# Lebanon’s GDP growth forecast revised downward

Osama Habib| The Daily Star 2-10-2018

BEIRUT: Lebanon’s GDP growth projection has been revised downward from 2.5 percent to less than 1.4 percent in 2018, as the country struggles to cope with a sluggish economy and the absence of a government that is needed to implement essential reforms, bankers said Monday. “The GDP growth projection has been revised after the expectations to form a Cabinet soon faded.

“But one should make it very clear that an economic slowdown does not necessarily mean that Lebanon’s monetary situation is at risk.

“As a matter of fact, the monetary situation is very stable, thanks to the large foreign currency and gold reserves held by the Central Bank.

“In addition, the CDS [credit default swap] spread on the sovereign bonds has dropped,” one leading banker told The Daily Star.

He added that the delay in the formation of the government has resulted in the country missing opportunities that could have helped to stimulate the economy.

Another banker noted that over the past two weeks there has been an improvement in the market perception of Lebanon’s sovereign risk, as reflected by the contraction in sovereign CDS spreads. “The five-year CDS spread contracted from a high of 830 basis points in mid-September to 690 basis points today.

“At the Eurobond market level, foreign investors saw buying opportunities at low prices and stepped in.

“The average Eurobond spread contracted from above 11 percent a couple of weeks ago to 9.92 percent today. In the event of a Cabinet formation, there will be further price upside, yield contraction and spread reduction,” the banker said.

All the bankers interviewed by The Daily Star brushed off a report by Reuters in recent days that had speculated over whether Lebanese banks will be able to continue to bankroll the government in view of the volatile emerging bond market.

Lebanese banks hold a big chunk of sovereign Eurobonds, close to 40 percent of the total government public debt. The remaining 60 percent is in the form of Treasury bills in Lebanese-denominated currency. “The Lebanese bond market has improved drastically in the past few days as the CDS spread fell to less than 700 basis points from a peak of 900. The yield on the Eurobond was 11 percent and today the average yield on the Eurobond closed at 9.92 percent. I am talking about all maturities,” Marwan Barakat, the head of economic research at Bank Audi, said.

The value of Lebanese sovereign Eurobonds held by foreign investors is estimated to be around $5 billion from the total outstanding Eurobonds.

Marwan Kheireddine, the chairman of Al-Mawarid Bank, said the liquidity in the Lebanese Eurobond market is extremely thin, and this can trigger the prices to go up or down since there is no transaction or activity in the secondary market.

“At the outset of the last issue we had with our government, when Prime Minister Saad Hariri resigned, there was some selling in the international market by some of the international players who based their decision on whether to buy or to sell according to news or analytical reports.

“But honestly the volume of the bonds sold is very low and this is due to the inefficient market,” he added.

Previously, Banque du Liban had swapped around $20 billion worth of Eurobond with Lebanese banks.

“What we should watch is the CDS risk because this is the real benchmark for Lebanese sovereign Eurobonds.

“It reached a peak, for political reasons, when Hariri submitted his resignation, and now it’s going back to its norm,” he explained.

Kheireddine stressed that even some of foreign investors are reluctant to offload their investment portfolio in Lebanese Eurobonds for a simple reason: They care about the yield, rather than the price.

“The bulk of these Eurobonds is held by Lebanese banks and is not available for sale. I think the Eurobonds held by local banks are higher than $16 billion,” he added. “Most people who hold these bonds hold them for their maturity, and the yield they generate, and for this reason many of them are not willing to sell,” Kheireddine said.

He emphasized that there is no risk whatsoever to the monetary situation, due to the large foreign currency reserves held by BDL.