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Overview of the Worldwide and Lebanese Economy in 2022

Worldwide Economic Situation

The global economy experienced a tough year in 2022. It was a world-shocking one in terms of geopolitical and economic events. The world's main movers saw their economy struggling heavily and falling after the occurrence of several developments. Economic activity witnessed a broad-based and sharp slowdown, with inflation higher than seen in several decades. The cost of living crisis, tightening financial conditions in most regions, and most importantly, Russia's invasion of Ukraine all weigh heavily on the outlook. Soaring oil prices due to supply disruptions, aggravation of the Chinese Zero Covid policy and, most notably, peak inflation which forced central banks all over the world to adopt a steep hiking cycle. However, recovery endured but the road was bumpy as price pressures proved to be sticky in 2022.

As such, IMF projected that global growth for this year will bottom out at 2.8% before rising modestly to 3% next year. Global inflation would fall, though more slowly than initially anticipated, from 8.7% last year to 7% this year and 4.9% in 2024. Inflation, in its turn, is still high despite recent softening driven by lower prices of food and energy but core inflation has not yet peaked in many countries. IMF expects that Inflation's return to target is unlikely before 2025 in most cases.

The economic slowdown was mainly concentrated in advanced economies, in particular, Euro zone and the UK. Growth in these two areas fell and it is expected to fall further by next year to 0.8% before recovering to 1.4% and 1%, respectively. In contrast, several emerging market and developing economies would rebound with growth accelerating from 2.8% in 2022 to 4.5% in 2023. The labor market remained very strong and showed signs of resilience in most advanced economies. Suggested stronger than expected demand, hence output and inflation estimates pushed stronger than expected aggregate demand. This forced policymakers to tighten further and to stay tighter for longer than was projected.

Lastly, impacts from the sharp and fast rise in interest rates are becoming apparent as financial sector vulnerabilities are at the front line in advanced economies and fear of

contagion has risen across the broader financial sector. Furthermore, public debt as a ratio to GDP soared across the world and is anticipated to remain elevated, posing a mounting challenge for policymakers. Consequently, risks to the outlook are severely twisted to the downside, with the chance for a hard landing.

Latest World Economic Outlook Growth Projections

	2022	2023	2024
World Output	3.4	2.8	3.0
Advanced Economies	2.7	1.3	1.4
United States	2.1	1.6	1.1
Euro Area	3.5	0.8	1.4
Germany	1.8	-0.1	1.1
France	2.6	0.7	1.3
Italy	3.7	0.7	0.8
Spain	5.5	1.5	2.0
Japan	1.1	1.3	1.0
United Kingdom	4.0	-0.3	1.0
Canada	3.4	1.5	1.5
Other Advanced Economies	2.6	1.8	2.2
Emerging Market and Developing Economies	4.0	3.9	4.2
Emerging and Developing Asia	4.4	5.3	5.1
China	3.0	5.2	4.5
India	6.8	5.9	6.3
Emerging and Developing Europe	0.8	1.2	2.5
Russia	-2.1	0.7	1.3
Latin America and the Caribbean	4.0	1.6	2.2
Brazil	2.9	0.9	1.5
Mexico	3.1	1.8	1.6
Middle East and Central Asia	5.3	2.9	3.5
Saudi Arabia	8.7	3.1	3.1
Sub-Saharan Africa	3.9	3.6	4.2
Nigeria	3.3	3.2	3.0
South Africa	2.0	0.1	1.8
Emerging Market and Middle-Income Economies	3.9	3.9	4.0
Low-Income Developing Countries	5.0	4.7	5.4

Source: IMF, World Economic Outlook, April 2023

Lebanese Economic Situation

It was another turbulent year for Lebanon. The country underwent series of erratic developments in 2022 and ended the year without a president, while Prime Minister-designate Najib Mikati is acting as a caretaker Government. Political deadlocks prevented any serious reforms to be implemented under a soaring inflation rate, sharp deterioration of the national currency coupled with unsustainable public debt. Failure to elect a new head of State after several attempts coupled with a peaking balance of payments and fiscal deficit is taken its toll on the Lebanese economic situation. Concerns were prominent in 2022 mainly as the country seemed to be paralyzed by multiple regional and domestic developments and far away from any reform or recovery plan. Overall, the year of 2022 was topped with the deterioration of governmental institutions and absence of any reform.

The deceleration of the Lebanese economy was broad-based with many sectors poised to contract under an uncertain outlook since the outbreak of October “revolution” while some other sectors flourished; crucially however, the caretaker Prime Minister Najib Mikati announced that the economy in Lebanon has registered a growth of 2% this year despite facing major presidential vacuum.

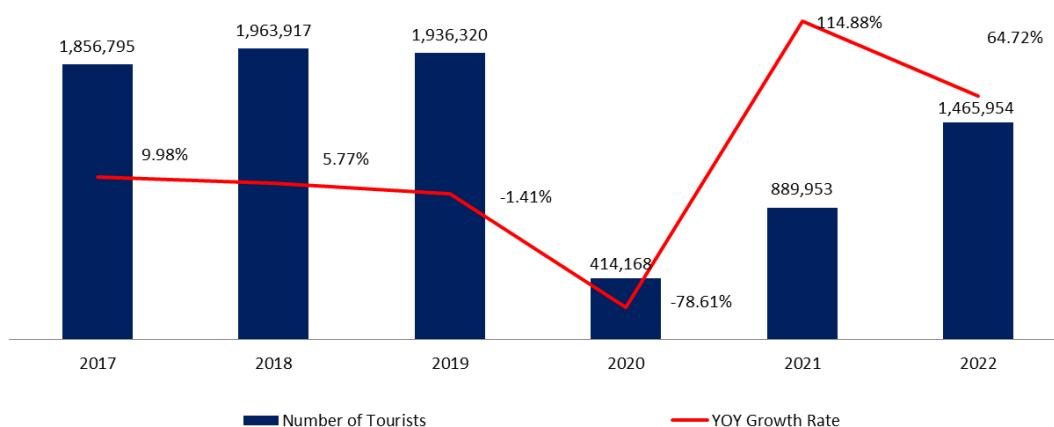
The growth could be credited to several factors, most notably, the improvement in tourism activity and the increase in remittances from Lebanese working abroad. In addition to relatively lower inflation and higher public sector wages that had a quasi-improvement on social stability in the country. Even so, inflation remains stickier to the upside, which suggests that policymakers need a steady hand as storm clouds gather over Lebanon, which makes it essential to form a new government that adopts fundamental reforms, and to complete a final agreement with the IMF.

Despite political deadlock which hindered the economic growth in Lebanon, the tourism sector recovered two years after being severely affected by the situation, shutdowns and travel restrictions due to the pandemic. According to the data received from the Ministry of Tourism, the tourism sector re-picked by 2022 with remarkable number of European travelers visiting the country. In fact, tourists activity improved by end of 2022 compared to years of 2020 and 2021, but remained relatively lower than year 2019 with the number of airport passengers in 2022 recording a significant uptick by end of 2022. In more details, the cumulative number of tourists registered a 64.72% annual surge to stand at 1,465,953 tourists by end of 2022. Meanwhile, the increase in the cumulative number of tourists revealed that Europeans constituted the largest portion of total tourists, grasping a lion’s share of 39.85%, while travelers from Arab countries came in second with a share of 26.97%. Tourists from America followed with a stake of 20.89%, and finally Asia grasped 4.28% of total tourists. In parallel, the occupancy rate in Beirut’s 4- and 5-star hotels reached 48.7% percentage points (pp) by December 2022, up from last year’s percentage of 42.3% while the average room rate in dollars has increased by 5.8% to stand at \$46 by December 2022, according to Ernst & Young Middle East hotel benchmark survey.

In tandem, the activity at Rafic Hariri International Airport improved significantly in 2022. The number of passengers added 46.97% on a yearly basis and totaled 6.35M passengers by the end of 2022 compared to 4.32M passengers in previous year. Moreover, total arrivals jumped by 50.68% year-on-year (YOY) to stand at 3,119,744 by December 2022, while number of departing passengers climbed by a yearly 46.44% to reach 3,194,553 over the same period. Nevertheless, transit passengers decreased from 70,332 by the year of 2021 to 38,149 transit passengers by end of 2022.

Although tourism sector flourished in 2022, average tourist spending in Lebanon slumped by 19% by end of year 2022 compared to the previous year as stated by Global Blue “Globeshopper Spending” 2022 report. Lifestyle sector (spending below 300 euros) recorded the largest increase of 8% annually whereas the hard luxury sector (spending above 5,000 euros) dropped remarkably by 26%. However, it is important to note that the first half of 2022 witnessed a significant drop in average spending with the respective decrease of 54% and 59% for the first and second quarter while the trend surprisingly reversed in the second half to register an increase of 53% in the third quarter and a high of 85% in the fourth quarter. In fact, the increase could be attributed to the positive development on the national fronts during the second half as well as a very agitated and promising summer for the private sector in terms of tourism.

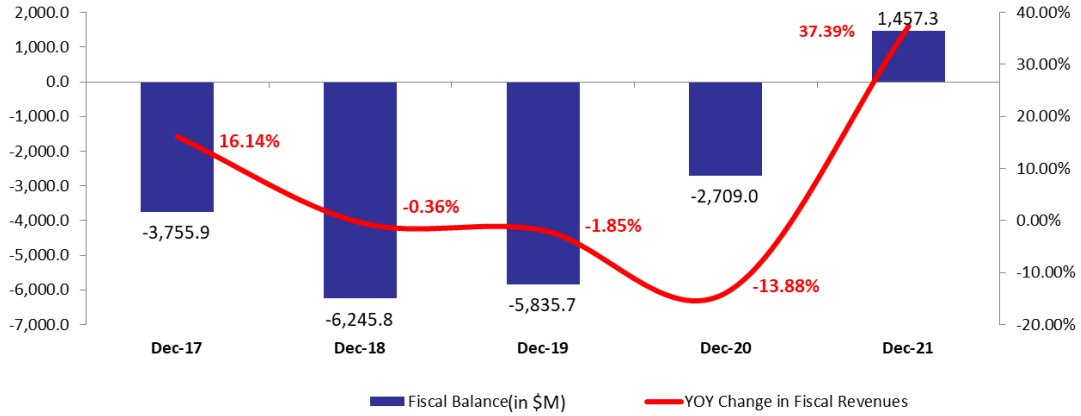
Yearly Number of Tourists:



Source: Ministry of Tourism, BLOMINVEST Bank

Lebanon’s fiscal balance recorded a surplus of \$1457.27M by year of 2021, the first in the Post-War Period. In fact, Lebanon fiscal balance decreased by 153.79% from the previous year of 2020 reflecting the extent contractionary policy taken by the State that is characterized by decreased government spending and also increased taxes revenues. In more details, the government revenues (including treasuries) added 32.08% on yearly basis to stand at \$13,441.32M by December 2021. On the counterpart, total expenditures (including treasuries) retreated yearly by 7% to \$11,984.05M by December 2021. It is worth noting that the primary balance which excludes debt service posted a surplus of \$3,658.24, compared to a deficit of \$255.63M during the same period last year.

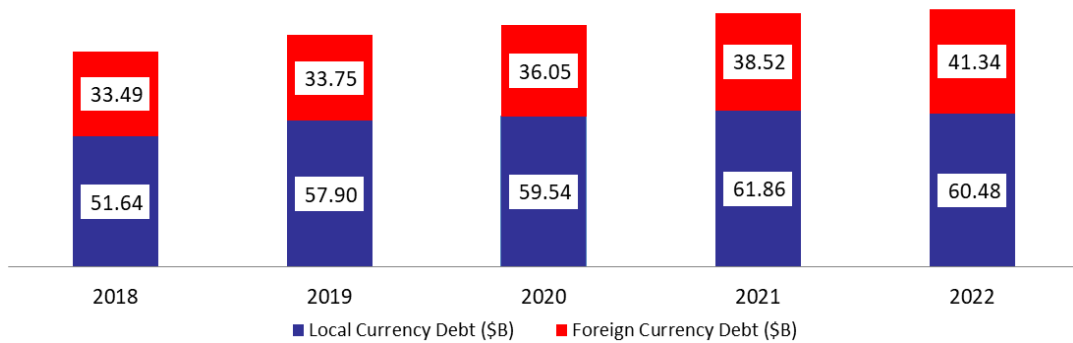
Yearly Fiscal Balance:



Source: MoF, BLOMINVEST Bank

Gross public debt up yearly by 2.6% to \$101.81B by December 2022. The rise is mainly attributed to the annual increase in foreign currency debt by 7.32%, while local currency debt declined by 2.24%. In more details, debt in local currency denominated in Lebanese pound stood at \$60.47B in December 2022 compared to \$61.86B by December 2021. Meanwhile, total debt denominated in foreign currency reached \$41.33B over the same period. In turn, domestic debt constituted 59.40% of the total public debt and total foreign debt grasped the rest of 40.60% of the total public debt by the end of 2022.

Yearly Domestic and Foreign Debt (\$B):

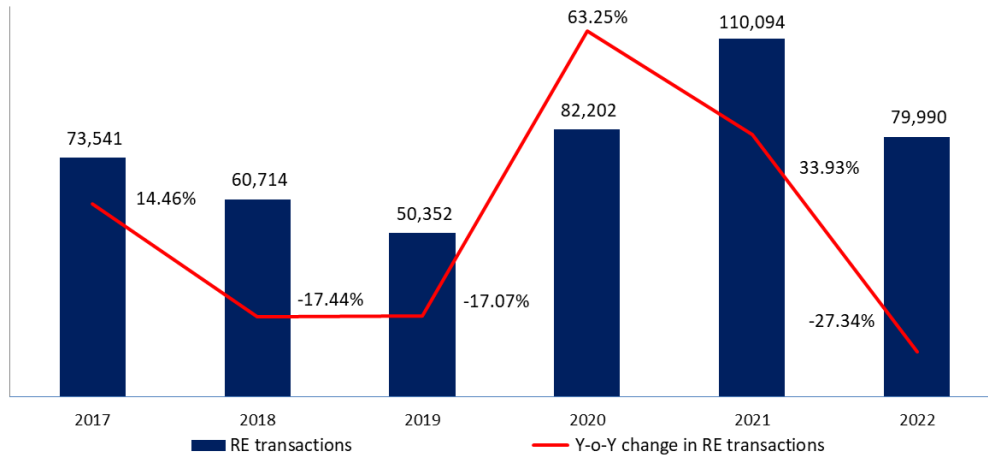


Source: MoF, BLOMINVEST Bank

Real Estate demand 27.34% lower annually by end of 2022. The demand for owning a real estate in Lebanon remained high compared to years before the crisis but with a slower pace of expansion compared to year 2021 and 2020. The slowdown could be justified by lower demand on Real Estate especially as owners are requesting full payments in fresh while prices are gradually increasing and readjusting to prices before the crisis. In turn, the number of real estate (RE) transactions which may include one or more realities, went down by a yearly 27.34% to stand 79,990 transactions by end of 2022. In its turn, the value of total

RE transactions stood at \$14.36B by December 2022, which is 7.65% lower than \$15.55B by the previous year of 2021.

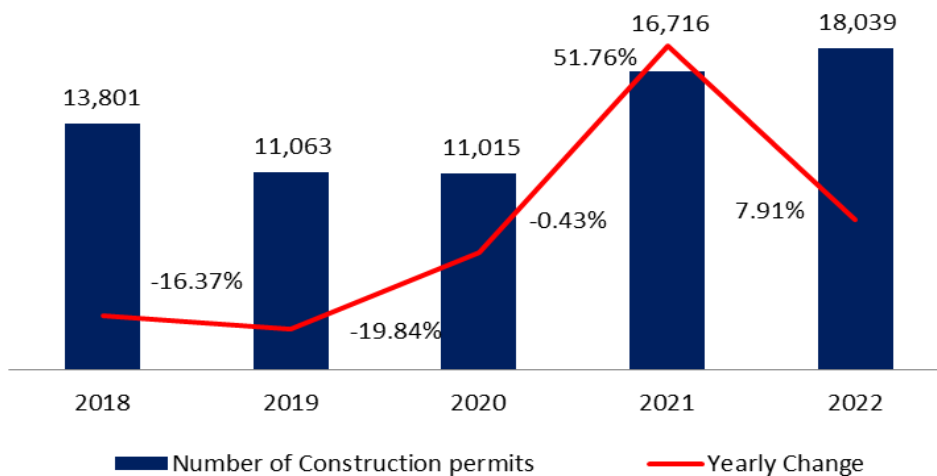
Number of RE transactions:



Source: CADASTRE, BLOMINVEST

Contrary to real estate transactions, total construction permits witnessed a remarkable annual increase. It added 7.91% yearly to reach 18,039 permits by the end of 2022. Similarly, the construction area authorized by permits (CAP) soared by an annual of 5.18% to 8,396m053 square meters (sqm), mainly reflecting the continuous market behavior towards interests in real tangible assets. Indeed, the number of construction permits is largely considered a macroeconomic indicator as it typically increases in time of economic expansion. Consequently, the annual increase in building permits in Lebanon is a key indicator of demand in the market as the higher reading is definitely considered a positive for the economy.

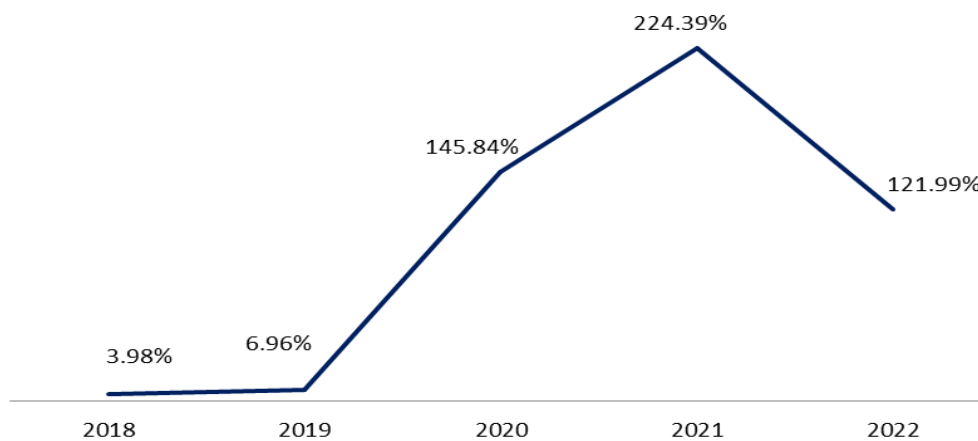
Number of Construction Permits:



Source: Orders of Engineers in Beirut & Tripoli

On a different note, Lebanon’s Inflation Remains high but at a Softer Rate of 121.99% by the end of 2022. According to the Central Administration of Statistics (CAS), the Consumer Price Index (CPI) revealed that Lebanon’s monthly inflation rate eased from a 224.39% in December 2021 to register softer levels of 121.99% in December 2022, the lowest since June 2021; however it remains at a historical elevated level. In more details, the cost of “Housing and utilities” , inclusive of water, electricity, gas and other fuels (grasping 28.4% of the CPI) added a yearly 52.88% by December 2022. Also, “Owner-occupied” rental costs increased by 9.99% year-on-year (YOY) and the prices of “water, electricity, gas, and other fuels” followed a significant increase by 148.42% YOY as subsidies were removed by the Central Bank and prices went up sharply on the global market due to the war in Ukraine. Nevertheless, prices are expected to surge further in the coming period as customs and taxes are collected at the official rate of 45,000 LBP/USD instead of 1507.5 LBP/USD, and the rate would increase to 45,000 LBP/USD.

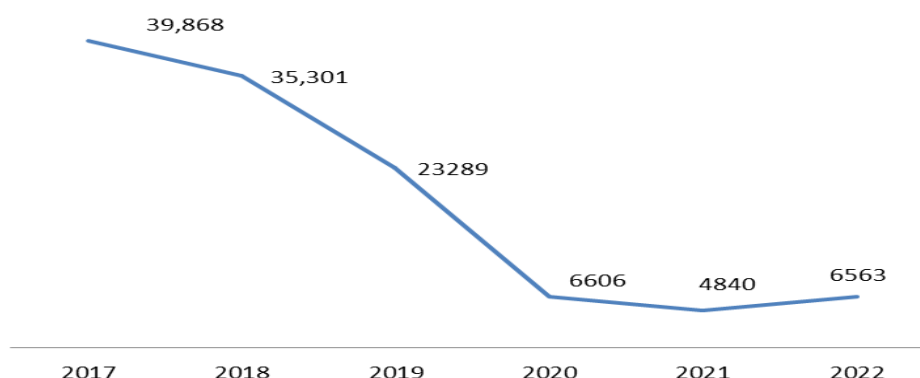
Yearly Average Inflation Rate:



Source: Central Administration of Statistics, BlomInvest

The cars sector witnessed a cautious recovery by the end of 2022, but passengers’ vehicles sales remained below the size of 2018 and even the size of 2020. Demand for new vehicles was constrained by neglect financing or high financing interest rates and deteriorated exchange rates for the Lebanese currency. According to the data revealed by “Rasamny Younis Motor sal” , Lebanese car market increased by 39.58% annually to end up the year of 2022 at 6,563 cars compared to 4,702 cars by the year of 2021. It is crucial to highlight the significant uptick took place in the month of August which reflect two major events: suppliers’ behavior towards the expected customs exchanger rate raise and the closure of public institutions during July.

Yearly Growth of Registered Passengers Cars:

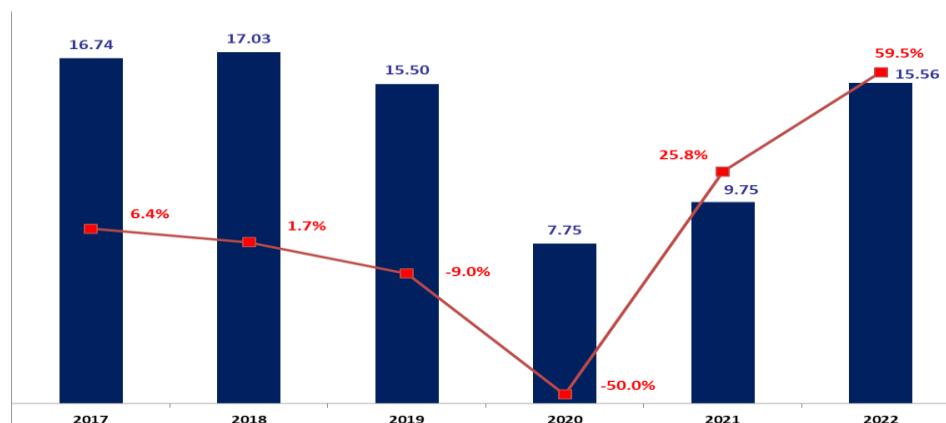


Source: Rymco, BlomInvest

Lebanon trade deficit widened in 2022. The collapse of the economy, particularly the years 2019 and 2020, has narrowed the Lebanese trade deficit as most of citizens struggled to afford basic needs. Crucially, however, the 2021' s and 2022' s trade deficits have gradually increased compared to years before and readjusted to levels used to be in 2019. In more details, trade deficit expanded from \$9.75B by the end of 2021 to \$15.56B by the end of 2022. The increase reflects that: 1) selected import products are key for 2022 exports enlargement; 2) fuel imports have typically been a crucial product for Lebanon; 3) tourism sector improvement; 4) readjustment of Lebanese purchasing power during 2022 – all have contributed to the two-digit trade deficit in 2022.

Total imported goods added 39.65% year-on-year (YOY) to \$19.05B while total exports decreased by 10.16% YOY to stand at \$3.49B by December 2022. In details, the “Mineral products” grasped the lion’ s share of total imported goods with a stake of 29.29%. “Machinery; electrical instruments” ranked second, composing 12.87% of the total while “Vehicles, aircraft, vessels, transport equipment” and “Pearls, precious stones and metals” grasped the respective shares of 10.5% and 8.83%, respectively. On an annual basis, the value of imported “Mineral products” jumped by 43.94%, from \$3.88B to \$5.58B by December 2022. The increase is mainly attributed to the surge in fuel prices leading to greater costly imported fuel bills. Furthermore, the value of imported “Vehicles, aircraft, vessels, transport equipment” rose significantly by 78.13% from \$1.12B to \$2B by December 2022.

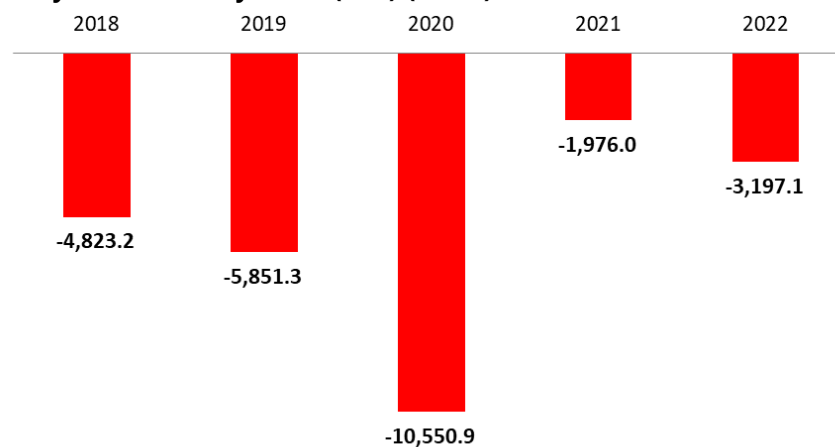
Yearly Trade Deficit (\$B):



Source: Customs Administration, BLOMINVEST

Lebanon’ s balance of payments recorded a cumulative deficit of \$3.2B by December 2022, exceeding the deficit over the same period last year which totaled only \$2B. According to BDL’ s monetary report, Net Foreign Assets (NFAs) of BDL fell by \$3.04B, as BDL has continued to make some intervention on Forex market through the “Sayrafa” rate while the NFAs of commercial banks dropped by \$152.9M by December 2022.

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



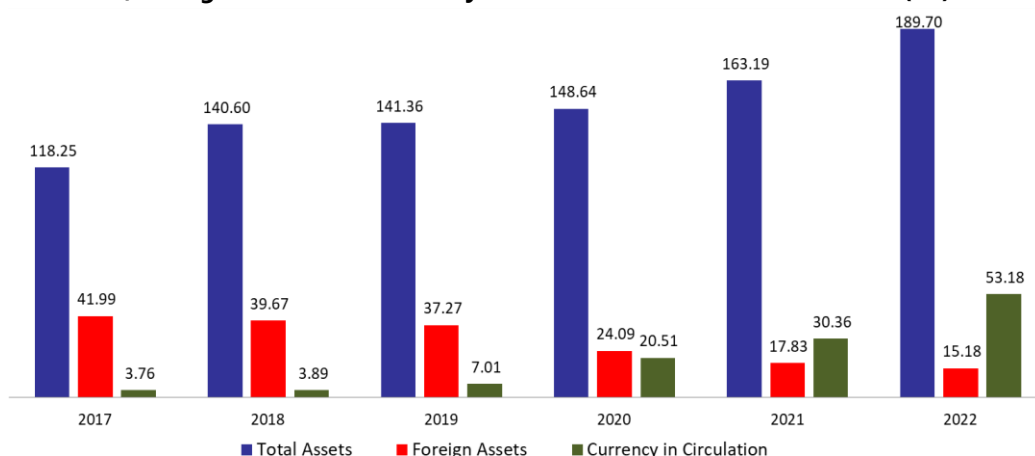
Source: BDL, BLOMINVEST Bank

BDL’ s Foreign Assets Down by a yearly 14.83% to reach \$15.18B by end of December 2022. In fact, Sayrafa traded volume reached \$11.72B since year start, whereas BDL’ s foreign assets seem to have decreased at a slower pace as they declined by \$2.64B only which shows that Central Bank has been absorbing from the market the total of \$9.08B during this year. Looking at the Currency in Circulation outside BDL currency in Circulation outside of BDL, it added 75.19% annually to reach \$53.18B by end of December 2022. It is interesting to note that it is the largest increase of all items. This happened at a time when

the Lebanese currency dropped sharply against the dollars in the year of 2022 to record a high of 47,800 LBP/USD with an average of 30,310 LBP/USD during 2022.

Despite some relieve in specific private sectors, the economy of Lebanon was under pressure and the Lebanese pound has gone down sharply with it, yet foreign reserves are still falling at the same time, although at a much slower pace compared to 2021. Nevertheless, this is contrary to most country’ s experiences where either event usually takes place: foreign reserves are scarified to maintain and preserve the currency; or foreign reserves survive and are held steady as the exchange rate is scarified through (sometimes needed) depreciations. Unfortunately, Lebanon is losing both and hasn’ t reached the bottom yet!

BDL Total, Foreign assets and Currency in Circulation of end of December (\$B):



Source: BDL, BLOMINVEST

Concerning the banking sector, it continued its retrenchment in 2022. It was a year where the economic and financial crisis continued un-abated with no corrective measures to arrest the decline. Below, we will discuss the banking sector’ s balance sheet, BDL’ s new circulars, and the main issues that the sector faced in 2022.

In term of numbers, total assets of Lebanese commercial banks decreased by 3% to stand at \$169.10B by the end of year 2022 according to Lebanon’ s consolidated commercial banks’ balance sheet. Further, deposits fell to \$125.7B, lower by 3%, with the dollarization rate mostly stable at 76%. Loans declined the most, falling by 28% to \$19.9B, while the dollarization rate fell by 10.7% to 50%; as to shareholders’ equity, it grew by 3% to \$18.3B. Note that all these figures are converted at the official rate of 1,507.5 LBP per USD, at a time during the period the parallel market rate increased from 27,600 LBP to 42,400 LBP per USD.

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. Also, an orderly resolution of the financial gap (estimated at more than \$60B) among banks, BDL and the government is a prerequisite for efficient restructuring of the banking system. 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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