Overview of the Global and Lebanese Economy in 2023

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Worldwide Economic Situation

The global economy defied expectations in 2023, showing more resilience than anticipated. Despite facing hurdles like high inflation, rising interest rates, and geopolitical tensions, a recession was thankfully avoided.

Developed economies, like the US, performed well but are expected to see a slowdown in growth throughout 2024. Indeed, Chairman Jerome Powell had assured by the beginning of the year 2023 that the Federal Reserve would persist with rate hikes until achieving economic stability and getting inflation to reach its 2% target. As such, economists had predicted a looming U.S. recession, compounded by bank stress, debt ceiling debates, government shutdown threats, and global geopolitical tensions. Fast forward to today, inflation has more than halved while maintaining resilience in economic growth. As a result, economists are now predicting a soft landing scenario, while the Federal Reserve envisions three rate cuts in the upcoming year.

Europe faced a challenging year with both high inflation and interest rates. The Central Bank had opted to tighten its monetary policy, resulting in a remarkable downturn in inflation from 8.6% in January 2023 to 2.9% by December 2023. This shift signifies the concerted efforts to balance economic stability while addressing inflationary pressures. In contrast, Japan might see slower growth despite government efforts to stimulate the economy as Japan had opted to maintain an ultra-loose policy throughout 2023. BOJ Governor Kazuo Ueda's cautious approach reflects a deliberate stance, balancing the need for economic stimulus against the potential challenges of negative interest rates.

The outlook for developing countries is varied. Africa's growth is expected to remain weak, while South Asia, led by India's strong performance, is anticipated to experience steady growth. Overall, IMF projected that global growth will stay at 3.1% in 2024, same as in 2023. Although the worst-case scenario of a looming recession didn't materialize, a period of sluggish growth appears to be on the horizon. On another note, global 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. As such, IMF expects that Inflation's return to target is unlikely before 2025 in most cases.

Latest World Economic Outlook Growth Projections

	ESTIMATE	PROJECTIONS	
(Real GDP, annual percent change)	2023	2024	2025
World Output	3.1	3.1	3.2
Advanced Economies	1.6	1.5	1.8
United States	2.5	2.1	1.7
Euro Area	0.5	0.9	1.7
Germany	-0.3	0.5	1.6
France	0.8	1.0	1.7
Italy	0.7	0.7	1.1
Spain	2.4	1.5	2.1
Japan	1.9	0.9	0.8
United Kingdom	0.5	0.6	1.6
Canada	1.1	1.4	2.3
Other Advanced Economies	1.7	2.1	2.5
Emerging Market and Developing Economies	4.1	4.1	4.2
Emerging and Developing Asia	5.4	5.2	4.8
China	5.2	4.6	4.1
India	6.7	6.5	6.5
Emerging and Developing Europe	2.7	2.8	2.5
Russia	3.0	2.6	1.1
Latin America and the Caribbean	2.5	1.9	2.5
Brazil	3.1	1.7	1.9
Mexico	3.4	2.7	1.5
Middle East and Central Asia	2.0	2.9	4.2
Saudi Arabia	-1.1	2.7	5.5
Sub-Saharan Africa	3.3	3.8	4.1
Nigeria	2.8	3.0	3.1
South Africa	0.6	1.0	1.3
Memorandum			
Emerging Market and Middle-Income Economies	4.2	4.0	4.0
Low-Income Developing Countries	4.0	5.0	5.6

Source: IMF, World Economic Outlook, January 2024

Lebanese Economic Situation

In 2023, the Lebanese economy continued to face significant challenges, exacerbated by the lack of reforms in the financial sector. Despite ongoing pressure from both domestic and international stakeholders, little progress was made in addressing the root causes of the banking crisis and restoring confidence in the financial system.

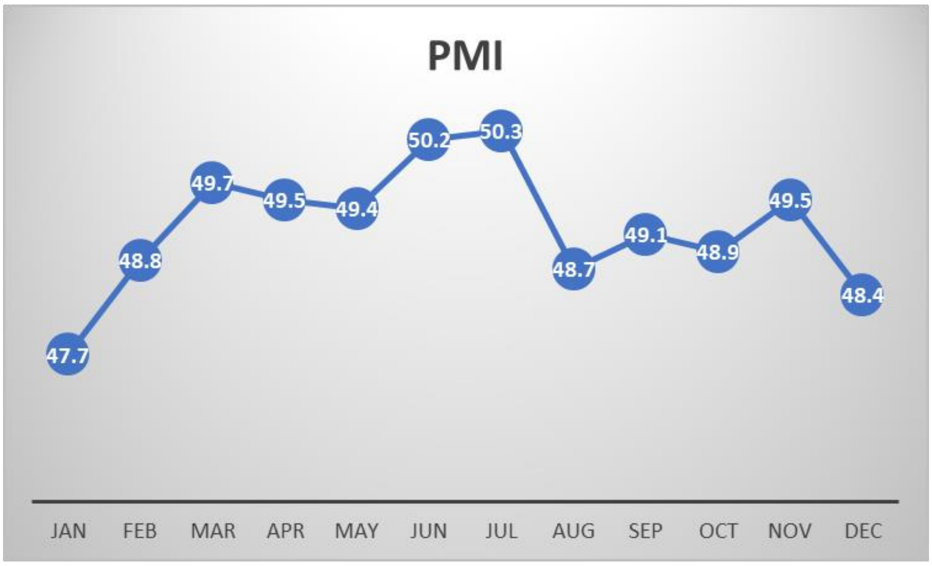
Adding to the political instability was the prolonged presidential vacuum since end of October 2022. With Prime Minister-designate Najib Mikati still serving in a caretaker government capacity, Lebanon struggled to achieve the necessary political consensus to move forward with essential reforms and address the country's pressing economic issues.

Furthermore, the eruption of conflict between Gaza and Israel on October 7, 2023, heightened tensions in the region and sparked fears about the potential consequences of Lebanon being more involved in the conflict. As a result, uncertainty loomed over the country, and the population remained anxious. The latest World Bank Lebanon Economic Monitor highlights how the ongoing conflict centered in Gaza presents another significant blow to Lebanon's already fragile growth trajectory. Without a comprehensive crisis resolution plan in place, the country faces a bleak future, with no viable options for long-term investment and continued erosion of its physical, human, social, and natural resources.

Interestingly, prior to the current conflict, there were modest expectations for economic growth in 2023, marking the first potential expansion since 2018, with a projected growth rate of 0.2%[1]. Indeed, in the two consecutive months of June and July 2023, the PMI registered respectively 50.2 and 50.3- above the threshold- signaling the strongest improvement in the Lebanese economy since June 2013. The factors contributing to this growth included a boost in consumption from a robust summer tourism season, significant remittance inflows, increased dollarization of salaries, and tentative signs of stabilization in the private sector. Unfortunately, with the onset of the current conflict between Gaza and Israel and without broader economic stabilization measures, Lebanon's economy witnessed a contraction by end of year 2023.

[1] World Bank, "Lebanon's Fragile Economy pulled back into recession" December 21, 2023

Figure 1: PMI in Lebanon in 2023



Furthermore, inflation, which has been rampant - in triple digits - since 2021, was fueled by exchange rate depreciation and rapid dollarization of economic transactions. Lebanon also faces severe food price inflation, ranking among the hardest-hit countries globally, exacerbating living conditions for the most vulnerable segments of the population. Sovereign debt, already unsustainable at 179.2% of GDP in 2022, continues to pose a significant challenge amid currency depreciation and economic downturn, with no comprehensive debt restructuring plan in sight.[2]

On a positive note, the activity at Rafic Hariri International Airport improved remarkably in 2023. The number of passengers added 11.81% on a yearly basis and totaled 7.10M passengers by end of 2023 compared to 6.35M passengers in previous year. Moreover, total arrivals surged by 11.46% year-on-year (YOY) to stand at 3,477,343 passengers by December 2023 compared to 3,119,744 passengers by December 2022. Likewise, number of departing passengers increased by 13.12% on yearly basis to reach 3,613,594 passengers by December 2023, compared to 3,194,553 passengers by December 2022. Moreover, transit passengers dropped from 38,149 passengers in December 2022 to 11,910 passengers in December 2023.

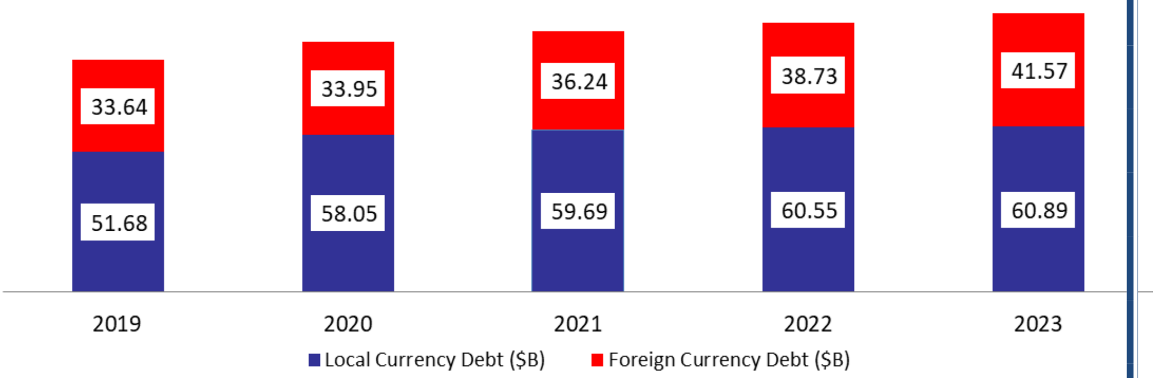
Although, the activity at Rafic Hariri International Airport was up by end of 2023, the occupancy rate in Beirut's 4- and 5-star hotels was down yearly, reaching 41.4% by December 2023 compared to 48.4% prior. It is important to acknowledge that the occupancy rate in Beirut 4 and 5 stars hotels experienced a decline in December due to various factors. First, many incoming individuals

[2] World Bank, "Lebanon's Fragile Economy pulled back into recession" December 21, 2023

were expatriates, eliminating the need for hotel accommodation. Second, tourists expressed concerns about the conflict between Gaza and Israel, impacting their willingness to visit Lebanon in the holiday season.

Looking at the gross public debt in Lebanon, it was up yearly by 3.2% to reach $102.47B in January 2023. It is worth mentioning that no recent data was published by the Ministry of finance in Lebanon. The rise is mainly attributed to the annual increase in foreign currency debt (namely in USD) by 7.35%, to stand at $41.57B by January 2023. In turn, total foreign debt grasped a stake of 40.57% of the total public debt by January 2023. It is worth mentioning that $14.43B represents the unpaid Eurobonds, their coupons and accrued interests, due to the default on government Eurobonds in March 2020. Meanwhile, debt in local currency (denominated in LBP) rose slightly by 0.57% to stand at $60.89B in January 2023, and constituted 59.43% of the total public debt. Looking at net domestic debt, which excludes public sector deposits with the central bank and commercial banks, it decreased remarkably by 13.97% YOY to $41.85B in January 2023.

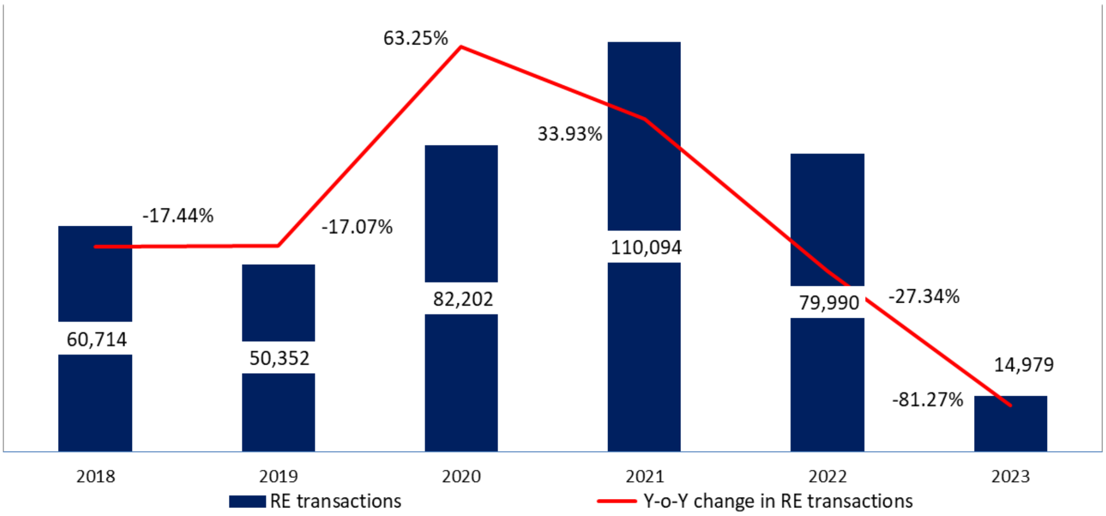
Figure 2: Yearly Domestic and Foreign Debt by January 2023 ($B)



Source: MoF, BLOMINVEST Bank

Furthermore, Real estate (RE) transactions recorded a sharp fall of 81.27% yearly to stand at 14,979 transactions by end of 2023, compared to 79,990 transactions same period last year. The drop is mainly due to the ongoing nation-wide strike for the public employees which have led to major dysfunction for public services. In the same token, the value of total RE transactions stood at $4.12B by December 2023 calculated at the new official rate of USD/LBP 15,000.

Figure 3: Number of RE transactions by December 2023:

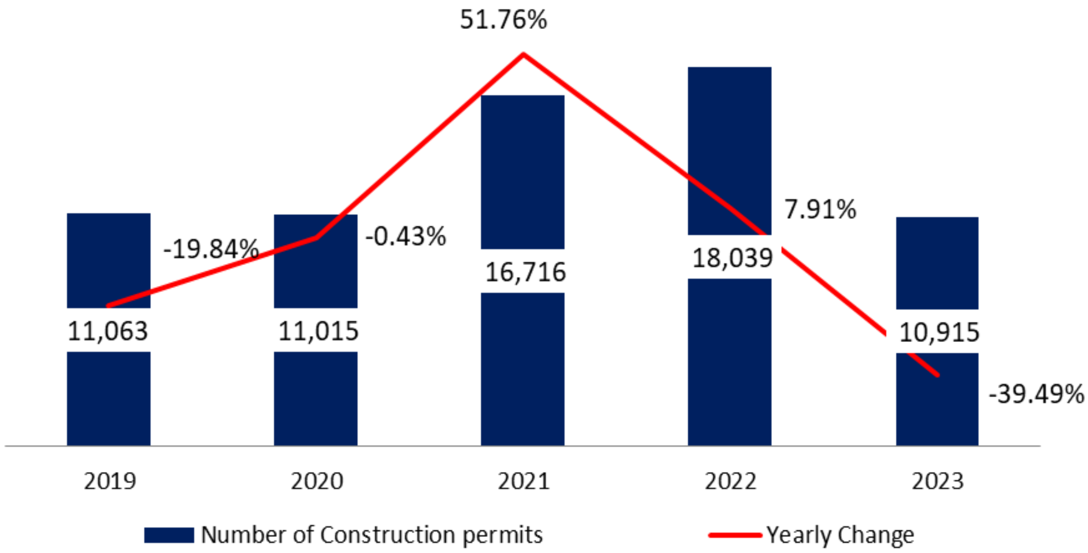


Source: CADASTRE, BLOMINVEST

In the same token, the total construction permits witnessed a remarkable decrease of 39.49% YOY to reach 10,915 permits by December 2023. Similarly, the Construction Area Authorized by Permits (CAP) plunged by an annual 45.96% to 4,537,427 square meters (sqm), mainly driven by public institution's strike, decline of interests towards investing in real tangible assets and less overall income.

Unfortunately, in 2023, Lebanon experienced a concerning deterioration in construction permits, reflecting the harsh impact of a persistent economic downturn over the past three years despite some breakthrough. The country is still grappling with political instability, exacerbating an already challenging situation. High construction costs and limited financing options further compounded the decline in construction permits, making it increasingly difficult for developers and investors to initiate projects. Additionally, Lebanon witnessed a notable shift in market demand for real estate, as uncertainties and economic challenges led to a reassessment of priorities among potential buyers and tenants. This confluence of factors has created a challenging environment for the construction sector in Lebanon, emphasizing the multifaceted nature of the issues influencing the decline in construction permits.

Figure 4: Number of Construction Permits by December 2023

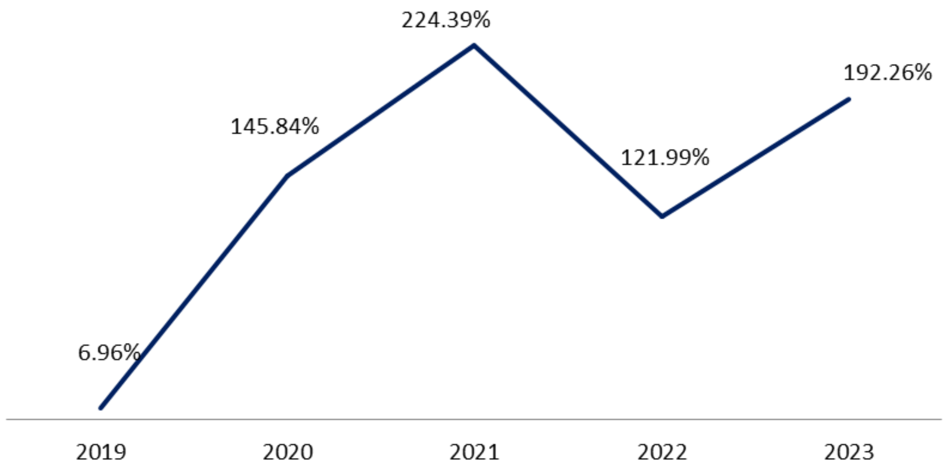


Source: Orders of Engineers in Beirut & Tripoli

On a different note, Lebanon's Inflation remained sticky at high levels and ending the year at 192.26% by end of 2023. According to the Central Administration of Statistics (CAS), the Consumer Price Index (CPI) revealed that Lebanon's monthly inflation rate jumped from 121.99% in December 2022 to 192.26% in December 2023. In details, the cost of "Housing and utilities", inclusive of water, electricity, gas and other fuels (grasping 28.4% of the CPI) added a yearly 206.71% by December 2023. Also, "Owner-occupied" rental costs increased by 327.93% year-on-year (YOY) and the prices of "water, electricity, gas, and other fuels" followed a significant increase by 106.05% YOY.

Unfortunately for Lebanon, the escalating political tensions in the Red Sea pose a significant threat to the potential closure of the Bab el Mandeb Strait, a vital global maritime passageway. Such an occurrence could precipitate supply chain disruptions which would lead to a rise in shipping costs and consequently a rise in consumer prices. The implications of these developments may result a broader surge in inflation.

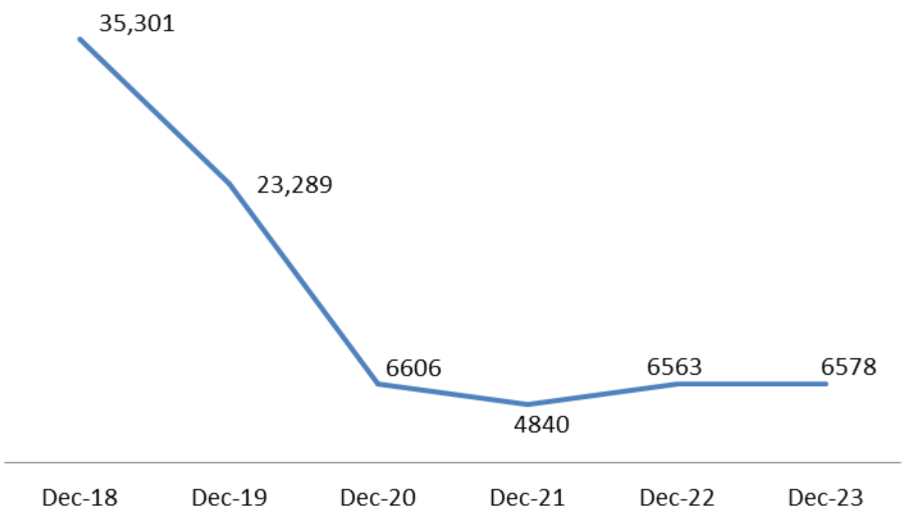
Figure 5: Yearly average inflation rate by December 2023



Source: Central Administration of Statistics, BlomInvest

The car sector remained steady with a little increase by 0.23% YOY by December 2023. In more details, the cumulative number of sold cars in 2023 recorded a total of 6,578 compared to 6,563 cars in 2022. Despite a tentative rebound in Lebanon's car sector, sales of passenger vehicles are significantly lower than both 2018 and 2020 levels. The demand for new vehicles is restricted by inadequate financing options, exacerbated by the depreciating exchange rates of the Lebanese currency.

Figure 6: Growth of Registered Passengers Cars by December 2023



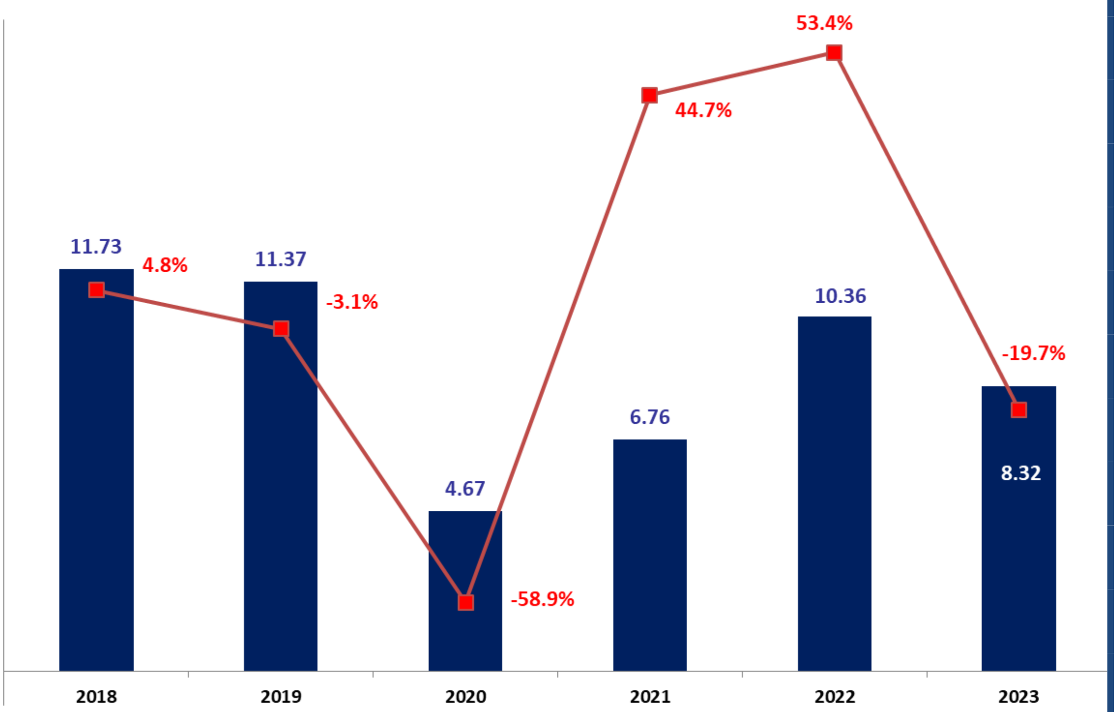
Source: Rymco, BlomInvest

Lebanon's trade deficit was down from $10.36B in August 2022 to $8.32B in August 2023. Total imported goods dropped by 16.27% year-on-year (YOY) to

$10.69B while total exports slightly decreased by 1.46% YOY to stand at $2.38B by August 2023. In details, the "Mineral products" grasped the lion's share of total imported goods with a stake of 27.49%. "Pearls, precious stones and metals" ranked second, composing 13.98% of the total while "Machinery; electrical instruments" and "Vehicles, aircraft, vessels, transport equipment" grasped the respective shares of 10.27% and 6.15%, respectively. In more details, the top three import destinations by August 2023 were Greece, China, and Italy grasping the respective shares of 10.99%, 10.6%, and 9.08% of the total value of imports. Additionally, total value of imported goods from Greece, China, and Italy reached respectively $58.37M, $56.36M and $48.21M.

On the Exports front, Lebanon's top exported products were "Pearls, precious stones and metals" grasping a share of 17.33% of the total. "Machinery electrical instruments" and "Base metals and articles of base metal" followed, with each grasping a share of 15.36% and 11.27%, respectively, of the total. The top two export destinations in August 2023 were UAE and Turkey with the respective shares of 14.45% and 9.08%.

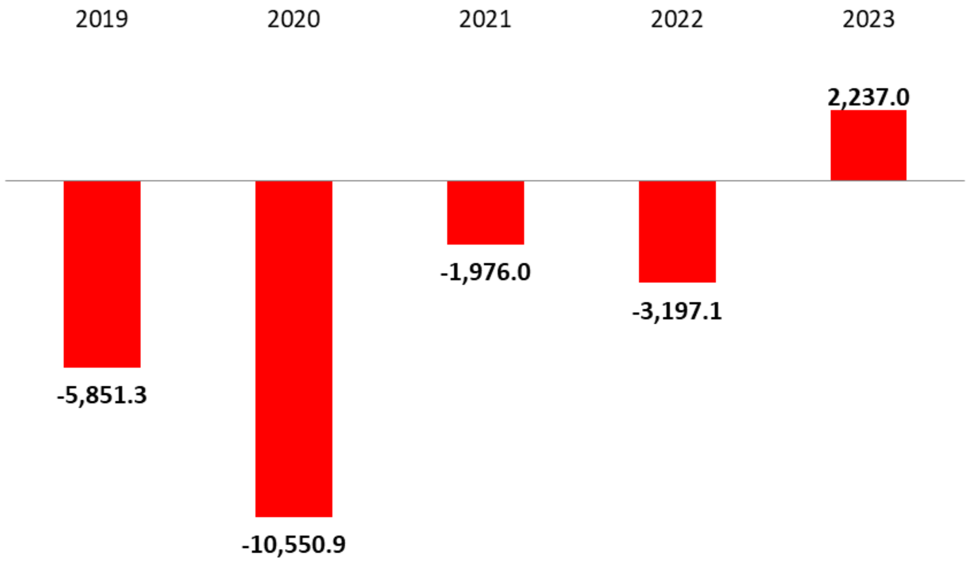
Figure 7: Trade Deficit by August 2023 ($B)



Source: Customs Administration, BLOMINVEST

Lebanon's Balance of Payment recorded a cumulative surplus of $2.24B by December 2023, far beyond the deficit over the same period last year of $3.2B. Accordingly, Net foreign Assets (NFAs) of BDL fell by $0.81B while the NFAs of commercial banks rose by $3.05B by December 2023.

Figure 8: Yearly Balance of Payments (BoP) by December 2023 (in $M)



Source: BDL, BLOMINVEST Bank

According to the balance sheet of Banque du Liban (BDL), the central bank's total assets fell by 43.5% compared to last year, to reach $107.17B by end of December 2023, amid adopting the 15,000 LBP/USD official rate by BDL since February 2023. The fall was mainly due to the 99.7% year-on-year (YOY) drop in other assets. Interesting to note that other assets fell by 96.29% in the last two weeks of December, as they reached $283.75M by end of December 2023 compared to 7,648M by December 15, 2023. Indeed, based on Central Council decision number 23/36/45 dated 20/12/2023, all previous Central Council decisions related to Seigniorage were suspended and all deferred interest costs emanating from open-market operations were presented under a new line item. As a result, all deferred interest costs included in Other Assets and Assets from Exchange Operations amounting to LBP 118.97 Trillion as of 31/12/2023 were transferred to "Deferred Open-Market Operations".

Additionally, BDL's foreign assets, consisting of 13.56% of total assets dropped by 4.32% YOY and stood at $14.53B by end of December 2023, noting that BDL holds in its foreign assets $5B in Lebanese Eurobonds. Interesting to note that foreign assets increased by $739.6M since the end of term of Riad Salameh by end of July 2023.

Further, commercial banks' deposits fell to $93.75B, lower by 24.13%, with the dollarization rate mostly stable at 96%. Loans declined the most, falling by 59% to $8.14B, while the dollarization rate reached 90.78%; as to shareholders' equity, it dropped by 72.16% to $5.09B by end of year 2023. Note that starting

February 2023, the Central Bank adopted a new official exchange rate of 15,000 LBP/USD compared to 1507.5 LBP/USD prior, meanwhile, the parallel market rate was stable at 89,700 LBP/USD by end of year 2023. In fact, the stability of the exchange rate has been the only silver lining in a lackluster year.

Figure 9: End of Period (EOP) exchange rate in 2023

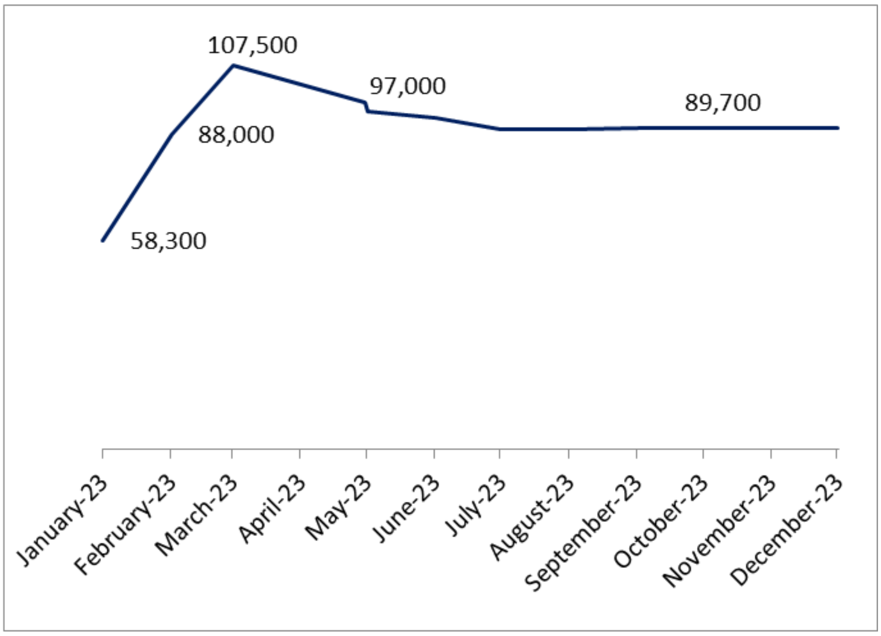
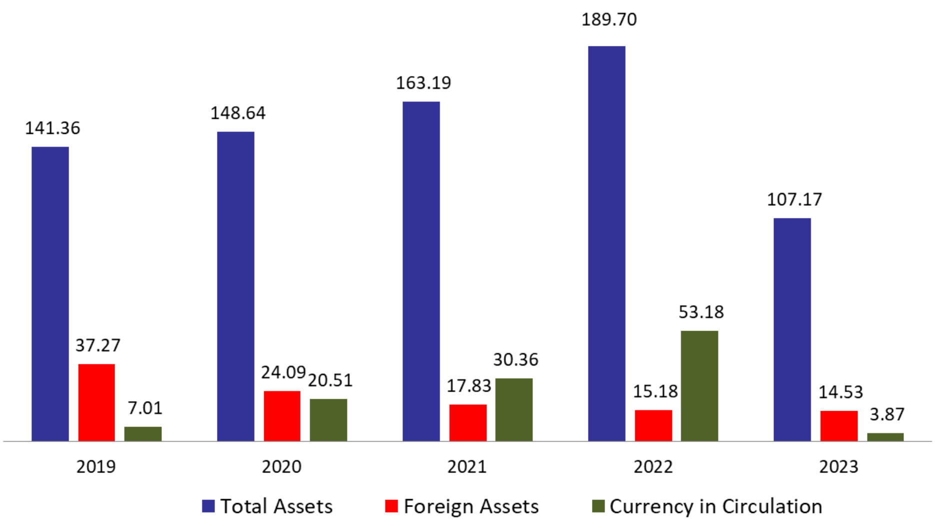


Figure 10: BDL Total, Foreign assets and Currency in Circulation of end of December ($B)



Source: BDL, BLOMINVEST

In conclusion, the Lebanese economy faced numerous challenges throughout 2023, marked by the absence of reforms in addition to ongoing instability. The

Central Bank has initiated limited reforms, which led to a relatively stable exchange rate since July 2023; nonetheless, significant structural changes remained elusive. The absence of a fair banking resolution plan, including upfront loss allocation, bail-ins, and restructuring, continues to hinder recovery prospects.

It is unfortunate that Lebanon's expected expansion has been hindered by the on-going conflict between Gaza and Israel, exacerbating the situation. However, despite these challenges, Lebanon must reform and rise. While Lebanon has relied on remittances in the past, it's time to pivot towards domestic production and pave the way for reform-led growth and development.

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