

# Jordan, Lebanon and Syria Business Forecast Report Q3 2011

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## Abstracts

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### JLS: Stumbling Through The Regional Crisis

The growth outlook across the Levant has changed for the worst in recent months, and we have downgraded our 2011 real GDP growth forecasts for Jordan, Lebanon and Syria accordingly. Large-scale violent unrest in Syria is a particular concern, and will not only push that economy into recession, but will also add to strains on neighbouring

Jordan and Lebanon through a potential influx in refugees, and heightened investor risk aversion. External conditions paint a mixed picture in this regard, with higher commodity prices likely to lead to a surge in import bills on the one hand, while on the other hand the uptrend in oil prices in should result in an increase in remittance inflows from the Gulf. The key question going forward will be to what extent the security situation deteriorates over the coming months, which will likely see foreign investors remain at bay for the foreseeable future.

The outlook for Lebanon's economy over the coming quarters has become decidedly less optimistic since the start of 2011. Although we had previously highlighted how external headwinds threatened to derail growth momentum, even we were caught slightly off guard regarding the extent to which the regional and global environment would weigh on economic activity. As a result, we now project real GDP to expand by 3.3% this year, following an estimated 8.2% in 2010. While by no means a worst-case scenario given the extent of regional unrest concomitant with the 'Arab Spring', at the moment there is little to suggest that growth momentum will be able to remain within its long-term trend average around 6.0%.

The political crisis in Syria will have a significant negative impact on the country's medium-term growth trajectory in our view, and consequently we have downgraded our core growth forecast to -1.3% and 2.8% for 2011 and 2012 respectively (from 4.4% and 5.0% previously). While it is still too early to predict the outcome of the current political situation, we note that growth will suffer under all possible circumstances. Our core forecasts are based on the assumption that the regime of President Bashar al-Assad remains in power, and we note that these projections would be extremely optimistic should the regime fall.

Following a series of political and economic reforms undertaken by the government in recent years, we maintain that Jordan's long-term political outlook is among the most stable in the region. Nonetheless, we highlight that the social uprisings that emerged in the Middle East and North Africa at the start of 2011 are indicative of the threat that low living standards and lack of political freedoms – both features that Jordan shares with other states such as Syria – poses to the long-term sustainable stability.

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Regional Outlook

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