

By Dana Halawi - The Daily Star

BEIRUT: Lebanon's business community is expressing optimism over the prospects for a new Cabinet, saying it could be the first step on the road to economic recovery after a weary two-year downturn.

Prime Minister-designate Tammam Salam has been intensifying talks with rival political groups to remove obstacles to the formation of new government.

Experts and business leaders interviewed by The Daily Star underlined the importance of forming a government quickly in order to restore confidence in the country.

Nabil Itani, head of the Investment Development Authority of Lebanon, told The Daily Star that the formation of a Cabinet would restore investors' confidence in the country.

"If the Cabinet deadlock is resolved, we may witness foreign direct investments of \$5 billion in 2014, similar to 2010," he said. FDI recorded \$4.8 billion in 2010 but dropped to \$4 billion in 2011 and \$3.78 billion in 2012, according to statistics provided by Itani. He noted that while 2013 recorded approximately the same FDI as in 2012, it wasn't necessarily a reflection of the strength of the local economy.

"Preserving the same 2012 FDI levels in 2013 was due to Lebanese who moved back their investments to Lebanon from Arab states due to the political and security turmoil prevailing in those countries," he said.

The head of the Beirut Traders Association the formation of a Cabinet would lead to a boost in consumer confidence and spending.

"The government's formation would definitely encourage consumers to spend more, thus increasing economic activity in the country," said Nicolas Chammas, president of Beirut Traders Association.

Chammas said trade activity in the country had dropped by 30 percent to 50 percent in the first half of this month due to the unstable security situation.

“Of course the bad security situation is the main reason behind the drop in trade activity in Lebanon, but the formation of a government would at least give us the chance to communicate with ministers on matters that are of interest to us,” he said.

Chammas said the boost in local consumption, by Lebanese and foreigners, would then be followed by an increase in local, and subsequently, foreign investment.

“When Arab and foreign investors are confident that demand has gone up and the situation has somehow improved, they would feel more at ease to invest in the country,” he said.

Economist Ghazi Wazneh said a positive development in the government formation could improve the performance of many sectors, including real estate and tourism.

“The general economic atmosphere would improve. In addition, GDP growth would rise to at least 2.1 percent in 2014 after contracting to 1.2 percent in 2013, according to estimates by international financial institutions,” he said.

Wazneh said that even if security problems persisted, the presence of a government would allow people and investors to absorb these incidents much faster.

However, observers insist that while the formation of a new Cabinet would cause temporary relief in the market, the road to full economic and political recovery is still long, requiring support from the state.

Chammas called on Parliament to pass a proposed draft law that would authorize the Central Bank to subsidize the interest on loans to merchants from commercial banks.

“We need the government to facilitate the implementation of such laws,” he said.

Itani believes the presence of a Cabinet would allow IDAL to fulfill its promises toward investors by exempting their projects from taxes and offering them other incentives.

“Once the government is formed, it would then be able to issue decisions that would encourage investors to invest in the country,” he added.

Optimism that the end of the Cabinet deadlock is near has already been reflected in trade on the Beirut Stock Exchange, according to Wazneh.

“We already witnessed an increase in the value of Solidere A and B shares two days ago,” he said.

The positive news about the potential formation of a new government caused the BLOM Stock Index to rise slightly Tuesday and Wednesday before falling 0.29 percent Thursday.