



K U L L U N A I R A D A

---

# ECONOMIC BRIEF MAY 2019

May 2019

# Worrying signs of a continued slowdown accompanied by capital flight

Economic indicators are showing signs of a prolonged slowdown (0.2% Growth in 2018), along with a relatively high inflation rate. This stagflation is accompanied by capital flight as the macro and fiscal backdrops worsen, raising doubts of the Treasury's ability to meet its obligations. On the other hand, while the balance of payments deficit accelerates, the need for BDL to fill this gap is rising proportionally. Meanwhile BDL has maintained its most recent basket of unconventional monetary policies aimed at topping up its hard currency reserves, offering in exchange sizable profits for the local commercial banking sector.

Furthermore, BDL has been covering the Treasury's commitments from its own pocket. The central bank has paid USD 2.152Bn in directly to cover maturing principal and coupons for Lebanese Eurobonds

Meanwhile signs from leading economic indicators all show that the adverse economic situation will continue:

## THE ECONOMY IS SUFFERING

**-35.75% Cement Deliveries**  
Y/Y during Q1 2019

*This drop signals a contraction in the real-estate sector which is one of the main drivers of the economy in Lebanon.*

**-4.27% BDL Coincident Indicator**  
Y/Y during Q1 2019

*This index gauges economic activity across eight key sectors, showing a general slowdown in economic activity across the entire economy.*

**+2.91% Imports**  
Y/Y during Q1 2019

*Imports have shown signs of seasonality during Q1 2019, however net they have risen by 2.91% during Q1 2019; this signals an acceleration of the loss of dollars slowly crippling the economy.*

**+4.01% Inflation Rate**  
Y/Y April 2019

*Inflation continued its momentum due to higher oil prices and the strengthening of the USD.*

## +0.83% Commercial loans Y/Y February 2019

By itself the figure is neutral; but taking in to mind that the consolidated balance sheet of all Lebanese commercial banks rose by 12.18% Y/Y over the same period, this signals a slowdown in bank lending as a result of the deteriorating economic backdrop and lack of liquidity in the banking system due to BDL's policies.

## FINANCING NEEDS ARE GETTING HARDER TO SATISFY

### USD 3.305Bn Balance of Payments Deficit Between January and April 2019

This indicates that dollars are flowing out of the country, in a nation dependent on dollar inflows to fund the fiscal and trade deficits this is worrying scenario. Capital flight has expanded remarkably when taking in to account 2018's deficit of USD 4.823Bn.

### -9.24% BDL Foreign Currency Reserves Y/Y April 2019

BDL has been single-handedly funding the fiscal deficit, balance of payments deficit, and its unconventional monetary policies. This has led to a large drop in its foreign currency reserves and weakened its ability to respond to a speculative attack on the currency peg.

### BDL'S POLICES:

Bank	Bank Interest Income YoY Q1 2019
BLOM	+27.20%
AUDI	+15.19%
Byblos	+26.50%

**55.2% BDL share of Domestic Public Debt** VS **1.3% Banking Sector Share of Domestic Public Debt**  
Of debt released in Q1 2019

The Central Bank is continuing its unconventional monetary policies to sustain sufficient demand on the Lebanese Lira, while generating sizable profits for the Lebanese commercial banking sector at the cost of its currency reserves. These policies have led to a rise in leverage across the banking sector and made them reliant on BDL to generate their profits. Indeed, the banks have slowed down loan creation and investing in government debt securities.



Kulluna Irada is a civic organization for political reform, engaged in setting the foundations for a modern, secure, efficient, sustainable and just state. It is funded exclusively by Lebanese citizens in Lebanon and abroad. Kulluna Irada believes transparency, accountability and citizen participation as major constituents of good governance. The organization's goal is to raise awareness on public issues and engage constituencies of the Lebanese society: citizens, NGOs, experts, municipalities, and members of Parliament and Government in order to find and implement sustainable solutions.

**Kulluna Irada**

Beirut Digital District  
BDD 1281, Ground Floor  
Syriac Patriarchate Street  
Bachoura – Beirut, Lebanon  
+961 1 640 020  
[info@kulluna-irada.org](mailto:info@kulluna-irada.org)