Rotary Dinner Talk

16 January 2018

Lebanese Economy
State of Play in 2017

- Growth: 2% in 2017 vs 1% in 2016 driven mainly by tourism but still low
- Real economy under pressure: Risk of salary increases
- Public sector salary increase: impact on budget expenditures = LL2000 billion: Huge Fiscal impact

- Tax increases: Greatest impact on banking sector
- November crisis:
  - Interest rate increase
  - Liquidity crisis: interbank 110%
  - F/X reserves: down by $1.6 billion
  - Total conversions: $6 billion
  - BoP deficit: $1.6 billion

→Economic and fiscal situation is under intense pressure

No Imminent Risk on Lira

Sufficient F/X reserves at BDL to support Lira: USD 42 billion+ gold

Most of foreign currency denominated debt is held by local banks and 61% of local debt is in LL

Yields on deposits held at Lebanese banks are high and provide sufficient coverage of country risk

High vested interest of banking sector to continue refinancing debt

Non resident deposit growth is sufficient even though lower in recent years

Achievements in 2017

- 2017 budget after 12 years hiatus
- Oil and gas decrees
- Oil and gas exploration contract
- PPP law
- Reactivation of ECOSOC
- Reduction in internet fees, launch of fiber optic and 4G networks, 500,000 new lines
- Wind energy decree
- Syrian refugee strategy
- Electricity emergency plan
- International support group for Lebanon

Economic Objectives for 2018

Public finance:

Put debt on a sustainable path

Growth:

Achieve a rate sufficient to create job opportunities

Monetary situation:

Maintain the stability of the exchange rate

The Economically Challenging Period Requires Firm Measures

Aggressive revenue enhancement and expenditure cuts to reduce deficit

Electricity and telecom reforms mandatory for future growth and deficit curtailment

Capital expenditure program mobilization and implementation to modernize economy

Investment climate and doing business reforms to attract investments

Important Milestones in 2018 International Support for Lebanon

Political support for Lebanon translated into 3 conferences:

- **Rome 2 conference:** Lebanese army support
- **Brussels conference:** Support for alleviation of impact of Syrian refugees on Lebanon
- **CEDER 1:** Economic support for Lebanon: Lebanon will present CIP and structural reform agenda

Capital Investment Program

Huge investments to modernize infrastructure: electricity, transportation, solid waste, water…

$16 billion for 250 projects over 15 years

Generates 50,000 new jobs

Funding:

- **40% Private sector**
- **60%: WB, EU, Arab and others**

50% of projects in regional areas

Grants, concessional financing and guarantees

→Every USD 1 billion spent generates 3% growth

Oil and Gas

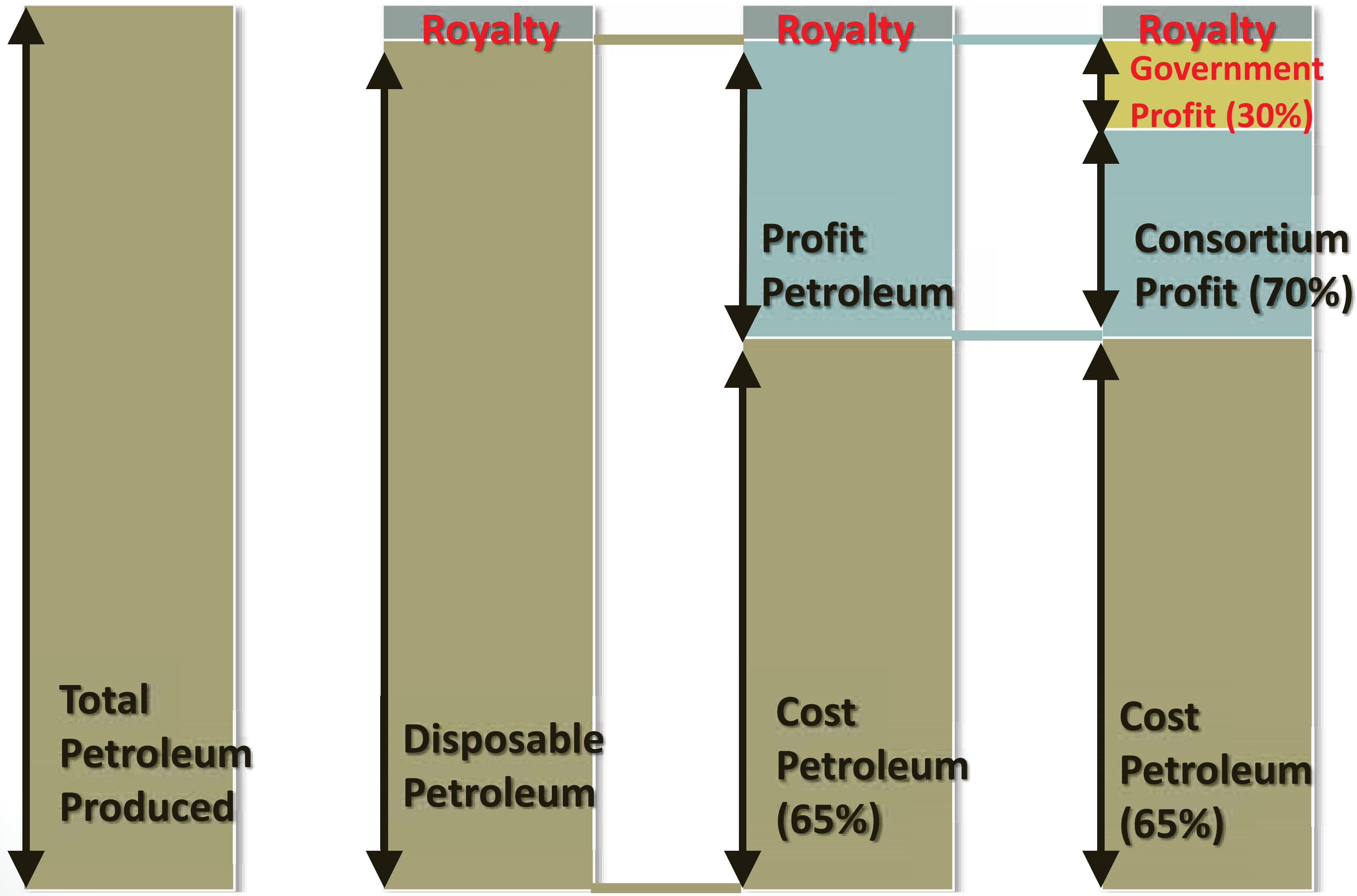
Blocks 4 and 9 auctioned to consortium: ENI, Novatek, Total

Exploration will start in 2019 → 2 drill holes in each of the blocks

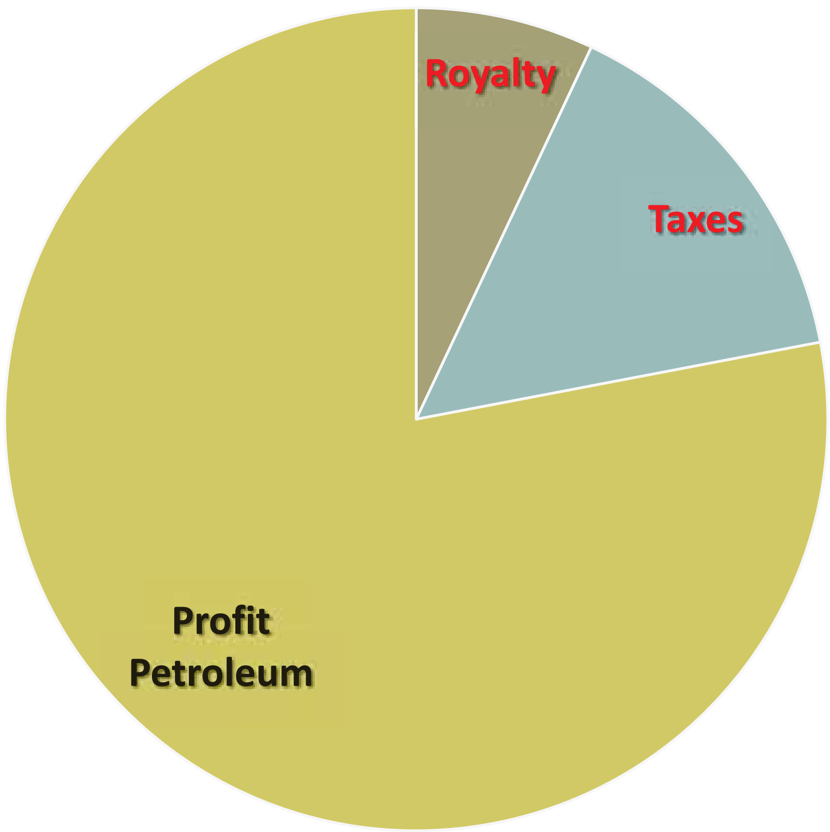
Proven reserves are not yet known

Revenues to government: Royalties, tax on profits and dividends and minimum 30% of petroleum profit

Oil and Gas agreement



Total Government Take



- MERR: 14% for Gas and a minimum of 15% for oil
- Tax on profit: 20%
- Tax on dividends: 10%

Oil and Gas Prospects

Not short term solution to Lebanon economic woes

10 years to collect profit: exploration (5-6 yrs) and development (2-3 yrs)n before production

Government Revenues may be effected by:

- **fuel prices in the long term**
- **cost of exploration in Lebanon deep sea**
- **pipelines installation cost**
- **commercialization prospects**

Sovereign Wealth Fund

Too early to setup?

Proceeds of oil and gas: Strategic Objectives:

Is it Wealth for future generations?

OR

Governance structure: who will manage fund?

Type of Fund:

Saving Fund

Stabilization Fund

Investment Fund

Pension Fund

Thank you!!!!