Overview of the Worldwide and Lebanese Economy in 2021

BLOMINVEST BANK

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Worldwide Economic Situation

To start with, the global economy has recovered in 2021, even as the pandemic resurges. However, the rapid spread and the threat of new variants (Omicron) have increased uncertainty as to how quickly the pandemic can be overcome. As a result, policy choices to confront multidimensional challenges — subdued employment growth, rising inflation, food insecurity, the setback to human capital accumulation, and climate change— is turning difficult. As such, the IMF forecast for the global economy is projected to grow 6.1 percent in 2021 and 3.6 percent in 2022. The revision for 2021 reflects a slight downgrade for advanced economies — in part due to supply disruptions — and for low-income developing countries, largely due to worsening pandemic dynamics. This is partially offset by stronger near-term prospects among some commodity-exporting emerging market and developing economies. Region-wise, growth in advanced economies is expected to be 5.2% and 3.3% in 2021 and 2022 respectively; and in emerging markets and developing economies 6.8% and 3.8%. In terms of selected individual countries, growth in 2021 and 2022 is expected to be respectively: 5.7% and 3.7% for the US; 5.3% and 2.8% for the Euro Area; 8.1% and 4.4% for China; 8.9% and 8.2% for India; and 4.7% and -8.5% for Russia.

Employment is generally expected to continue lagging the recovery in output. Also, advanced economy output is forecast to exceed pre-pandemic projections, largely reflecting sizable anticipated further policy support in the United States. By contrast, persistent output losses are anticipated for the emerging market and developing economy group due to slower vaccine rollouts and generally less policy support compared to advanced economies.

Headline inflation rates have increased rapidly in the United States and in some emerging market and developing economies – averaging 5% or higher. In most cases, rising inflation reflects pandemic-related supply-demand mismatches and higher commodity prices compared to their low base from a year ago. In addition, uncertainty surrounds inflation prospects — primarily stemming from the path of the pandemic, the duration of supply disruptions, and how inflation expectations may evolve in this environment. Overall, the balance of risks for growth is tilted to the downside; whereas inflation risks are skewed to

the upside and could materialize if pandemic-induced supply-demand mismatches continue longer than expected prompting a faster-than anticipated monetary normalization in advanced economies.

In the Middle East and North Africa (MENA) region, economic recovery has varied notably across countries, depending on the pandemic' s path, vaccine rollouts, underlying fragilities, exposure to tourism and contact-intensive sectors, and policy space and actions. Public gross financing needs in most emerging markets in the region are expected to remain elevated in 2021–22, with downside risks in the event of tighter global financial conditions and/or if fiscal consolidation is delayed due to weaker-than-expected recovery. 2021 will be the year of policies that continue saving lives and livelihoods and promote recovery, while balancing the need for debt sustainability and financial resilience. At the same time, policymakers must not lose sight of the transformational challenges to build forward better and accelerate the creation of more inclusive, resilient, sustainable, and green economies. Regional and international cooperation will be key complements to strong domestic policies. In terms of the region, growth is expected to be 5.8% and 5% in each of 2021 and 2022; whereas for individual countries, for instance, it is expected to be 3.2% and 7.6% in KSA; 2.3% and 4.2% in UAE; 1.5% and 3.4% in Qatar; 3.3% and 5.9% in Egypt; and 2% and 2.4% in Jordan. And given this representative sample, the Gulf countries and Egypt seem to have, relatively speaking, and the best prospects in MENA. Interesting to note, no growth estimates were provided to the Lebanese economy by the IMF.

Latest World Economic Outlook Growth Projections

		Projections	
(real GDP, annual percent change)	2021	2022	2023
World Output	6.1	3.6	3.6
Advanced Economics	5.2	3.3	2.4
United States	5.7	3.7	2.3
Euro Area	5.3	2.8	2.3
Emerging Market and Developing Economies	6.8	3.8	4.4
China	8.1	4.4	5.1
Russia	4.7	-8.5	-2.3
Middle East and Central Asia	5.7	4.6	3.7

Source: IMF, World Economic Outlook, April 2022

Lebanese Economic Situation

Lebanon underwent series of erratic developments in 2021. Political deadlocks prevented any reforms to be implemented under a soaring inflation rate, uncontrollable spread of COVID-19 coupled with unsustainable massive public debt. The French initiative failed as the formation of a Government took a longer period than French president' s road map and Hariri stepped down from forming the government. The situation heightened with uncertainty adding on the unprecedented deterioration of the Lebanese currency by August

2021. Moving forward, September saw the formation of a new Government by the PM Najib Mikati which was promising especially that the market absorbed positively this development while the national currency picked up and talks with IMF revived. But, eventually, as the plan empowered the same elites, several major events happened by the end of year 2021. Mostly, political conflicts occurred from the crises related to Minister Kordahi and Judge Bitar paralyzing the progress of the new Government. As such, GCC-Lebanese diplomatic crisis in Q3 2021 added further pressure on the economy and embraced more harmful measures on the country' s exportations with Saudi Arabia banning imports from Lebanon. Those unfortunate events had a disastrous effect on the situation as well as on the national currency that reached all time low to LBP/USD 27,650 by the end of year 2021.

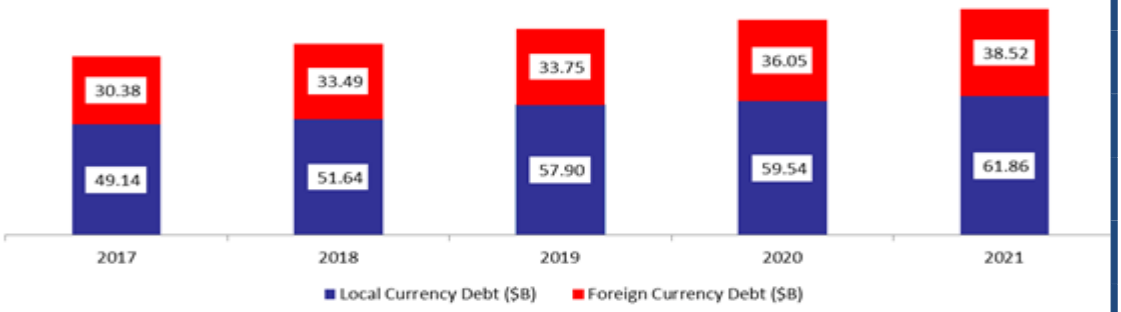
Lebanon fiscal deficit tapered in 2021 and recorded a surplus reflecting the extent of contractionary policy taken by the Government and characterized by decreased spending and increased tax revenues. In details, the (cash basis) fiscal deficit decreased by 111.55% from last year to record a surplus of $302.10M by September 2021. (It is worth mentioning that $9.45B represents the unpaid Eurobonds, their coupons and accrued interests, due to the default on government Eurobonds in March 2020). Government expenditures retreated yearly by 7.32% to $8,919.21M while revenues added 31.59% annually to stand at $9,221.31M by September 2021.

USD *(billions)*	Jan - Sept 2020	Jan - Sept 2021	*Change in percentage*
Total Budgets and Treasuries Receipts	**7.00**	**9.22**	**31.71%**
Total Budgets and Treasury payments, of which	**9.62**	**8.91**	**-7.38%**
Interest payments	**1.38**	**1.3**	**-5.80%**
Concessional loans principal payments	**0.09**	**0.1**	**11.11%**
Total (Deficit)/ Surplus	**(2.61)**	**0.30**	**111.49%**
Primary (Deficit)/Surplus	**(1.13)**	**1.70**	**250.44%**

Source: MoF. BLOMINVEST Bank

Gross public debt up yearly by 5% to $100.38B by December 2021. The rise is mainly attributed to the annual increase in both local and foreign currency debt by 3.89% and 6.84%, respectively. In more details, debt in local currency denominated in Lebanese pound stood at $61.86B in December 2021. Meanwhile, total debt denominated in foreign currency reached $38.52B over the same period. In turn, domestic debt constituted 61.63% of the total public debt and total foreign debt grasped the rest of 38.37% of the total public debt by the end of 2021.

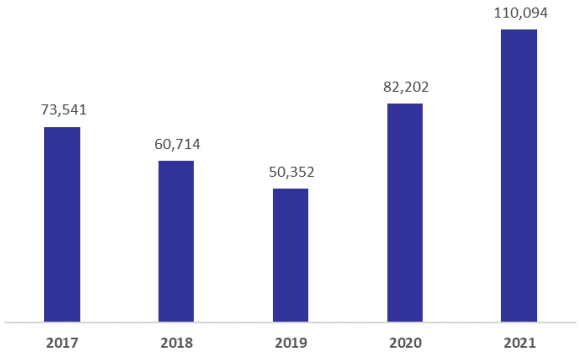
Yearly Domestic and Foreign Debt ($B)



Source: MoF, BLOMINVEST Bank

Greater demand for Real Estate in 2021 was driven by consistent market behavior. Uncertainty of the financial and economic situation in the country pushed the Lebanese towards hedging trend to secure their deposits from any possible haircuts or devaluation by converting their liquidity into tangible assets. In turn, the number of real estate (RE) transactions which may include one or more realities, rose by a yearly 33.93% to stand 110,094 transactions by end of 2021. In its turn, the value of total RE transactions stood at $15,550.46M by end of year 2021, compared to $14,386.58M in the same period last year, up by 8.09%.

Yearly RE transactions

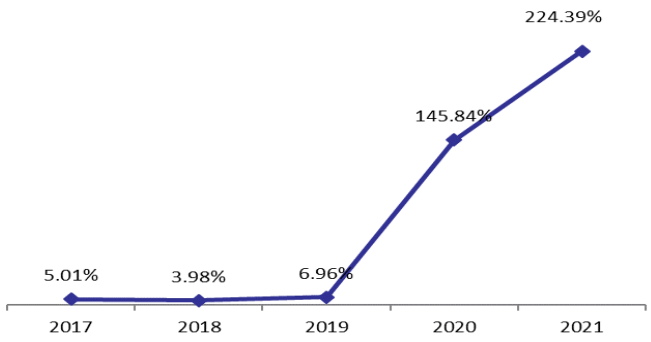


Source: CADASTRE, BLOMINVEST

Inflation rate surged to a record high of 224.39% by the end of 2021. Inflation skyrocketed amid the removal of fuel subsidies in the third quarter of 2021 as the Central Bank was not capable anymore of subsidizing fuel imports due to the diminishing of its foreign currency reserves. Moreover, the devaluation of the national currency against the dollar in the parallel market remained the main reason behind the spike of the inflation rate as Lebanon relies largely on imports to fill its necessities. In more details, the average price of "Food and non-alcoholic beverages" (20% of CPI), it surged by 438.65% yearly. In turn, the average prices of "Transportation" (13.1% of the CPI), "health" (7.7% of the CPI)

and" Restaurant and Hotels" (2.8% of CPI) all recorded hikes of an annual 522.39%, 404.94%, and 414.71%, respectively, by the end of year 2021.

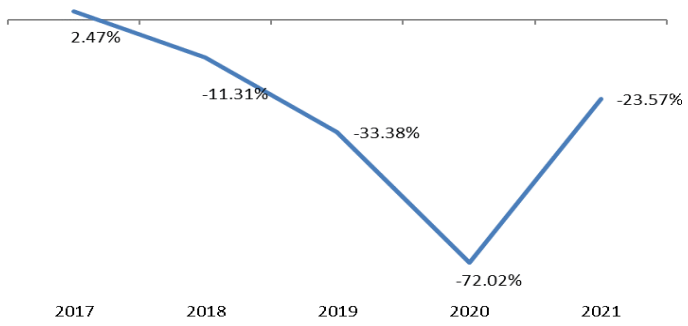
Yearly average inflation rate



Source: Central Administration of Statistics, BlomInvest

The cars sector faced major challenges amid the economic deterioration and worldwide pandemic in 2021. Intensified restrictions on facilities and opening Documentary Credits for importation of new cars and spare parts affected car sales, in addition to the sharp devaluation of the Lebanese currency against the dollars that diminished the purchasing power and income of individuals. As such, registration of new cars witnessed a continuous downfall that has started in 2016 and reached in 2021 a drastic drop of 88% in comparison with the same period of 2015. As a result, passengers cars dropped by 23.57% yearly to 4,702 by the end of 2021.

Yearly Growth of Registered Passengers Cars

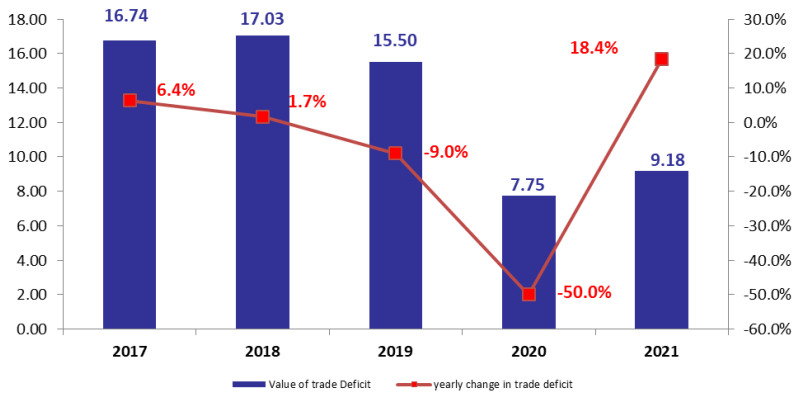


Source: AIA, Rymco, BlomInvest

Lebanon trade deficit widened in 2021. Despite higher cost of dollars in 2021, trade deficit expanded from $7.75B by the end of 2020 to $9.18B by the end of 2021. Total imported

goods added 22.33% annually to $13.83B while Lebanon's total exports increased by 30.83% on an annual basis to $4.65B by the end of year 2021. In term of values, pearls, precious stones and metals grasped the biggest share of total imported good with a stake of 8.95%. Machinery, electrical instruments ranked second, composing 8.93% of the total while Mineral products and vehicles, aircrafts, vessels, transport equipment grasped the respective shares of 8.65% and 8%, respectively. On the other hand, Lebanon's top exported products were "Pearls, precious stones and metals" grasping a share of 22.48% of the total. Moreover, "Vegetable products" and "Base metals and articles of base metal" each grasped a share of 11.27% and 10.44%, respectively, of the total.

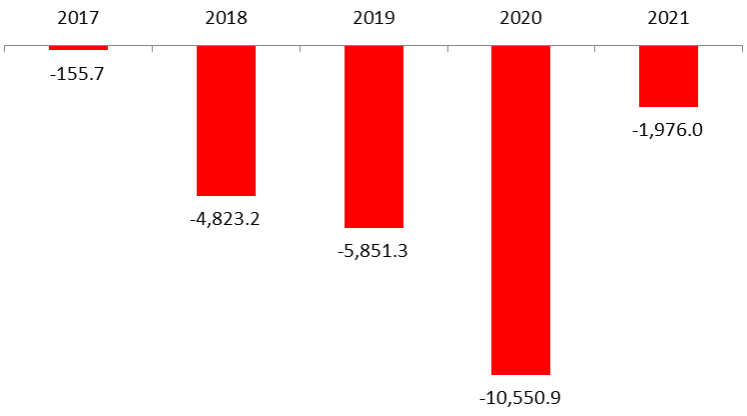
Yearly Trade Deficit ($B)



Source: Customs Administration, BLOMINVEST

Lebanon's balance of payments deficit shrank remarkably in 2021. According to BDL's monetary report, the BoP narrowed to record a cumulative deficit of only $1.98B by the end of 2021, compared to a deficit of $10.55M by the end of year 2020. Accordingly, net foreign assets (NFAs) of the Central Bank fell by $4,583.3M while NFAs of commercial banks added $2,603M by year of 2021. On a related note, the Central Bank issued several Circulars during the year of 2021, on top of them the Circular no 158 by mid-year 2021 that aimed on providing binding instructions to banks to offer gradually their customers with foreign currency. The Circular involved payments of 400$ per month per eligible account that would eventually decrease the foreign assets of the commercial banks. Moreover, BDL issued another circular no 161 in late 2021 that allowed banks to sell dollars at the Sayrafa exchange rate in a way so that the Central Bank would be able to maintain the exchange rate of the Lebanese currency in the parallel market by injecting dollars through Sayrafa platform.

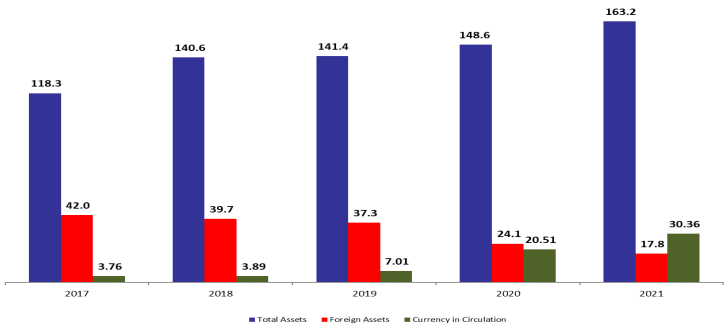
Yearly Balance of Payments (BoP) (in $M)



Source: BDL, BLOMINVEST Bank

BDL' s Foreign Assets Down by a yearly 25.99% to reach $17.83B by end of December 2021. Despite large part of subsidies on essential products was removed in 2021, however the foreign assets diminished as Ogero and electricity expenses were still paid in foreign currency and as some imports were funded through Sayrafa platform. Looking at the Currency in Circulation outside BDL (18.6% of BDL' s total liabilities), it increased by 48.01% jumping from $20.5B by end of 2020 to $30.36B by end of 2021. This all happened at a time when the Lebanese currency further depreciated against the dollars in late of 2021 to record a high of 33,700 usd/lbp but later to pick up in the parallel market to stand at 25,000 usd/lbp by the end of December 2021. This drop was a result of the circular number 161 issued by December, 16, 2022 that paved the way for bank depositors to exchange their Lebanese cash holdings to fresh dollar at the Sayrafa exchange rate.

Yearly BDL Total, Foreign assets and Currency in Circulation ($B)



Source: BDL, BLOMINVEST

Concerning the banking sector, it continued its retrenchment in 2021. The year topped with further economic and financial meltdown un-abated with zero corrective measures whatsoever to halt the collapse. The Lebanese banking sector experienced several changes through multiple circular introduced by the Central Bank adding on self-adaptation strategies to the ongoing situation. However, these changes do not have strong and far-reaching drastic effects on the banking sector and consequently banks should undertake a well-defined restructuring plan within global comprehensive reforms.

In term of numbers, total assets of Lebanese commercial banks decreased by 6.97% to stand at $174.94B by the end of year 2021 according to Lebanon' s consolidated commercial banks' balance sheet. Further, resident customers' deposits decreased by 6.18% to $103.42B in December 2021, with deposits in Lebanese currency down ticked by 2.03% to $23.94B while the deposits in foreign currencies declined by 7.37% to stand at $79.48B. As for Non-resident customers' deposits, they recorded a drop of 10.28% and stood at $24.54B by the end of year 2021. In more details, the deposits in Lebanese currency retreated by 9.73% to reach $2.04B while deposits in foreign currencies declined by 10.33% and totaled $22.50B by the end of year 2021. As for loans, claim on resident customers declined by 22.30% to stand at $24.68B in December 2021.

Lastly, the banking sector should play an active role in Lebanon' s economic recovery as the resolution of the ongoing crisis is crucial to the restructuring of the banking system (Central Bank and Banks). The enormous exposure of the sector to the sovereign entails defining the losses and the need for restructuring of the sector towards a solvent banking sector in Lebanon. in this context, the recovery plan adapted should ensure an equal distribution of the losses among all concerned parties in a way that it won' t paralyze banks' functioning process post-restructure. Several entitlements are due ahead; forming a new government and avoiding any possible standoffs, and applying the reforms needed in order to reaccelerate growth and ensure sustainability of the Lebanese economy.

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