

# Lebanon Macro View

## What's behind those Lebanese remittances?

- In June's [Middle East Macro Monthly](#) we argued that country risk and sovereign risk in Lebanon were diverging, with the latter resting on the long-standing relationship between the local banking system and government finances. Our argument was that as long as deposit growth (mainly fuelled by the remittances of the Lebanese diaspora) holds up, then the willingness and ability of Lebanese banks to continue financing the government through local and international capital markets remains intact. This, we argued, underpins sovereign creditworthiness, diminishing the relevance of the sharply deteriorating socio-political and economic dynamics.
- The resilience of remittances and deposit growth in the face of severe domestic political turbulence is borne out by experience of the recent past. However, we continue to receive many questions from clients regarding the nature of these inflows: where do they come from? How big are they? Why does the diaspora continue to send money home in such a turbulent environment? To many investors, getting comfortable with the dynamics of Lebanese remittances is a pre-requisite to accepting the argument that sovereign risk has diverged from country risk.
- In this publication, we delve a little deeper into the origins and dynamics of Lebanon's remittances. We find they come from a well-diversified and well-established diaspora that is far larger, better educated and richer than that of any other country in the region, including traditional labour-exporters, such as Egypt, Jordan and the Maghreb. We also find, crucially, that the Lebanese diaspora continues to grow strongly, mainly because of the political and (more recently) economic turmoil that the country has witnessed in the past decade.
- These factors largely explain, we believe, not only why Lebanese remittances are greater (both in relation to the economy and on a per capita basis) than those in other regional countries, but also why they have proved stickier thus far. In particular, it is the growth in the Lebanese diaspora that appears to be the most critical driver of rising Lebanese remittances, a fact which, we argue, provides an economic counter-balance to deteriorating social and economic conditions within the country.

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## What's behind those Lebanese remittances?

In June's [Middle East Macro Monthly](#) we argued that country risk and sovereign risk in Lebanon were diverging, with the latter resting on the long-standing relationship between the local banking system and government finances. Our argument was that as long as deposit growth (mainly fuelled by the remittances of the Lebanese diaspora) holds up, then the willingness and ability of Lebanese banks to continue financing the government through local and international capital markets would remain intact. This, we argued, underpins sovereign creditworthiness, diminishing the relevance of the sharply deteriorating socio-political and economic dynamics.

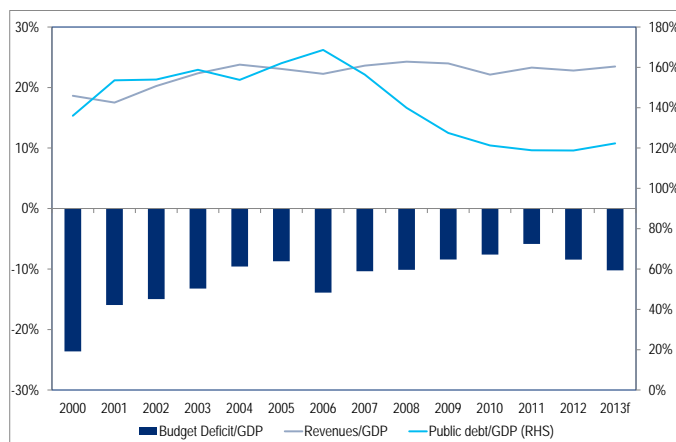
Although the resilience of (non-resident) deposit growth is borne out in the historical data, we continue to receive many questions from clients regarding the nature of these deposits: Where do they come from? How big are they? Why does the diaspora continue to send money home in such a turbulent environment? To many clients, getting comfortable with the dynamics of Lebanese remittances is a pre-requisite to accepting the argument that sovereign risk has diverged from country risk.

In this note, we take a closer look at the origin, composition and context of Lebanon's remittances. We find that the key driving force of the remittances is:

### Why do remittances matter?

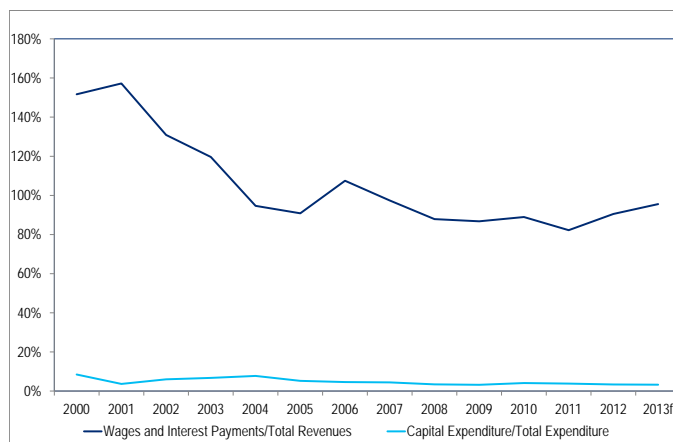
The Lebanese Government's finances are weak by most measures. Since the turn of the century, the government deficit has averaged over 11% of GDP per year, the public debt has averaged 140% of GDP (albeit with some recent improvement), and government revenues have hovered just over the 20% of GDP mark (very low by comparison with other emerging markets – fig 1). During this time, wages and interest expenditures have, on average, consumed more than the entirety of government revenues, and capital expenditure has represented a relatively paltry 5% of total government spending, or just over 1% of GDP (fig 2).

Figure 1. Lebanon's public finances are precarious despite recent improvements in debt/GDP



Source: Haver Analytics, Citi Research

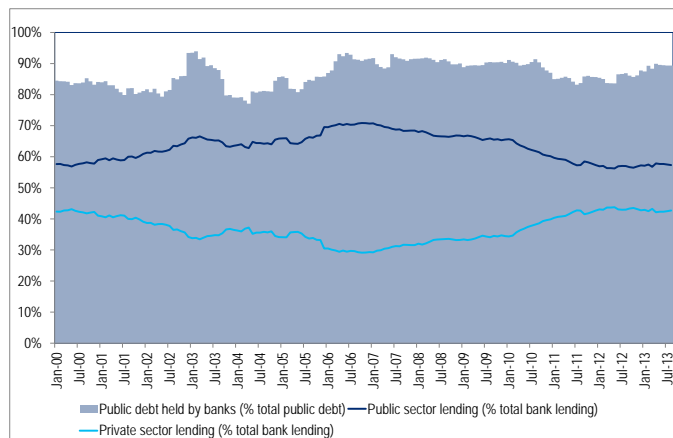
Figure 2. Wages and interest payments alone have come down but still consume almost all of revenues, while capital expenditure is weak



Source: Haver Analytics, Citi Research

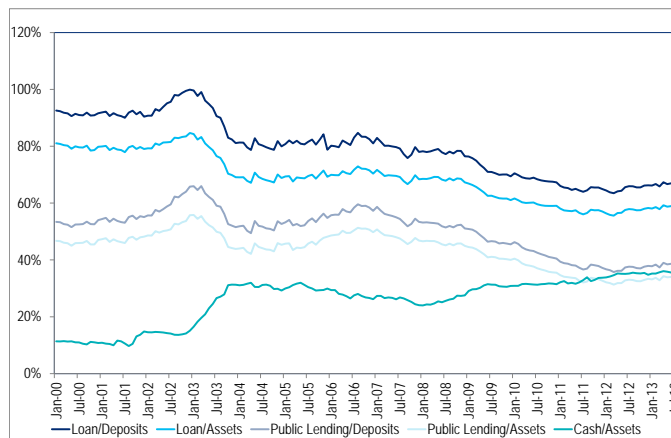
But unlike the some of the highly indebted peripheral European countries, the precarious debt dynamics have proved surprisingly stable due to one overriding factor: the majority of Lebanon's public debt is held by the domestic banking sector, which continues to be willing and able to finance the sovereign's deficit. Fig 3 shows that between 80% and 90% of the total outstanding gross government debt has been held by the banking sector since 2000. This represents the majority of total bank lending, with claims on the public sector peaking at around 70% of total lending in 2006.

Figure 3. Lebanese Government debt is mainly held by local banks, where government lending dominates total lending



Source: Haver Analytics, Citi Research

Figure 4. The banks have further capacity to lend, with falling loan/deposit ratios and rising cash reserves

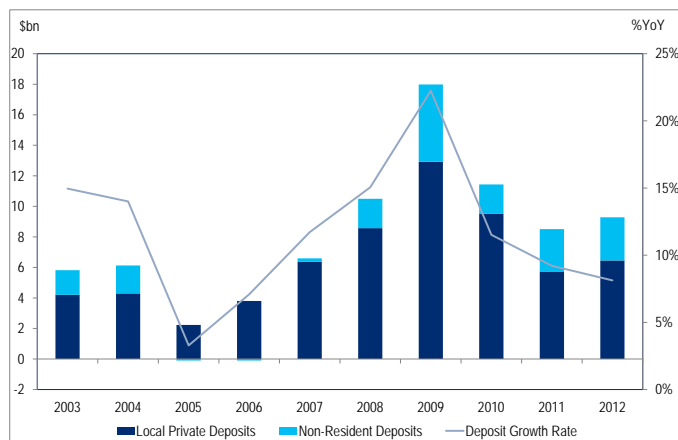


Source: Haver Analytics, Citi Research

But despite this outsized exposure to the government, banks enjoy significant extra capacity to increase lending, as fig 4 illustrates. The loan to deposit ratio has fallen significantly since the start of the century, standing at around 67% (59% of assets), while lending to the government stands at only 39% of deposits (35% of assets). In other words, growth in lending has significantly lagged growth in deposits (and assets), with the increasing excess cash being parked in reserves, which have risen to almost 35% of total assets.

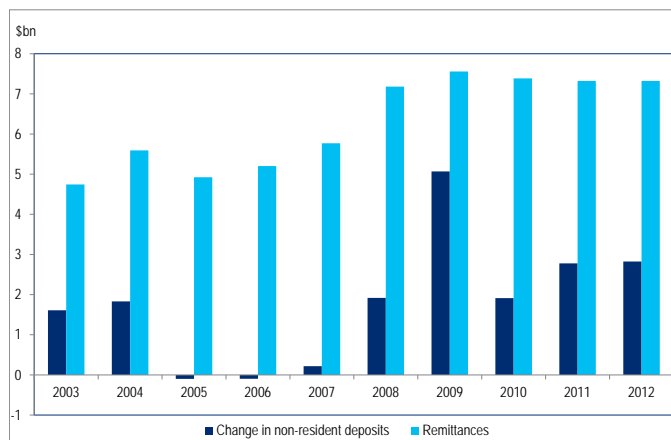
Put together, the picture implies comfortable room for banks to expand lending by up to 20% of current assets (a level consistent with 10% cash reserves). This would give banks additional lending capacity of roughly 36% of current GDP, in our view a very adequate pool of liquidity for the government to tap into to finance its deficits.

Figure 5. Non-resident deposits are an important driver of deposit growth



Source: Haver Analytics, Citi Research

Figure 6. Remittances far exceed growth in non-resident deposits



Source: Haver Analytics, Citi Research

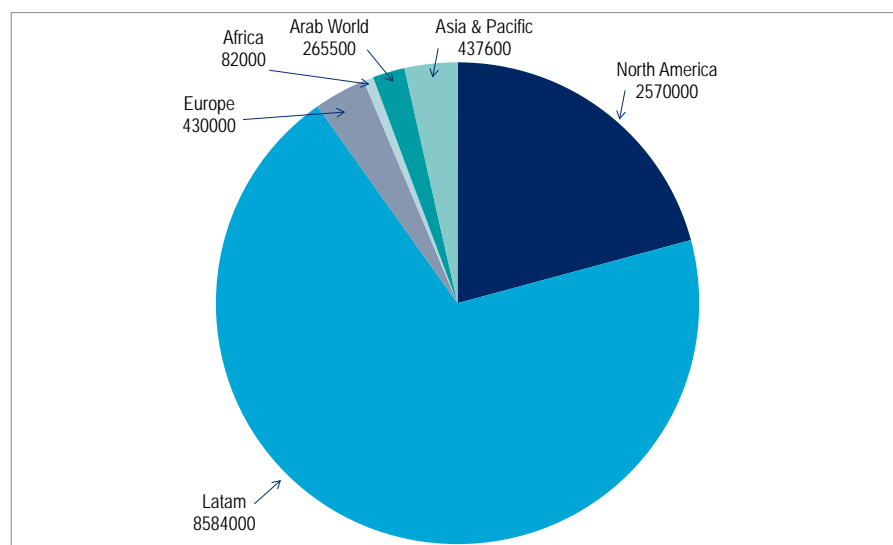
So where do these deposits, which are giving the banks such extra capacity to fund the sovereign, come from? Remittances from the diaspora. Not only do these play a significant role in directly feeding growth in non-resident deposit, they have been a major driver of deposit growth (fig 5).

Remittances are also very likely to be driving growth in local deposits as well. Remittances tend to be much larger than non-resident deposit growth (fig 6), implying that a great deal of money is sent home by the diaspora through non-banking channels. We believe that it is likely that much of this money ends up being deposited in local banks by recipients classified as residents. Another factor is that many Lebanese abroad may not have officially transferred their status to non-resident with their banks.

## Where do the remittances come from?

The story of the Lebanese diaspora goes back centuries, but in recent times began in earnest during World War I, when widespread famine killed about a third of the population.<sup>1</sup> Over the years the diaspora has grown organically and through a sustained exodus of Lebanese, particularly during the country's civil war between 1975 and 1990. Reliable figures on the size of the diaspora are hard to come by, but according to some sources the diaspora is over 12.3m strong, over three times the number of Lebanese within Lebanon (fig 7).

Figure 7. The Lebanese diaspora is estimated by some to number in excess of 12.3m, largely based in Latin America



Source: <http://www.iloubnan.info>, Citi Research

The majority of the diaspora is in the Americas, and mainly in South America where over 8.5m people of Lebanese ancestry live. Indeed, it is in the Americas where the Lebanese diaspora is most integrated and visibly successful. Some famous examples of the Lebanese diaspora in the Americas include Julio Cesar Ayala, Ralph Nader, Carlos Slim, Salma Hayek, Shakira, Tiffany, and Frank Zappa.

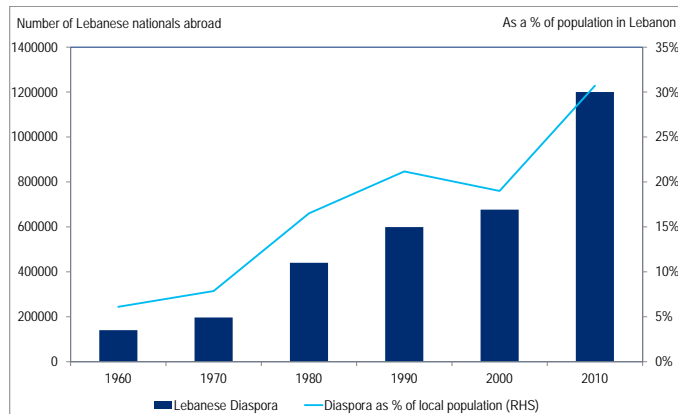
However, the reality is that most of this diaspora has been away from Lebanon for generations, with the links to the country eroding through the passage of time. Rather, it is the more recent immigrants, those of the past generation or two, many of whom still retain Lebanese nationality, that are the major driving force of the country's remittance story. According to the government, this number stands at around 1.2m, or one-third of the population of Lebanon.<sup>2</sup>

<sup>1</sup> [http://worldinfo.org/wp-content/uploads/library/wer/english/2008\\_Winter\\_Vol\\_XX\\_no\\_4.pdf](http://worldinfo.org/wp-content/uploads/library/wer/english/2008_Winter_Vol_XX_no_4.pdf)

<sup>2</sup> <http://www.dailystar.com.lb/News/Local-News/2012/Jul-14/180542-petition-for-expatriate-voting-officially-launched.ashx#axzz2iMJe2SbC>

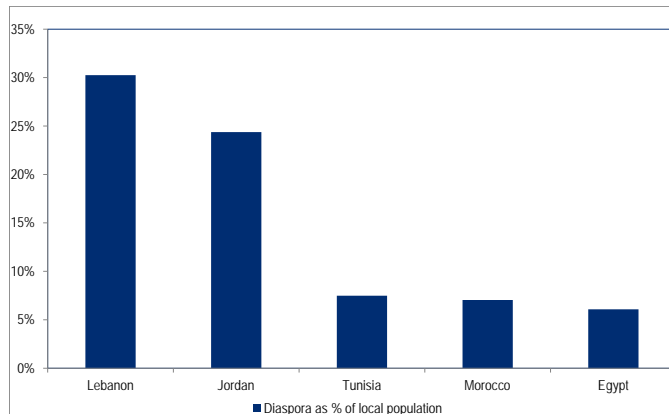
This has risen sharply since the turn of the century, partly due to political turbulence within the country and limited economic opportunity, and partly due to the labour-hungry growth of the Gulf states, fuelled by the largest oil windfall in their history.

Figure 8. Lebanese nationals abroad today number 1.2m, or over 30% of the population within Lebanon...



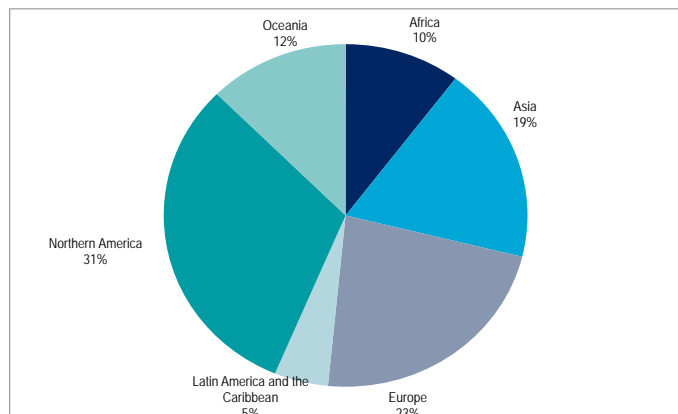
Source: World Bank, Daily Star, Citi Research

Figure 9. This is comparable to Jordan, but much higher than in other regional countries known for exporting labour



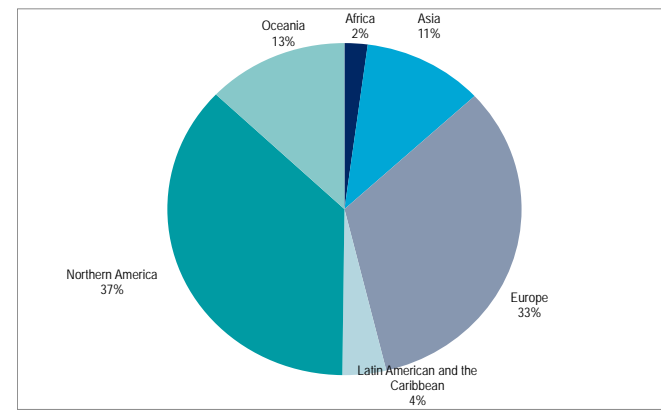
Source: World Bank, IMF WEO, Citi Research

Figure 10. The distribution of Lebanese nationals is less dominated by the Americas than that of the greater diaspora



Source: UNDP (2009), Citi Research

Figure 11. The majority of remittances come from Europe and North America



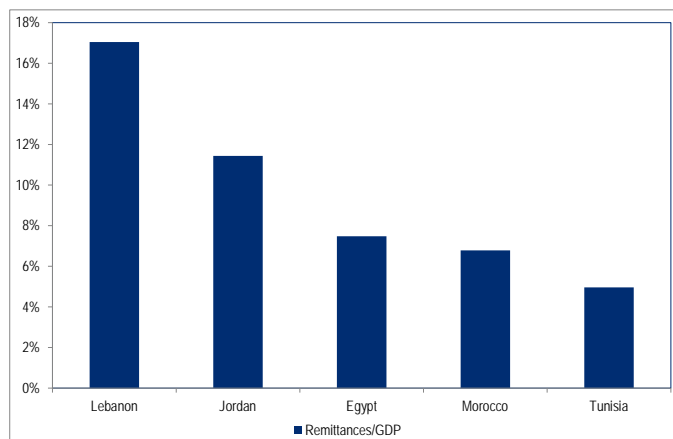
Source: UNDP (2009), Citi Research

Figs 8-11 provide a snapshot of the profile of the Lebanese diaspora and their associated remittances. Fig 8 shows the significant rate of growth in the number of Lebanese nationals emigrating. This is comparable as a percentage of the local population to the Jordanian diaspora, but significantly higher than that of Egypt, which has also been a large recipient of diaspora remittances in recent decades. In terms of where these new emigrants have settled, fig 10 shows that again this is dominated by the Americas, albeit less so than the greater estimate presented in fig 7. Almost three-quarters of the remittances received from these Lebanese abroad come from Europe and the Americas (fig 11). Gulf remittances (included under the Asia subsection in the above figures) represent a relatively modest 11% of overall remittances, around the same as remittances from the Lebanese community in Australia, but this number is growing as the number of Lebanese moving to the Gulf rises disproportionately and the Gulf economies continue to grow on the back of high oil prices.

## How big are the remittances?

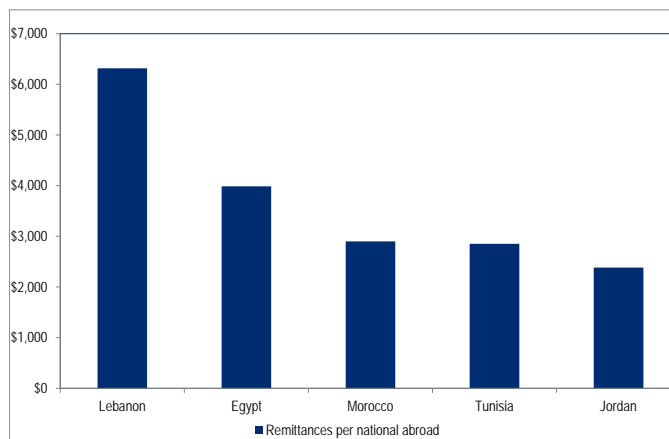
The World Bank estimates remittances to Lebanon this year will top US\$7.5bn. As a percentage of GDP, this is the highest level in the MENA region, representing 17% of the domestic economy, compared with 11% in Jordan, and under 7% in each of Egypt, Morocco and Tunisia. On a per capita basis, Lebanese remittances, at just over US\$6,000 per migrant worker per year, are the largest in the region, almost double the average of Egypt, Morocco, Tunisia and Jordan.

Figure 12. Remittances dominate the Lebanese economy to a greater extent than other regional labour-exporters



Source: World Bank, Citi Research

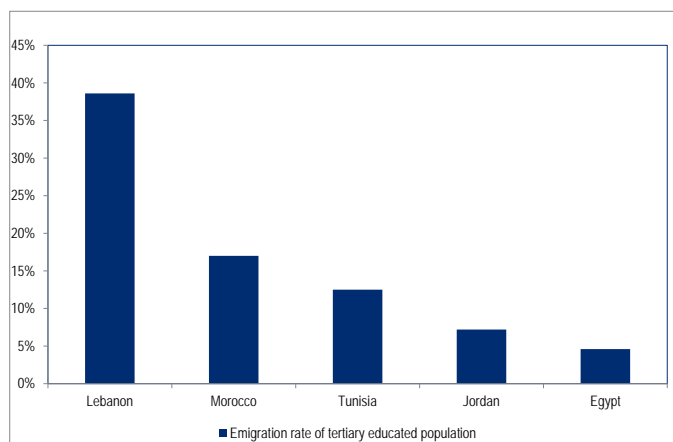
Figure 13. Lebanese abroad send more home on a per capita basis than their regional counterparts



Source: World Bank, Citi Research

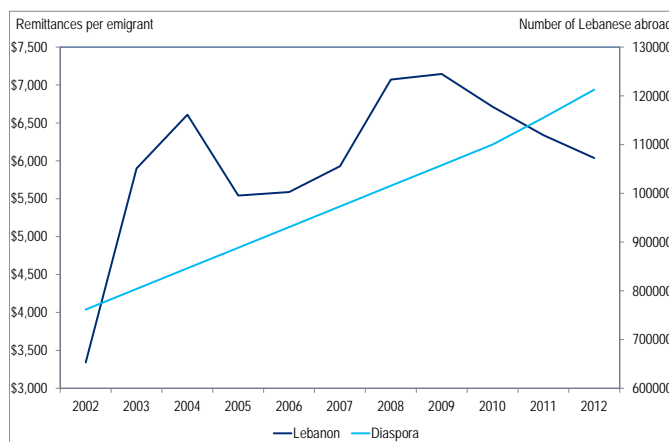
The relatively large amounts of remittances imply a diaspora that is both larger in relation to the local economy and population than in most other countries in the region, but also wealthier. The emigration rate among university-educated Lebanese in 2000 was almost 39%, far higher than in any other regional country (fig 14). The relatively high education levels of Lebanese abroad translate into better job opportunities and better salaries in their host countries, and thus in higher remittances. Anecdotal evidence supports this notion, with a greater proportion of Egyptian and Jordanian emigrants populating the labour classes in Europe and the Gulf than Lebanese.

Figure 14. A greater proportion of university graduates leave Lebanon than any other regional country



Source: World Bank (2000), Citi Research

Figure 15. Rising remittances are being driven by the number of Lebanese abroad, not by growth in remittances per capita



Source: World Bank, Citi Research

A final piece of relative context is the evolution of the size of remittances in recent years. A potential cause for concern may be that remittances are highly cyclical or are growing at an unsustainable rate. We find that this is not the case in Lebanon. Since the global financial crisis, we calculate that remittances have been falling on a per capita basis, and that growth in overall remittances is being fuelled by a larger number of Lebanese emigrating. In a sense, this provides a curious counter-cyclical impetus to remittance inflows: as the situation at home deteriorates, both politically and economically, a greater number of Lebanese move abroad and boost the flows of remittances to their homeland. This phenomenon is apparent, we believe, in other MENA countries, most notably Egypt, which has seen a sharp rise in remittances since the start of 2011.

## Summing up what we know about Lebanese remittances

Bringing all of the above together, here's what we are confident in saying about Lebanese remittances.

1. **They're big.** Remittance inflows into Lebanon are larger in relation to GDP than any other regional country, and are around twice the amount per emigrant. The drivers for this are two-fold. First, the Lebanese diaspora is far larger (in relation to the home population) than that of any other regional country. Second, the Lebanese diaspora is generally more educated and, by extension, wealthier (on average) than those of other regional countries.
2. **They're sticky.** Since the assassination of former Prime Minister Rafiq Hariri on Valentine's Day 2005, Lebanon has seen mass protests that forced the retreat of Syrian forces from the country, a war with Israel, a sharp polarization in national politics that saw fighting on the streets for the first time since the civil war, a wave of high-level political assassinations, a loss of effective government for long periods, a global financial crisis and economic slowdown, regional turbulence in the so-called 'Arab Spring', Syria's descent into civil war, and a renewed cycle of sectarian violence, not to mention a stalling of Lebanon's once vibrant economy over the past two years. Throughout all of this, remittances have remained high and growing. We think there are several factors behind this: the geographically well-diversified nature of the diaspora, the dominance of remittances from entrenched communities in Europe and the Americas, the strong ties between the Lebanese diaspora and their homeland. But most of all, we believe the stickiness of the remittances reflects continued growth in the diaspora, a phenomenon that reflects precisely the same factors due to which one might be surprised to see remittances rising.
3. **They're important.** Remittances are a key source of funding growth in the banking sector, as reflected in the significant annual rise in non-resident and local deposits. This growth has allowed the banking sector to continue its role as primary lender to the Lebanese Government, largely mitigating traditional sources of sovereign risk, such as falling government revenues or rising political risks.

## Appendix A-1

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