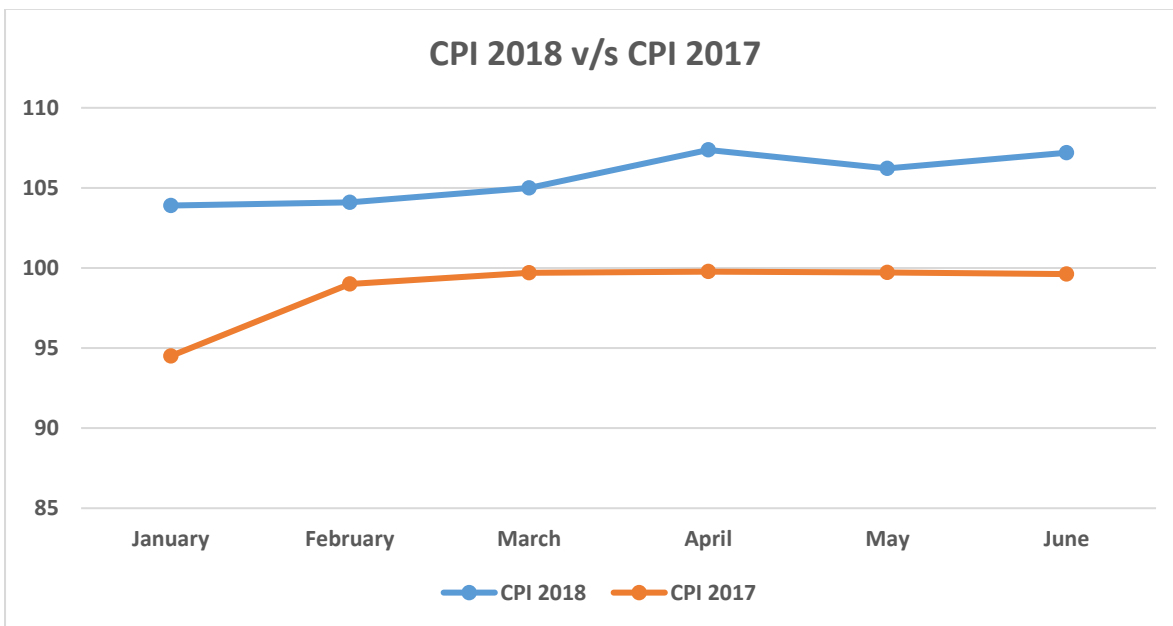


Figure 6: Consumer's Price Index 2018 v/s 2017



D) Energy and Non-Food Prices

As per CAS (Central Administration of Statistics) fuel, electricity, and cooking gas prices have increased by +8.5% in the first 6 months of 2018, while transportation cost increased by +7.7% during the same period, and health cost increased by +2%.

E) The Consumer Confidence Index for Q1-2018:

In the latest Byblos Bank/AUB Consumer Confidence Index published in May 2018, which is an index that measures the sentiment and expectations of Lebanese consumers toward the economy and their own financial situation, the index recorded a level of 60.8 for the first quarter of 2018, compared to a level of 58.5 for first quarter of 2017. The index also showed improved optimism by the end of the of the year 2017 (61.8). The Index was compiled, implemented and analysed in line with international practices and according to criteria from leading consumer confidence indices worldwide. It is composed of two sub-indices, the Byblos Bank/AUB Present Situation Index and the Byblos Bank/AUB Expectations Index (Figure 7).

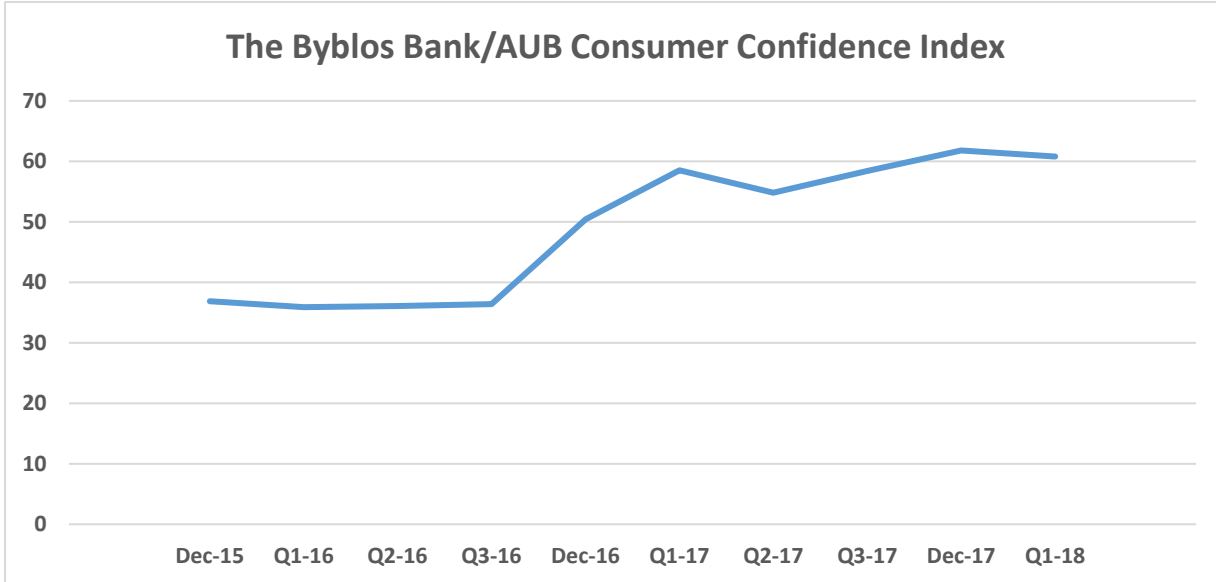


Figure 7: The Byblos Bank/AUB Consumer Confidence Index (Source: Byblos Bank)